

MEDIA RELEASE

EUETS NOT DOING ITS JOB IN CEMENT SECTOR – REFORM NEEDED

BRUSSELS, 27.02.2014

“Cement industry top management now has little confidence in the EU ETS; structural reform is needed to help investment in energy efficiency and innovation, and reduce energy costs and carbon emissions in Europe” said Karsten Neuhoff, from the German Institute for Economic Research (DIW Berlin), launching a key new economic report today. Neuhoff is lead author of the report, on the European cement industry by the international research network Climate Strategies. The study looks at the experience of the European cement sector with the EU ETS and other energy and climate policy instruments.

The EU ETS was a key focus of attention from top management in its early years, but its relevance has slumped drastically. Carbon intensity of cement production has improved by 3-5% in total, but mainly as a result of incentives outside the EU ETS. Industry responds to changes of policy and regulation, but so far free allocations and a low carbon price have meant the ETS has not provided sufficient economic incentive to stimulate further emission reductions.

The report finds no evidence of ‘carbon leakage’ to date, either from operational changes or from a shift of investment outside Europe. Free allocations of emission allowances may take the credit for that, but they have also undermined incentives for cost-effective emissions reductions. Without any significant cost pass-through, major mitigation options cannot be pursued; since customers are unlikely to select other cement types with lower clinker content in the absence of economic incentives, firms will not develop new low-carbon cement types without prospects of future market demand, and the building industry currently has limited incentives for using cement more efficiently.

“Our report identifies two options for combining leakage protection and an effective carbon price for consumers” said Karsten Neuhoff. “First, inclusion of clinker and also cement imports in the EU ETS is already proposed in the EU ETS Directive. However implementation is challenging, as it has to be coordinated internationally to avoid political repercussions. Second, the same economic effect can be achieved with a charge on the consumption of clinker linked to the EU ETS. This additional option to address carbon leakage in the EU ETS directive would complement free allowance allocation at production level, and thus reinstate the full carbon price signal.”

Bruno Vanderborgh, a former senior executive in the cement sector and co-author of the report, said: “There are large mitigation potentials, which could be incentivised with the right policy structure, without driving the industry abroad. The structural reform of EU ETS needs to learn from experience so far and address the shortcomings revealed.”

The report concludes that the EU ETS is essential to guide and incentivise industry, but on its own it is insufficient to unlock much of the emission reduction potential in the cement sector. Coordination with, and adaptation of, other existing and new policies will be required to enable the realisation of low-carbon options. This includes enabling policies – like codes and standards, engaging policies – like labelling and reporting, – and support for investment in CCS, innovative materials and new building practices, as well as an effective carbon price.

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Notes for Editors



Launch event of “the Cement Report” is happening on **27.02.2014 at 15:00 CET** in Brussels and is hosted by The Centre: <http://www.edelman.be/events/cement-report-launch/>

Climate Strategies’ report “Carbon Control and Competitiveness Post-2020: The Cement Report”, published today, is the first thorough review combining quantitative and econometric analysis with comprehensive interviews of senior executives in the cement sector. It assesses how production and emission volumes, energy- and CO₂- efficiency and competitiveness have evolved prior to and during the EU ETS; and explores how the EU ETS and other policy instruments may have influenced investment and operational choices. Building on these insights, the report then explores what is needed to unlock the mitigation potential identified in the low-carbon roadmaps for the cement sector. The report is available on Climate Strategies website: <http://climatestrategies.org/research/our-reports/category/61/384.html>.

“The Cement Report” is an output from the Energy Intensive Industries project funded by Ministries in Germany, Netherlands, France, UK and by Tata Steel and Heidelberg Cement. Work on a similar analysis of the steel industry is ongoing.

Participating research institutions: DIW Berlin, IDDRI, UCL Energy Institute, University Erlangen-Nürnberg, CNRS-Ecole Polytechnique, CIRED, Radboud University Nijmegen, LSE-Grantham Institute, Hertie School of Governance.

Climate Strategies is a leading independent, international research organisation based in the UK. Through its network of global experts, it assists governments and industrial stakeholders around the world in developing climate change and energy policies. Climate Strategies is a not-for-profit organisation with all its activities funded through a broad spectrum of governments, businesses and foundations.