



## Meeting Report

# EU ETS Breakfast Event: Unsticking the cement sector's low-carbon potential

30 November 2016

On 30 November 2016, Carbon Market Watch and InfluenceMap organized a breakfast event which was kindly moderated by MEP Jakob Dalunde.

The event focused on the cement sector's current treatment under the EU's Emissions Trading System (EU ETS), the challenges and barriers to innovation, and what low-carbon solutions are available in the sector.

The event coincided with the release of a [policy briefing](#) by Carbon Market Watch entitled "*Industry windfall profits from Europe's carbon market 2008-2015*", and an accompanying [policy brief](#) "*Cement's pollution windfall under the EU ETS*" as well as a [report](#) by InfluenceMap "*European Cement and Carbon Pricing Regulatory Risk*".

### Below is a short summary of the presentations and discussion:

**Jakob Dalunde** (MEP) opened the event by highlighting that the Arctic is about 20°C warmer than normal. It is thus worrying that the current decarbonization pathway of the EU ETS is not in line with what is needed to effectively tackle climate change. One should also not forget that the EU ETS is a polluter-pays-scheme, not a windfall-profit-scheme. Policymakers need to refrain from giving heavy industry an early Christmas gift by continuing handing out pollution profits.

**Dylan Tanner** (InfluenceMap) [presented](#) the findings of their new [report](#) entitled “*European Cement and Carbon Pricing Regulatory Risk*”. Key highlights:

- The sectors most opposed to a robust EU ETS are the ones who have the most to lose. After oil and gas, the cement sector is the industry most opposed to strengthening the EU ETS.
- Cement association CEMBUREAU has opposed measures that would place a price on carbon in line with the Paris Agreement commitments.
- There is a litigation risk as the disclosure of climate change risks to investors has been insufficient and inconsistent with the amount of lobbying going on.

**Agnes Brandt** (Carbon Market Watch) [presented](#) the findings of a new [report](#) on the windfall profits made from the EU ETS, and a smaller [briefing](#) on the cement sector, both based on updated data from CE Delft. Key highlights include:

- Due to the over-generous allocation of free emission allowances, cement emissions have increased rather than decreased.
- Heavy industry earned a €25 billion pollution windfall under the EU ETS at the expense of European taxpayers, of which the cement sector made €5 billion.
- As a result, Europe has fallen behind in efficient cement production to installations in India and China.
- To spur the low-carbon transition of the construction sector, the EU ETS needs to deliver a carbon price that rewards green innovation, impose 100% auctioning in combination with border measures in the cement sector and move away from clinker subsidies in the form of free allocation to clinker production.

**Nicolette Bartlett** (CDP) [reacted](#) by saying that investors are increasingly concerned about how cement companies will fare in a zero-carbon world. Key highlights:

- Companies outside of the EU are making most strides in emissions performance and the Asians plants are the most efficient in the world.
- “Carbon leakage” concerns are not an issue as cement is hardly traded across borders. North Africa is the only region that imports cement into the EU; European cement multinationals are the owners of the cement companies in this region.
- Key question is how to make the construction sector fit for the 21<sup>st</sup> century, free allocation to high-carbon input clinker undermines this.
- European construction risks losing out in the global market, not because of the EU ETS, but because of the lack of innovation.

**Claude Lorea** (CEMBUREAU) [reacted](#) by explaining the difference between clinker, clinker substitutes and concrete and pointing to the limited availability of the most commonly used clinker substitutes. Key highlights:

- The cement association has identified five parallel routes towards 2050 including resource efficiency, energy efficiency, carbon sequestration and re-use, product efficiency and downstream reductions.
- Dynamic free allocation is needed to stop the over-allocation of pollution permits to the sector.
- The current trend of the clinker benchmarks shows about 0.5% annual improvements.
- Concrete is key to sustainable construction.

**Donal O'Riain** (ECOCEM) reacted by confirming that the EU ETS is not fit for purpose and needs to be radically changed. Currently the cement sector is a highly profitable and polluting industry that will only change if there is a high CO<sub>2</sub> price. He presented a five-point plan for the sector:

1. A genuine reform of the EU ETS as the system currently gives the wrong economic incentives.
2. A smart concrete initiative to avoid over-using cement which can reduce consumption by 10-15%.
3. Public procurement that is aligned to drive low-carbon innovation in the cement sector.
4. Investments in the new technologies for the future.
5. Support for the market introduction of new technologies. Currently ECOCEM needs permission from its competitors who are blocking its market access.

The discussion then focused on the exact profits that the cement sector has made from its pollution, the kind of innovation potentials of the industry and what these results mean for the EU ETS reform in terms of amending the free allocation rules.