FUTURE EU ETS: CEMBUREAU ASSESSMENT AND STRATEGIC PROPOSALS

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CEMBUREAU and the cement industry

CEMBUREAU (www.cembureau.eu), the European Cement Association, is the representative organisation of the cement industry in Europe. Our 2050 Net Zero Roadmap published in May 2020, and revised in 2024, aligns the cement industry's decarbonisation pathway with the EU Green Deal and Clean Industrial Deal objectives and spans the full value chain, from production of clinker and cement to the use of concrete in the built environment.

The cement industry and its end-product, concrete, are part of a fully local value chain, which includes over 200 cement plants and 3500 concrete plants across Europe that support local communities with high-quality jobs and supply the European construction market with the essential material to build the housing, critical infrastructure, low carbon energy assets and data centers required today and for the future. The construction market is valued a 10% of the EU's GDP. Therefore, Europe' transition to carbon neutrality by 2050 depends on a competitive decarbonization of the cement sector.

The cement industry is a capital-intensive industry, with investment payback periods of over 25 years and investment cycles of 50 years and beyond. Cement industry and concrete as its value chain products are essential for Europe. The fundamental role of cement for the security and defense of Europe is easily overseen.

Despite its strategic role for the European continent, the cement industry has experienced a rapid erosion of its competitiveness since 2016 and is facing a surge in imports from non-European countries, with an increase of more than 450% between 2016 and 2024, while local production capacities remain largely underutilized. The future of the EU ETS and changes to the European regulatory framework have a direct impact on the competitiveness of this industry.

In 2024, CEMBUREAU updated the key indicators and ambitions of its 2050 Net Zero Roadmap, highlighting the efforts made by the industry since 1990 and its ambitions for 2040 and 2050. The Roadmap includes an intermediate ambition level of 78% CO_2 reduction by 2040 (vs 1990). That ambition level is dependent on a pipeline of projects under development to deploy all decarbonization technology levers across the cement-concrete value chain. The Roadmap makes it clear that a 78% reduction is a stretch ambition, that is conditional on appropriate and supportive regulatory measures, finance, CO_2 transport and storage infrastructure, and energy infrastructure requirements. On its path to decarbonisation, the cement industry will still contribute substantially to the ETS revenues. A return of 75% of these revenues for the decarbonization of the sector is a necessary complement to the sector's own investments to secure a successful transition towards 2050.

Future of EU ETS

The EU Emissions Trading System (EU ETS) is the cornerstone of the European Union's climate change policy and an essential tool to enable large-scale investment in industrial decarbonisation. The EU ETS does not, on its own, provide a policy environment that is sufficient to incentivize investments in Europe. The EU needs to address underlying competitiveness issues to make Europe an attractive place to invest in cement manufacturing. Alongside the EU ETS, the EU needs to introduce other policy and finance measures to create a business case for deep decarbonization in the cement sector. The Commission should note that such

measures can only support the business case for the deep decarbonization if urgent measures are also taken to ensure the availability of essential CO_2 transport and storage infrastructure and access to sufficient, affordable [clean] energy connected to cement manufacturing locations. Such measures need to be enabled by a fast and efficient permitting process.

CEMBUREAU has identified the following critical issues that urgently need to be addressed:

1. The EU ETS suffers from frequent adjustments to scheme rules, some of which are not yet fully implemented (changes to the clinker benchmark, bonus malus system, cap reduction trajectory to 2040, CBAM implementation, etc.). For sectors like cement, in which decarbonization necessitates investments with long payback periods, such frequent rule changes, alongside the wider competitiveness challenges that European manufacturers face (e.g. high energy costs), significantly undermines the necessary regulatory predictability that companies need to confidently invest in Europe. One such example is the introduction of a new benchmark, which although it will have significant impacts on the sector's CO_2 costs, the sector will not be informed about the level of the benchmark until after the commencement of the period to which it applies (2026-2030). Hence, businesses and customers cannot prepare for the impact. While adaptive measures may be necessary from time to time, they must be sufficiently defined and signaled in advance, allowing industry enough time to adjust their investment plans accordingly. A minimum of 18-24 months between a change being made and its implementation is essential for manufacturers.
2. The current EU ETS legislation results in the cap reaching zero by 2039 or 2040 and consequently an end to issuing/auctioning of new allowances. The scale, cost and logistics involved in decarbonization of the European cement sector, as highlighted in the CEMBUREAU Net Zero Roadmap, mean that some cement installations, for reasons outside of their control (e.g. availability of CO_2 transport and storage infrastructure), will be emitting CO_2 beyond 2039 / 2040
3. The benchmark must be representative of industry practices and performance in order to be truly effective as an incentive: "Alternative hydraulic binders" (such as calcium aluminate cement and other materials) are different products to clinker (chemistry, production methods, norms & standards) and it is entirely inappropriate for them to be included in the grey clinker benchmark. They must be treated separately. The grey cement clinker benchmark must be calculated using the methodology that has been in place before the 2024 amendments which has been used as the basis for investment decisions.
4. As the EU ETS benchmarks are used in many other legislative processes at EU and national (and even international) level, it is important that these benchmarks express the average of the10% best performing installations within reasonable and equally available boundaries. First-of-a-kind deep decarbonization technologies, such as CCUS projects co-financed by the EU Innovation Fund, will result in emission profiles that do not reflect the 10% best performance across the sector in the sense that this is not readily available technology. The data consequently be statistical outliers and its use would result in severely distorted picture. For that reason, emissions reductions achieved by such first-of-a-kind projects should not be considered as comparage and equally avaiable. Emissions reductions from carbon capture projects must be excluded from the EU ETS benchmark, until a significant proportion of the sector is able to install it.
5. Key regulatory facilitators must include a seamless fungibility between permanent carbon removals (covered by the EU CRCF) and EU ETS allowances.
6. The current regulatory framework should be simplified by adopting a single regulatory act that incorporates the provisions of the EU ETS, CBAM, CRCF, the Decarbonisation Accelerator Act and thereby avoid inconsistencies:
    i. Key mirroring provisions between EU ETS and CBAM are needed, which must include provisions on exemptions from CBAM only for ETS-linked systems, countries with similar / equal ETS systems based on equivalence in carbon accounting, requirements related to

biomass regulations (RED), CO_2 storage directives, etc. , solutions for export of materials from the EU to countries without similar obligations and CO_2 costs, and a common system provision to address indirect emissions from electrical energy consumption.

ii. Maintain and reinforce the Innovation Fund as earmarked for the purposes currently mentioned in Article 10(a)(8) ETS, boost of funding, broadening of scope from innovation to deployment projects for technologies such as CCUS or renewables, and complement with national state aid financing (through the Sovereignty Seal procedure), contracts for difference (for de-risking purposes). Clarify accounting rules for CO_2 use: there is no business case for capturing CO_2 when captured emissions remain subject to a surrendering obligation even when transferred to a third party. The ETS needs to recognize that, in case of transfer, there is no emission into the atmosphere and therefore no surrendering obligation at the point of capture. CEMBUREAU requests to reintroduce the release into the atmosphere as a constituent element in the definition of what is an emission.

iii. A similar clarification is required to allow for the recognition of negative emissions from Carbon Removals certificates. A cement plant equipped with carbon capture technology followed by geological storage could capture CO_2 from fossil energy sources, CO_2 from cement process emissions (of mineral / geogenic origin), and neutral CO_2 from biogenic content of fuels such as biomass content (or mixed) waste materials. A business case for the investment can only be made if negative emissions can be accounted for.

iv. The cement industry's dependence on fossil fuels has been reduced gradually through the use of alternative fuels from waste from municipal and industrial sources, including waste with biogenic content. In addition to securing independence of supply, the use of alternative fuels also reduces the industry's carbon footprint. The waste is not used for the production of biomass nor is it obtained from agricultural or forestry sources. This said, the use of alternative waste sources in the cement industry has been subject to compliance with the sustainability requiements under the RED legislation. In CEMBUREAU's view, such approach is not warranted in light of the objective pursued by the RED legislation and triggers unnecessary reporting complexity. Therefore, CEMBUREAU suggests a revision of the GHG savings rules under the EU ETS Monitoring and Compliance Regulation in combination with an exemption from the sustainability criteria requirements under RED III.

v. Waste incinerators should be included in the EU ETS, along with other final waste treatment operators.

Conclusion

In conclusion, CEMBUREAU is keen to continue engaging on how to decarbonize the industry but pleads for a strong sense of realism in bringing competitiveness and decarbonization efforts under a single growth strategy as was presented in the Clean Industrial deal.