

THE WAR IN UKRAINE, REPOWER EU AND THE EU CEMENT INDUSTRY – TAKING DECISIVE POLICY ACTIONS IN A CHANGING GEOPOLITICAL CONTEXT

April 2022

The recent invasion of Ukraine by Russia is causing human suffering and unnecessary loss of life. As an Association but especially as human beings, we are shocked and appalled by the atrocities of the war and our thoughts go out to all those in pain and sorrow in these difficult moments. We are heartened by the many actions of support that have been initiated by our member associations and companies as well as by the strong support and actions taken by the European institutions.

The conflict has also laid bare some major weaknesses in Europe's supply chains. These weaknesses have come to the fore in political discussions on security of supply and continuity of global supply chains. As representative association of a major industrial sector, CEMBUREAU feels it has to proactively and constructively contribute to that debate.

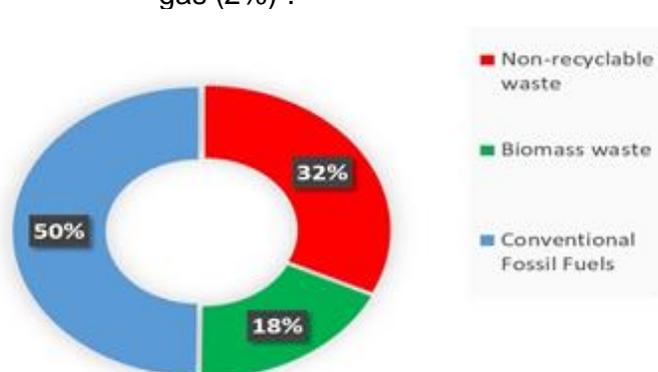
The EU cement industry remains fully committed to the carbon neutrality goal it set forth in its 2050 [Carbon Neutrality Roadmap](#). We do not advocate for slowing down the pace of necessary reforms (e.g. "Fit for 55" package) to respond to climate change and believe that a high level of ambition should be maintained. At the same time, it is essential to respond to the changing geopolitical situation by improving Europe's energy independence, as recently outlined in the *REPowerEU* Communication. Below, we highlight four main policy areas, where we propose key actions that would help the cement industry cope with the current situation whilst furthering the EU priorities on energy and climate.

1. Reaching self-sufficiency in energy supply and accelerating phase-out of fossil fuel use in cement production

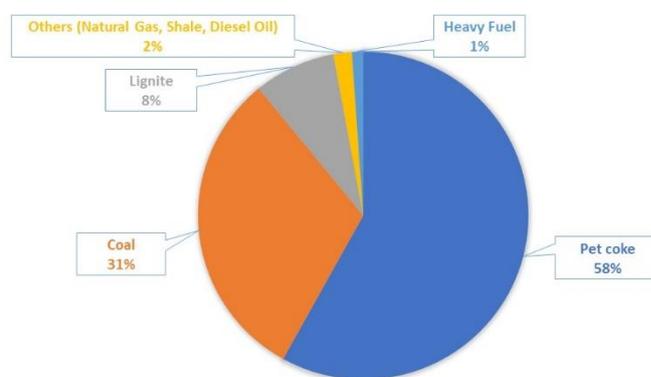
Producing cement requires significant amounts of energy. The EU cement industry has steadily decreased its reliance on fossil fuels, by increasing the share of alternative fuels (essentially, non-recyclable waste and biomass waste) as fuel for the high temperature manufacturing process. As shown in the table below, the energy mix of the sector is as follows:

- 50% of the sector's energy needs are supplied from the use of non-recyclable waste and biomass waste which are sourced locally. Such circular use of waste also allows the sector to significantly reduce its CO₂ emissions, and CEMBUREAU has set ambitious targets as part of its [Carbon Neutrality Roadmap](#) (60% alternative fuels containing 30% biomass in 2030, and 90% alternative fuels with 50% biomass by 2050).

- The other 50% consists of fossil fuels: most of it is petcoke (58%) followed by coal (31%, of which Russia is a significant source) and lignite and other fossil fuels (about 10%), including gas (2%)¹.



Thermal Energy Consumption by type, EU cement industry, 2019 (Source: Global Cement & Concrete Association)



Breakdown of conventional fossil fuels use, EU cement industry, 2019 (Source: Global Cement & Concrete Association)

Crucially, there is no major technical barrier in increasing the amount of alternative fuels used in EU cement production, thereby relying on locally sourced waste and biomass waste for operations – some cement kilns already operate with a 90-95% alternative fuels use. Policy measures, at both local, national and EU level, could substantially reduce the reliance on fossil fuels in the sector.

Policy recommendations to reduce reliance on fossil fuels in cement production

In the short term:

- *At a national and local level, authorities should seek to redirect non-recyclable waste and biomass waste towards cement kilns as opposed to landfilling or incineration.*
- *Projects submitted as part of the national and EU funding & recovery programs to increase the use of alternative fuels in cement production should be fast tracked.*
- *It is essential to remove barriers at national and EU level for funding projects of the installations in EU ETS for the implementation of best practices related to energy and resource efficiency (Recovery and Resilience Facility fund, European Regional Development Fund, Cohesion Fund, Just Transition Fund).*
- *Incentives and funding should be provided for waste heat recovery and investments in renewable energy sources for covering the cement plants' own needs.*

In the medium and long term:

- *The EU should seek to stop any type of waste exports and instead use waste as a way to cut reliance on imported fossil fuels (EU Waste Shipment Regulation)*
- *The EU policy framework should recognise the benefits of using non-recyclable waste in cement production (Waste Framework Directive, EU Taxonomy...)*
- *Sustainability criteria for waste-based biomass need to be simplified and harmonised across the EU to allow for its increased usage (pending REDII guidance)*

¹ The situation may however differ from one Member States to the other. For instance, Bulgarian cement production is largely dependent on Russian gas, with no ability rapidly transition should there be a stoppage of Russian gas exports. Romania is probably largely self-sufficient, but yet faces a 22% dependence on Russian gas.

2. Delivering an economy based on local supply chains, with the construction sector as backbone

The war in Ukraine is forecasted to result in a significant contraction in the Euro area. In light of the economic situation, the European Union should capitalise on the strengths of its local supply chains, and seek to increase their resilience, as already identified with the COVID19 outbreak.

The construction value chain represents 10% of Europe's GDP with an annual turnover of EUR 320 Bn and providing jobs to 13 million workers mostly in small- and medium-sized enterprises. Importantly too the construction sector is largely based on local resilient supply chains. The war will have significant consequences in the construction ecosystem. It will likely create shortages of workers, given the importance of the Ukrainian labourforce in the EU construction and transport sectors. In addition, most companies in the construction sector are small and medium-sized companies that encounter liquidity problems in periods of deep crisis combined with a rise in material cost.

In addition, construction material suppliers such as cement companies are confronted with exorbitant surges in energy prices that weigh heavily on the cost structure. According to reports CEMBUREAU receives from its Members, energy costs currently represent 70% of the total cost base, coming from a 30%-35% level. In Spain, at least six cement kilns have recently been forced to stop production due to high energy prices. In other EU countries, a large number of plants could be forced to take similar actions soon. The resulting shortage in supply could lead to a further contraction in bringing essential building materials to market.

In this respect, it is urgent that the EU reinforces its State Aid framework to make sure that financial compensation can be provided to cement companies above and beyond the temporary relief offered by the emergency state aid framework adopted in March 2022, and include the cement sector for financial compensation under the EU ETS indirect state aid Guidelines.

Policy recommendations to promote local supply chains/the construction sector

In the short and medium term, address measures to support the construction value chain:

- *Prioritise policy measures that facilitate the rapid economic uptake of the construction sector: liquidity support for SME's; focus on increased flexibility in administrative procedures to optimise the free movement of workers in the EU; increased funding for renovation projects.*
- *Guarantee access to markets of all building materials is ensured with a focus on the development of low carbon materials while strictly observing the principle of material neutrality.*

In the short and medium term, address the rising electricity costs for construction materials:

- *The EU temporary state aid framework adopted in late March 2022 should be revised. In particular, the requirement that undertakings must incur operating losses with the increase in eligible cost amounting to at least 50 % of that operating loss is too restrictive. Furthermore, higher level of aid intensity should be allowed.*
- *The State Aid rules on indirect compensation should be reviewed and the criteria broadened to include the EU cement industry.*

- *As part of the REPowerEU initiative, the European Commission and Member States should consider a temporary decoupling of the electricity marginal pricing from the gas pricing as a matter of urgency. In the medium term, the EU electricity market design should be reviewed.*
- *Furthermore, the REPowerEU initiative should look at all measures to diversify the EU's energy supply, develop and deploy low-carbon sources of energy at affordable prices for industries and households.*
- *The uptake of Power Purchase Agreements and on site renewable energy projects should be promoted.*
- *Mineralogical processes should be kept out of the scope of the Energy Taxation Directive.*

3. Accelerating breakthrough projects for decarbonisation and improved energy efficiency

The EU cement industry is fully committed to the carbon neutrality goal it set forth in its 2050 [Carbon Neutrality Roadmap](#), and we see no justification for slowing down the pace of the EU legislative agenda on climate change (e.g. “Fit for 55” package).

On the opposite, it is now key to fast-track the deployment of the main breakthrough projects that will drastically reduce CO₂ emissions as well as maximise energy efficiency, thereby decreasing dependence on fossil fuels. These projects will also support economic resilience by supporting local supply chains and job creation.

Furthermore, incentivising the use of CCUS, BECCS and implementing an enabling legal framework for negative emissions as early as possible would allow for a positive impact on the carbon budgets and support the achievement of the EU's climate targets.

Policy recommendations to decarbonise the EU cement industry

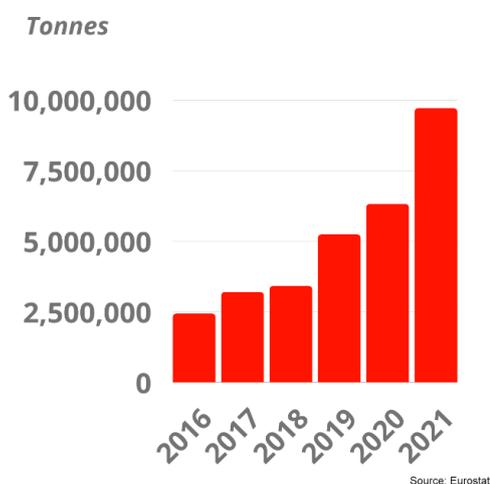
- *The funding proposals for projects that achieve major CO₂ reductions as well as energy efficiency improvements, such as CCUS, should be fast-tracked.*
- *The funding for the decarbonisation of energy-intensive industries, both at EU and national level, should be ‘frontloaded’ to support breakthrough technologies and key projects.*
- *It is essential to remove barriers at national and EU level for funding projects of the installations in EU ETS to support decarbonisation objectives (Recovery and Resilience Facility fund, European Regional Development Fund, Cohesion Fund, Just Transition Fund).*
- *Member States should scale up investments in CCUS/CO₂ transport infrastructure to support the decarbonisation efforts from the industry.*
- *An EU-wide scheme for carbon contracts for difference (CCfDs) should be developed.*
- *The roll-out of BECCS should be incentivised by including it into the EU ETS or by adopting and rolling out a functioning carbon removal crediting scheme. BECCS can contribute significantly to carbon removals already until 2030.*

4. Implementing CBAM in a coherent manner to create a level playing field on carbon

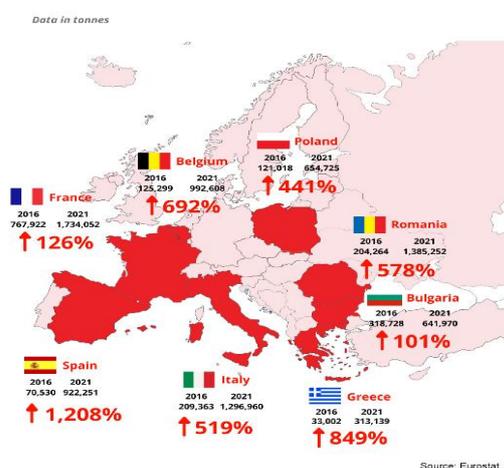
Last but not least, we believe that the war in Ukraine reinforces the need for an efficient EU Carbon Border Adjustment Mechanism (CBAM), to further support industrial decarbonisation of EU industries.

Whilst it is too early to predict what the impact of the war in Ukraine will be on EU cement trade, the experience of the past few years has demonstrated a great vulnerability of the sector to carbon leakage, despite free allocation under the EU ETS. Eurostat data indeed shows that EU cement imports have increased by 300% in the past five years (2016-2021), with specific spikes when the EU carbon price was at the highest (2020: +25% imports; 2021: +54%). During the same period, EU cement exports halved (-46%).

Cement imports to European Union



Focus on selected EU countries' cement imports



Given the rise of EU energy costs and in a context of high carbon prices, CEMBUREAU is concerned that this trend will continue. The war in Ukraine may also change the overall geopolitical context, as some of the EU's major trading partners may 'deprioritise' climate change. In this context, preserving the competitiveness of the EU industry, whilst facilitating their decarbonisation, becomes particularly important. It is therefore indispensable that the EU CBAM proposal is progressed at pace to equalise CO₂ costs between EU and non-EU suppliers, whilst taking a gradual approach to the phase-out of free allocation.

Policy recommendations to prevent carbon leakage in the EU cement industry

In the short and medium term:

- *The CBAM proposal should be swiftly adopted and strengthened to include indirect emissions (electricity) and effectively equalise CO₂ costs.*
- *A phase-out of free allocation starting in 2026, as proposed in the Commission ETS proposal, would expose the EU industry to considerable risks. It is essential to ensure that CBAM effectively equalises CO₂ costs between EU and non-EU suppliers, and is fully tested and effective before any phase-out of free allocation is initiated.*