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DIN ROMÂNIA**

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**Membru al CEMBUREAU – The European Cement Association**

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**REF: Draft “Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post 2021” (hereinafter the “Draft Guidelines”).**

**CIROM-** Employers’ Organisation in Cement Industry and other Mineral Products for Construction in Romania, welcomes the European Commission’s effort to protect the economic sectors against the risk of carbon leakage giving the possibility to send comments to **“Draft Guidelines”**.

Please find below a number of key characteristics for the sector which underline the need to mitigate the impact of electricity costs on the overall cost structure.

**CIROM** suggests that in the "Guidelines" it should be stipulated that:

- For the qualitative analysis of the eligible sectors, the conditions for granting the indirect compensations should be:

- Have either a trade intensity of 20% **or** an indirect emission intensity above 1 kg CO<sub>2</sub>/EUR

Note: In the draft "Guidelines" submitted for consultation and in the consultant's report, the criteria are: the intensity of the trade is at least 20% **and** the intensity of the indirect emissions is at least 1 kg CO<sub>2</sub> /EUR

- The sectors should have the RAG (red - amber - green) status, regarding the **low-medium** or **medium** relocation risk

- **the list of sectors eligible at European level** should be **reviewed periodically** (for example, once with the revision of the reference values and allocations) so as to take into account the evolution of the indicators taken into account when establishing the eligibility criteria

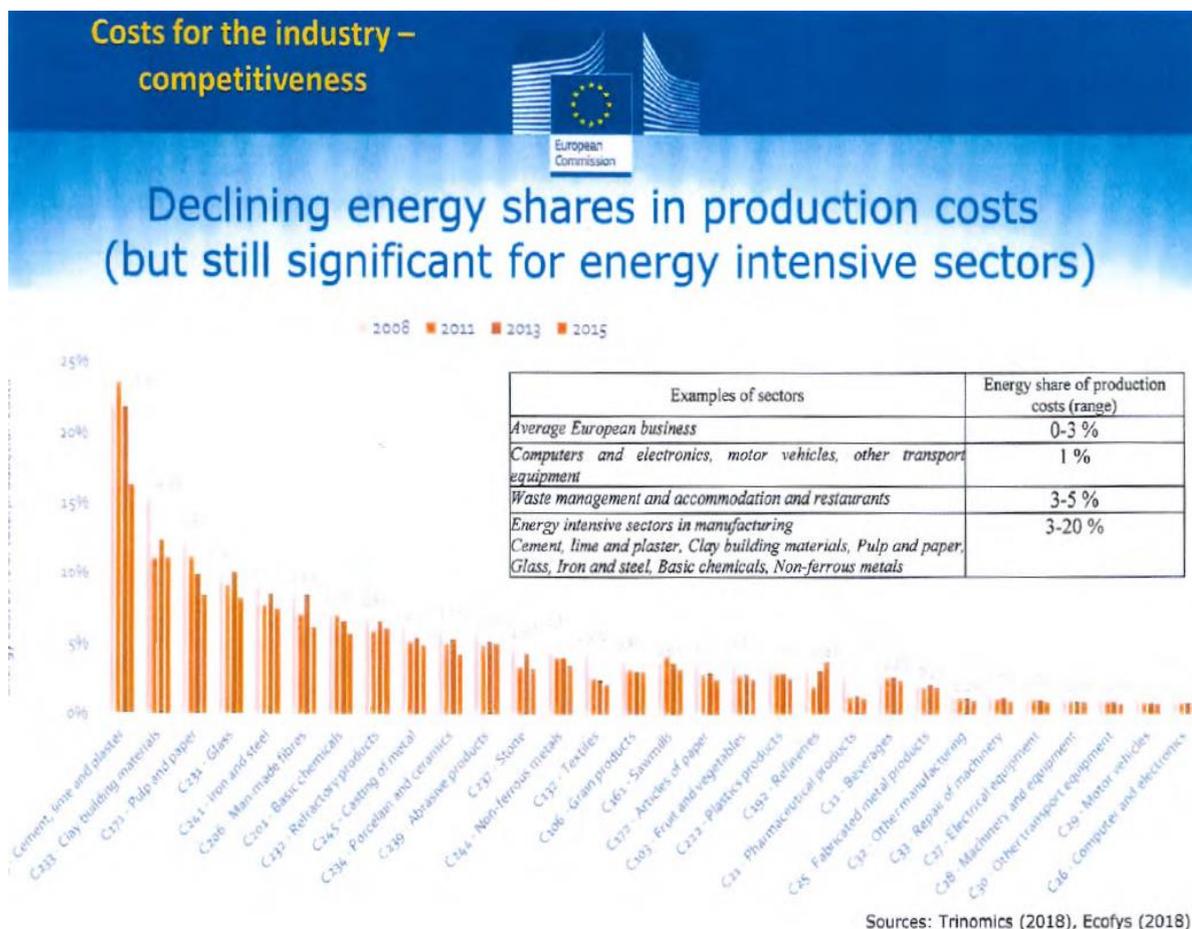
To support the above proposals, we underline:

**A.** Due to the competitive framework existing in the Romanian cement market, CIROM does not own and cannot centralize at national level data related to sensitive competitive information (capacities, costs, production, investments, etc.). All the information summarized and presented below are either from public data (source EUROSTAT, INS), or centralized and estimated data at European level.

**B. Electricity costs are significant for the energy-intensive sectors**

While indirect emissions (due to electricity consumption) are on average (at European level) of about 11%, the "cement, lime and plaster" sector analyzed by the European

Commission has the highest share of costs with this type of energy, from the total production costs - and these are increasing - as shown in the figure below.



### C. The trade intensity should be seen in the perspective of 2021-2030.

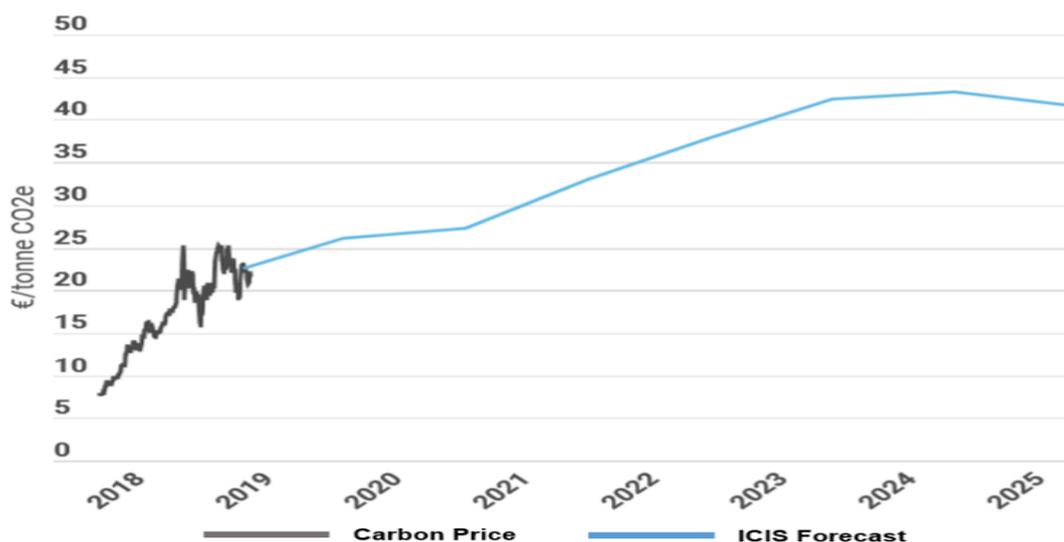
Currently, the cement industry at European level meets the criterion on indirect emissions intensity (to be at least 1 kg CO<sub>2</sub> / EUR), but does not meet the one on the trade intensity, which according to the Guidelines should be higher than 20%.

**Starting with 2021**, imports from non-EU countries will probably have an exponential growth trend, given that the cement industry will be dramatically affected by the internalization of CO<sub>2</sub> costs, mainly due to:

- the costs of CO<sub>2</sub> certificates (cement sector having as direct emissions both process emissions - with very little reduction potential - as well as combustion), in the context in which the **benchmark for post 2020 will significantly decrease** compared to the current period
- the indirect effects caused by **the internalization of CO<sub>2</sub> costs in the energy sector (especially in the electricity price) as well as the costs related to its decarbonisation** (phasing out coal, schemes to promote the use of renewable sources, CO<sub>2</sub> capture and storage, etc.)

In this regard we present below :

#### 1. CO<sub>2</sub> price evolution – Euro/ton



2. Recent studies of the European Commission show that the cement sector is one of the sectors most at risk of relocation (see Annex 1).

From this perspective we are concerned about the classification presented in guidelines for the cement sector, as being at risk of low-medium relocation.

Applying the CIROM proposal to grant eligibility on the basis of qualitative analysis **to low and medium** risk sectors, would imply the possibility of extending the list of **eligible sectors with other 6 sectors**, as follow:

NACE Code	Sector	Trade Intensity	Indirect emissions intensity	or TI (UE)*IEI(UE)>0,2 or IEI>1	YES	RAG rating
24.44	Copper production	0,35	0,71	<b>0,251</b>	YES	<b>Medium</b>
20.60	Manufacture of man-made fibres	0,44	0,64	<b>0,281</b>	YES	Low-medium
20.16	Manufacture of plastics in primary forms	0,36	0,69	<b>0,247</b>	YES	<b>Medium</b>
08.99	Other mining and quarrying n.e.c.	1,73	0,25	<b>0,438</b>	YES	Low-medium
20.11	Manufacture of industrial gases	0,06	15,09	<b>0,905</b>	YES	Low-medium
23.51	Manufacture of cement	0,10	<b>1,33</b>	0,134	YES	Low-medium

3. Regarding the specific situation of Romania, find below the evolution of **the import of cement and clinker**, in tonnes, according to data from the National Institute of Statistics

Tara/Anul	2016	2017	2018	2019
<b>Ucraina</b>	63.194	107.056	143.957	260.292
<b>Turcia</b>	113.271	95.216	75.951	256.180

It is noted that in 2019, compared to 2016, **imports from Ukraine** increased by 311% and those **from Turkey** by ~ 126%.

This trend of increasing imports took place under the conditions in which the cement industry is considered to be protected by free allocations for direct emissions and by state aid schemes (partial exemption from the payment of green certificates) for the costs due to indirect emissions.

Given that the rules regarding the allocation for the post-2020 period are much stricter (the reference value will decrease and the cement plants will have to buy approx. 20% of the certificates), and the price of the CO<sub>2</sub> certificate will exceed 30 Euro, there is insufficient protection to the risk of relocation. Romania will be impacted more strongly than other European countries, because it is the border country of the EU common market.

Thus, the probability of making decisions to relocate the production outside the European market will increase, if no compensatory protection measures will be applied.

#### **D. Offset of indirect emissions costs should not create competitive disadvantages for the sectors involved**

On the construction materials market, cement concrete is in close competition with steel, a sector already considered eligible for the compensation of indirect emissions costs. Without granting similar compensation for the same kind of costs (due to indirect emissions and electricity consumption) there will be a distortion of the downstream market (the market of building materials) in favor of steel products, and the substitution between the two materials may increase.

#### **E. The efforts of the cement industry to decarbonise are limited and will lead to the increase of the specific consumption of electricity/ton of cement and of the indirect costs that should be borne by this sector.**

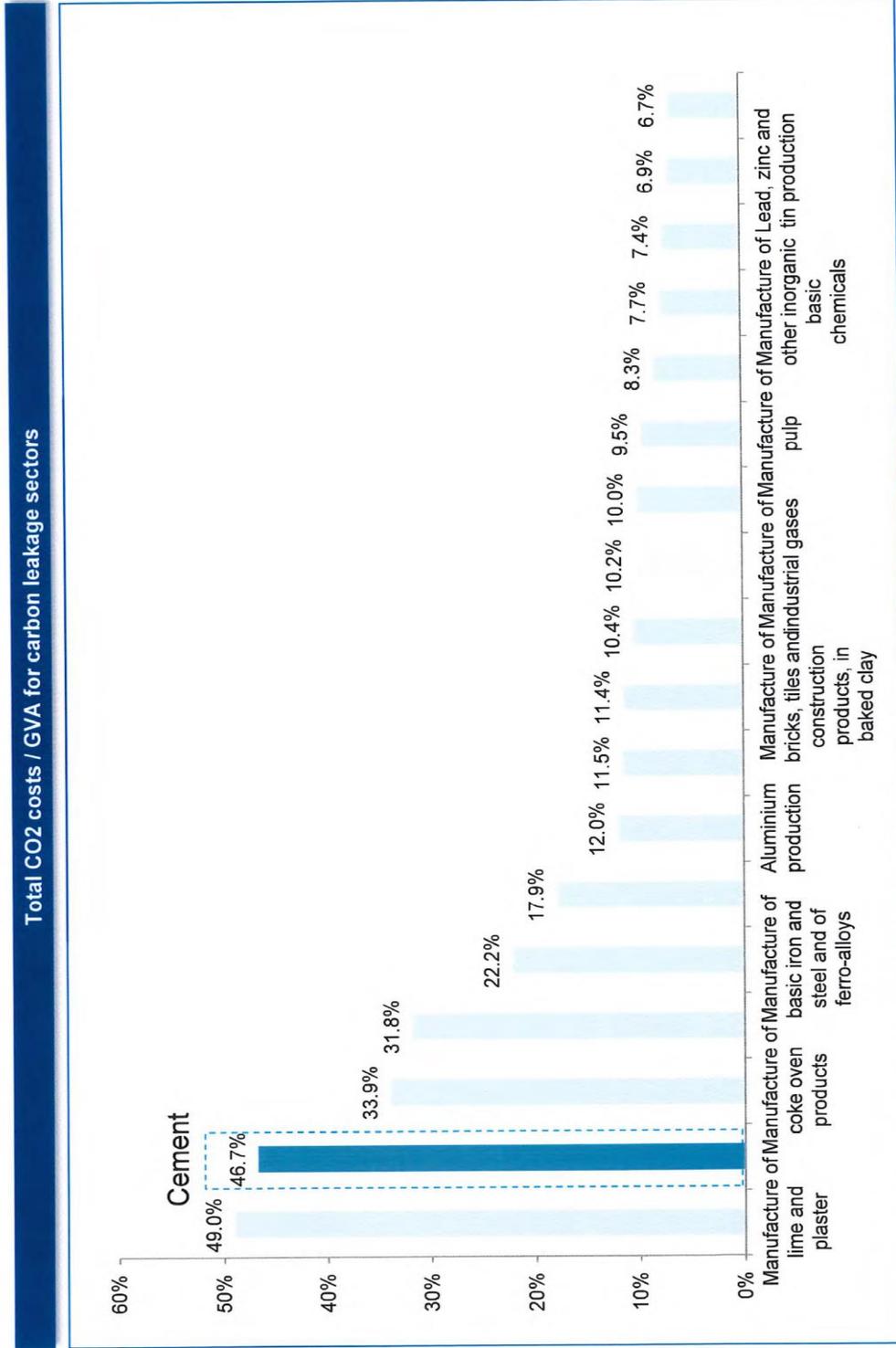
The Romanian cement factories have already implemented the best available techniques and have made considerable efforts to increase the energy efficiency, being at the technological peak, with limited capacities to further reduce the specific energy consumption.

Moreover, the efforts of the cement sector to decarbonise will lead **to an increase in electricity consumption**. For instance:

- Reduction of combustion emissions (by replacing fossil fuels with alternative sources from industrial or municipal sorted waste) implies additional electricity consumption for additional metering - feeding equipment, etc.
- Decreasing process emissions (over 60% of direct emissions) through the development in Romania of cements with less clinker content and implicitly with lower CO<sub>2</sub> emissions (diversification of specific applications according to the European cement standard) - will often require a greater fineness of the cement (and additional electricity consumption for its grinding)
- Capture and use or storage of carbon (pilot projects under development at European level foresee an increase in electricity consumption from 50% to 120%)

Summarizing, to be able to take on the decarbonisation challenges created by both the EU-ETS emissions trading scheme as well as the energy climate change package and the European Green Deal, the cement industry will continue to be highly dependent on electricity. The increasing of the indirect costs will ask for compensation in order to protect against the increased relocation risk.

# According to the latest EC assessment, the cement sector is one of the sectors most at risk of carbon leakage



Source: Results of carbon leakage assessments for 2015-19 list (based on NACE Rev.2) as sent to the Climate Change Committee on 5 May 2014