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POSITION PAPER

DRAFT EU ENVIRONMENT AND ENERGY STATE AID GUIDELINES 2022 – CEMBUREAU'S CONTRIBUTION

Brussels, 07/07/2021

CEMBUREAU hereby responds to the Commission's consultation on the draft EU State Aid Guidelines on Energy and the Environment**.** We very much welcome the broadening of the Guidelines to provide an increasing level of public support for the decarbonisation of industry and hard-to-abate sectors. The cement industry aims to achieve climate neutrality in 2050 and has set ambitious intermediate targets for 2030. Achieving these targets will require political and financial support for the development and early operation of low-carbon breakthrough technologies.

In such crucial point in time where both private and public investment are needed to foster CO2 mitigation in Europe and where electricity is the main transformation vector on our way to carbon neutrality, it is hard to understand the elimination of the cement sector's eligibility for exemptions from levies on electricity costs.

We provide below our detailed comments on the different sections of the draft State Aid Guidelines.

1. Aid in the form of reductions from electricity levies for energy-intensive users

CEMBUREAU is strongly disappointed by the removal of the cement sector from the list of eligible sectors for aid in the form of reductions from electricity levies for energy-intensive users.

Throughout the process leading up to the publication of the Draft Guidelines, including the Fitness check and the preparatory study prepared by a consortium of consultants, there was no mention of a potential revision of these eligibility criteria. In its submission to the public consultation, published in January 2021, and in follow-up meetings with the European Commission, CEMBUREAU has repeatedly emphasized the importance of maintaining the cement sector in the list of eligible sectors in Annex 3 of the Guidelines. The current Draft of the revised Guidelines triggers a number of fundamental due process questions that CEMBUREAU wishes to underline:

- ✓ The change of methodology whereby trade intensity has increased from 10% to 20% and where the eligibility on the basis of a 4% trade intensity and a 20% electro-intensity has been eliminated, has not been explained and CEMBUREAU strongly objects to this change;
- ✓ The suggested criteria therewith put a disproportionate emphasis on trade intensity whereas the impact of CO2 costs from energy on GVA weighs heavily on companies' cost base and impacts on their competitiveness, independently from the trade intensity of a sector; in our view, the Guidelines should not only address the risk of competition distortions between the EU and third countries but also aim at avoiding competition distortions within the internal

CEMBUREAU
55 Rue d'Arlon – 1040 Brussels - Tel : +32 2 234 10 11
secretariat@cembureau.eu – www.cembureau.eu

market, more specifically between sectors that compete on downstream markets (e.g. cement and concrete compete with steel and glass)

- ✓ In addition, the calculation method of trade intensity does not reflect negative market impacts: in the period 2017-2019, clinker imports in the EU have doubled, cement imports have increased by 50% and importers have consistently applied lower prices than EU operators, therewith directly impacting the latter's market share; clinker exports have dropped by more than 50% and cement exports by 20% with export prices no longer competitive on the destination markets; yet, the effect of increased imports and decreasing exports, based on the trade intensity formula, is a decrease of trade intensity from 10.3% in 2017 to 9.2% in 2019;
- ✓ The non-eligibility of the cement sector for levy exemptions will only further exacerbate these effects and allow increased imports and a decrease of exports. If the European Commission intends to request a 20% trade intensity, it essentially puts at risk 36 million tonnes of EU production which equals the production capacity of 60 to 70 plants or 29%-34% of total plants in the EU with a consequential impact on employment and a negative impact on the lowering of CO2 emissions as market share is taken by more CO intensive products;
- ✓ No data are available that allow sectors to assess on which grounds their case has been examined;
- ✓ No account has been taken of repeated comments made by the cement sector that its path to decarbonisation will require increased demand for electricity[1]; therefore, assistance in the form of state aid will be required at least during that transitional decarbonisation phase
- ✓ Trade intensity must be seen as a dynamic indicator given that the import/export figures can increase very quickly with changing market and economic conditions. The overcapacity of clinker in emerging markets presents a direct competition to local production in the case of rising environment and carbon costs only in the EU. It is disturbing to learn that the reference period that has been taken into account is 2013-2015 which does not allow to factor in this dynamic aspect of trade nor the need for industry to adapt to the decarbonization agenda.

We would therefore urge the final version of the Guidelines to reinsert a 4% trade intensity/ 20% electro-intensity criteria for eligibility.

2. Comments on other types of aid

CEMBUREAU welcomes the broadening of the scope of the State Aid Guidelines for Energy and the Environment, which will play an important role in supporting the sector's efforts on decarbonisation and other aspects of the European Green Deal (air quality, biodiversity…).

Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy

- CEMBUREAU welcomes the coverage of this section, and in particular the inclusion of "*aid for the reduction or avoidance of emissions resulting from industrial processes*" in addition to other technologies which were previously supported in the Guidelines such as Carbon Capture, Use and Storage (CCUS). As explained in our Carbon Neutrality Roadmap, our industry has high ambitions on CO2 emissions reduction, and public funding will be vital to support the different technologies that will help the industry to achieve this objective.
- We welcome the fact that the draft Guidelines recognise that the aid for decarbonisation can take a variety of forms, from direct grants to carbon contracts for difference, which can indeed play a key role in unlocking investments in breakthrough technologies.
- Similarly, the draft Guidelines recognises CO2 utilisation in addition to carbon capture – which is vital as we see a large number of projects being implemented to re-use the CO2 captured in cement plants, either to create synthetic fuels or store it permanently through mineralisation. The definition of CO2 removal in the Draft Guidelines should also be wide

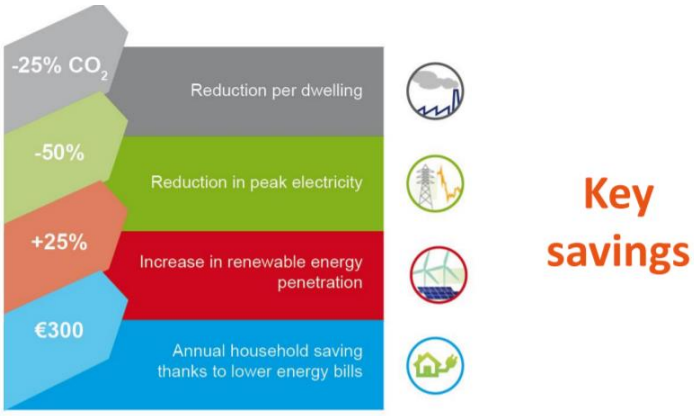
[1] As explained in our Carbon Neutrality Roadmap, reaching carbon neutrality will require a doubling of the sector's electricity demand by 2050.

enough to allow proper accounting rules to be adopted for further CO2 uses such as recarbonation whereby CO2 uptake happens during the service life of a concrete structure. Scientific literature points to a potential of 20% of process emitted CO2 that can be taken up through recarbonation but that still requires endorsement by a proper accounting methodology;

- The definition of "demonstration project" as "technology as a first of its kind in the Union" risks to be interpreted too narrowly as there may be different technologies that all need to be eligible for funding (e.g. in the cement industry, several capture technologies are available such as oxyfuel, calcium-looping, the Leilac process etc.)
- Finally, we would welcome a clarification on the (degree of) coverage of operational expenses under the Guidelines.

Aid for the improvement of the energy and environmental performance of buildings

- CEMBUREAU welcomes the inclusion of a dedicated section on buildings in the State Aid Guidelines. Buildings account for approximately 40% of energy consumption and 36% of CO2 emissions in the EU, and renovation works – deep renovation in particular – can significantly reduce these.
- We however would suggest to include a clear reference to thermal mass as part of paragraph 116. Support for development of projects with structural thermal energy storage elements have a positive effect on the energy consumption of the built environment and therefore should be added as beneficiaries (e.g. Thermally Activated Building Structures TABS). The thermal storage capacity offered by the structure to provide flexibility in energy grids and boost the uptake of renewable energy renewable energy which can lead[2] to:



Aid for resource efficiency and for supporting the transition towards a circular economy

- CEMBUREAU fully supports a transition towards a circular economy. Our sector's contribution is made through two different channels:
  - Co-processing, where non-recyclable-waste and biomass waste are used as both alternative fuel and raw material to replace primary fuels and raw materials (i.e. for energy recovery and material recycling). Co-processing allows for considerable CO2 savings in the cement industry;
  - Concrete, cement's end product, is fully recyclable.
- We regret that the draft Guidelines do not recognise co-processing as a specific activity which allows to re-use non-recyclable waste that would otherwise be incinerated, exported or landfilled. We therefore suggest the inclusion of a point 192 (e) as follows: "*investments for the use of non-recyclable waste in industrial processes, where such use allows for both energy recovery and the simultaneous recycling of minerals while avoiding CO2 emissions from the reduced recourse to primary fuels in industrial processes*".

[2] See RENEWABLE ENERGY IN BUILDINGS - Unleashing the potential of thermal mass for electricity grid flexibility

Aid for the prevention or the reduction of pollution other than from greenhouse gases

- CEMBUREAU welcomes the addition of activities to reduce air pollution to the Guidelines.

Aid for the remediation of contaminated sites, for the rehabilitation of natural habitats and ecosystems and for biodiversity and nature-based solutions

- CEMBUREAU welcomes the addition of biodiversity to the State Aid Guidelines. The cement industry has a strong track record in protecting biography and rehabilitating natural habitats and ecosystems in our quarries (please see our nature conservation brochure).

Aid for energy infrastructure

- CEMBUREAU supports the section on "Aid for energy infrastructure". In particular, as the European cement industry deploys carbon capture, it will be critical to receive an appropriate level of support for CO2 transportation networks to bring the CO2 to storage or utilisation sites.
- We however note that the definition of CO2 infrastructure in paragraph 35 is overly restrictive by including only two types of CO2 utilisation, namely "*using carbon dioxide as feedstock or to enhance the yields of biological processes*". This definition does not reflect the variety of CO2 utilisation projects ongoing, which can cover the production of synthetic fuel, use of CO2 in chemical processes and permanent storage through mineralisation. We would therefore urge to use a broader definition.
- Finally, we would stress that in addition to pure "energy infrastructure" like CO2 pipelines, it would be highly beneficial to recognise other transport modes such as ships, trucks and barges under the State Aid Guidelines. This would support the take-up of CCUS, including in regions where building pipelines may not be economical;
- We also welcome the inclusion of hydrogen pipelines in the scope of the State Aid Guidelines.

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