

## Feedback on the European Commission Inception Impact Assessment for the Amendment of the EU ETS (Directive 2003/87/EC)

Brussels, 19/11/2020

CEMBUREAU welcomes the opportunity to provide feedback on the Commission Inception Impact Assessment for the “Amendment of the EU Emissions Trading System” to be adopted Q2 2021.

CEMBUREAU’s commitment to Climate Change Mitigation is strong and our 2050 Climate Neutrality Roadmap (<https://cembureau.eu/news-views/publications/2050-carbon-neutrality-roadmap>), which was published in May 2020, sets out the cement industry’s ambition to reach net zero emissions along the cement and concrete value chain by 2050.

When it comes to the ETS inception impact assessment, CEMBUREAU would like to provide the following comments:

***The achievement of an increased 2030 target will require a fair effort-sharing between all sectors of the EU economy, and this should be reflected in the upcoming ETS Amendment.***

As a preliminary remark, CEMBUREAU wishes to highlight that the proposed revision of the EU-wide, economy-wide net greenhouse gas emissions reduction target by 2030 compared to 1990 of at least 55% will need to be met through actions from all areas of society. It will be particularly important to strike the right balance between ETS sectors on the one hand, where emissions have significantly reduced, and non-ETS sectors on the other hand, which in many cases have seen a stagnation or increase of their emissions. Particular attention should be given to the diverging CO<sub>2</sub> cost sensitivities in the different sectors. While industry stands in a harsh international competition both from extra-EU imports and on extra-EU markets, other sectors can more easily pass CO<sub>2</sub> costs on to their customers.

***A potential increase in reduction targets for ETS sectors needs to be accompanied by a reinforcement of the existing carbon leakage measures such as free allocation. In addition, a Carbon Border Adjustment Mechanism, which addresses imports of carbon intensive products, should co-exist with the current system of free allocation, and together addresses the risk of relocation of EU investment.***

Ultimately, it is indispensable to secure a full level playing field on carbon between the EU and its competitors. Today, for example, European cement producers bear CO<sub>2</sub> costs that extra-EU producers do not face. This is because the benchmark allocation including the Cross Sectoral Correction factor will result in an ever increasing gap between CO<sub>2</sub> costs for EU producers and importers. This gap should be addressed by a carbon border adjustment mechanism (CBAM). It is equally important that all energy intensive industries within the same market sector (for example construction) are included in a carbon border adjustment mechanism (CBAM). A CBAM should consider both direct and indirect emissions. The impact assessments of the effects of CBAM measures for any sector should consider the imports from all relevant countries that export today or in the future to the EU, and not only cover the major economies. CEMBUREAU’s full position paper on CBAM is accessible [here](#).

***Expanding carbon pricing to other sectors is necessary, but the impact of an ETS expansion on the sectors currently covered should be carefully considered***

CEMBUREAU generally supports the idea of expanding carbon pricing. With regard to incineration CEMBUREAU agrees that this should be included with the other energy intensive sectors within the existing ETS taking into account the same monitoring & reporting obligations. With regard to the proposed inclusion of Maritime and Road transport together with buildings into the existing Emissions Trading System (ETS), we however do not believe this will achieve the desired reduction in GHG emissions as for these sectors as it will be relatively easy to pass on the cost of allowances to consumers. The abatement targets would then ultimately fall back on industry within ETS where the increased cost of allowances will make industry more vulnerable to carbon leakage and impact on the ability for industry to make future investments to move to climate neutrality. At the same time, necessary CO<sub>2</sub> reductions in other sectors would be delayed. We therefore propose that these sectors are placed in a separate ETS where the cap can be adjusted to ensure these sectors achieve the necessary GHG emissions reduction.

***Adjustments to the ETS cap should take into account the technical pathways of energy-intensive industries. ETS rules should not favour investments on new installations against those on existing installations.***

Adjustment to the GHG cap for ETS should take into account the needs for industry with regard to the possible technical improvements that can be implemented between now and 2030 and the investment needed to achieve these technical improvements. There needs to be certainty going forward so industry can have the predictability needed to make decisions with regard to low carbon investments in the EU.

Investment in low carbon technology at a site level is most likely to take place on existing sites and not on green field sites due to the availability of suitable raw materials and also the protracted period to gain all the permissions to open a new quarry and cement plant. It is therefore important in the revision of ETS that a large scale expansion on an existing site is treated in the same way as the same expansion on a green field to facilitate the necessary investments to be made. However, existing ETS installations that invest into a large-scale retrofitting in order to reduce CO<sub>2</sub> emissions should keep their legal status as “existing ETS installation” and not be classified as “new ETS installation”. A classification as “new installation” would otherwise come as a disadvantage in many ways (e.g. allocation, biomass use) that could discourage low carbon investments in the first place.

***ETS revenues should be used to unlock investments in breakthrough technologies and innovative financing mechanisms. The EU ETS MRR should be adapted to take into account these breakthrough technologies such as CO<sub>2</sub> capture and re-use.***

Revenues from the purchase of ETS allowances are used by Member States (MS) to support their national budget. In some member states these funds are already earmarked for financing the transition to a low carbon economy. This should be the case for all member states. Particular attention should be given to the necessary infrastructure within the MS to facilitate the transition to a carbon neutral society, including the necessary new electrical grid connections for renewables, the necessary CO<sub>2</sub> transport and storage infrastructure for CCUS technologies and hydrogen pipelines.

Recognition for the capture and subsequent use or storage of CO<sub>2</sub> emissions needs to be correctly accounted for within the future ETS MRR. Captured CO<sub>2</sub> (not emitted to the atmosphere by an installation) must be coherently accounted for within the future ETS MRR, and deducted from emissions under the EU ETS, whether stored geologically, reused or used to produce calcium carbonate or other carbon based products. This also needs to include the necessary transport between the capture site and the final use and storage. Potential negative emissions from the use of biomass fuels with CCS need to be addressed. It is equally important for the future EU ETS MRR to

account for the mineralisation of CO<sub>2</sub> in both products and concrete structures (recarbonation). This process is a natural chemical reaction by which CO<sub>2</sub> is removed from the atmosphere and firmly bound into concrete.

CEMBUREAU also supports the use of Carbon Contracts for Difference (CCFDs) to support industrial decarbonization. We believe their use at a European level (e.g. through the ETS Innovation Fund) and national level should be explored.

It is important to recognize that the cement industry is often the main employer both directly and indirectly in many rural regions of Europe due to the location of the raw materials. Therefore if the increased costs of ETS and/or the investment cost needed to upgrade the plant to meet the lower emissions targets cannot be passed through to the consumer (construction industry), then this will put the viability of the operation at risk. This would ultimately result in unemployment often in areas of low employment and increased GHG emissions due to imports and/or increased transportation. Therefore, an international level playing field is a key requirement for further decarbonisation projects in the industry.

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