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HeidelbergCement's response to the targeted consultation of the European Commission on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

HeidelbergCement welcomes the possibility to contribute to the European Commission's public consultation on the revised Climate, Energy and Environment Aid Guidelines (CEEAG).

We support an ambitious climate policy aimed to facilitate the industrial decarbonization in line with the EU Green Deal. Already in September 2020, HeidelbergCement has published its "Beyond 2020 Strategy" setting out a clear roadmap aimed at carbon-neutrality in concrete before mid-century as well as deep emission cuts by 2025 and 2030. As part of our commitment, we are continuously developing large-scale pioneering projects with latest emission reduction technology.

In order to achieve the targets, however, substantial investments are required to finance these breakthrough projects. We, therefore, support the Commission's intention to broaden the scope of the State aid guidelines to provide an increasing level of financial support for initiatives that lead to a reduction and removal of GHG emissions as well as an increased level of circularity and biodiversity. We must, however, be consistent and not cut existing and proven support schemes for hard-to-abate industry at the same time, as this would take away much needed resources for the transformation. Electrification, for example, is a key vector on our way to carbon-neutrality, and the cement sector's eligibility for exemptions from levies on electricity costs should not be withdrawn.

Please find below our more detailed comments on the different parts of the proposal:

Reductions from electricity levies for energy-intensive users

According to the draft, almost all sectors of the building materials industry, including cement production, would no longer be entitled to exemptions from energy levies. The reason is that the eligibility criteria of a 4% trade intensity and a 20% electro-intensity has been eliminated without further explanation. We believe that this is not justified for the following reasons:

- The methodology focuses primarily on trade exposure and neglects sectors which are faced with a particularly high exposure to electricity costs. In this regard, CEEAG rightly identifies an "increase [in] the cost of electricity compared to the cost of direct emissions and [discouragement of] the electrification of production processes, which is central to the successful decarbonization of the economy" (paragraph 351) as one of the main risks associated with the additional burden of electricity levies. This trend will further increase in the future as our high decarbonization ambitions will drive-up electricity

consumption. Such clear trends cannot be ignored, given that the list will be valid for many years.

- In addition, trade-intensity must be seen as a dynamic and not rigid concept. The existing levels of imports and exports alone do not determine the exposure of a sector to international competition. Even if there is a low import level, an overcapacity on the international market can have a significant effect on the pricing of our products and a sector's profitability.
- Also, the period considered for the calculation of electricity and trade intensity dates back to 2013-2015. The situation and price levels today differ significantly from the situation of almost a decade ago. For example, in the period 2017-2019, cement imports into the EU have increased by 50%, clinker imports have doubled, and importers have consistently applied lower prices than EU operators. This development is expected to intensify in the future.
- Finally, the methodology deployed by the Commission is furthermore focused on trade between the EU and third countries and neglects trade within the EU single market. However, as electricity prices within the EU are not harmonized and an integrated European electricity market not yet realized, excluding the possibility for Member States with higher electricity prices to introduce exemptions for energy-intensive industries risks creating new distortions on the EU market. Furthermore, competition on the EU market between sectors that produce substitutes needs to be also carefully considered.

We, thus, urge the Commission to reinstall the eligibility category above 4% trade intensity combined with an electricity intensity above 20%, as it is in the current EEAG. These are the basis for proven and functioning national support schemes that exist in several EU Member States. The schemes are aimed at facilitating the electrification of our manufacturing plants and, as such, help to decarbonize manufacturing in Europe. Withdrawing these schemes at a time when the industry needs to heavily invest in the transformation process would mean a substantial hurdle to the decarbonization roadmap of the EU industry.

Network charges (chapter 4.11, point 354)

The draft CEEAG also specifically excludes network charges. This falls short on visible developments on the electricity market during the past years.

- Given the advanced transition from fossil-based electricity production to renewable energy, most notably wind and solar, the need for both active grid management and grid expansion increases continuously.
- Transmission system operators already pass on these additional costs to electricity consumers and will continue to do so. Network charges are therefore expected to

become the new, major cost burden associated with renewable energies . This development is already foreseeable in Germany today and will likely be shared in many other EU member states as soon as fluctuating renewable energies provide a major share of electricity.

In view of the long-term applicability of the CEEAG for the upcoming years, this issue should be addressed, and network charges should be included in the exemption scope.

Aid for the reduction and removal of GHG emissions including through support for renewable energy

- HeidelbergCement welcomes the inclusion of this new section, and in particular the addition of *“aid for the reduction or avoidance of emissions resulting from industrial processes”*.
- It is important that the definition of CO2 removal in the Draft Guidelines is wide enough to allow proper accounting rules to be adopted for further CO2 uses, such as recarbonization whereby CO2 uptake happens during the service life of a concrete structure.
- We also support that the text clarified that aid provided to breakthrough technologies can take various forms. The inclusion of Carbon Contracts for Difference could become an important enabler of the industrial transition.
- At the same time, it is important that aid can be provided not only for capital expenses but also the early operation of a project. Aid should take into account the abatement costs of each industry and be allowed to last at least until the end of an installation’s depreciation period.

To support a wide range of existing and future projects with high GHG reduction and utilization potential, it is important to take a broader definition of CO2 removal.

We would appreciate a clarification from the Commission to what extend operational expenses (OPEX costs) are covered by the guidelines.

Aid for resource efficiency and for supporting the transition towards a circular economy

- Our carbon roadmap goes hand in hand with a move towards a circular economy. We welcome that projects that increase the recyclability of products can now be included under the guidelines.
- However, we are concerned that co-processing is not included in the new Guidelines as it allows to re-use non-recyclable waste that would otherwise be landfilled or incinerated. Co-processing describes a process in which non-recyclable-waste and

biomass waste are used as both alternative fuel and raw material, which lowers the demand for primary fuels and raw materials and, thereby, also reduces the CO2 footprint of our industry.

We suggest the inclusion of investments for the use of non-recyclable waste in industrial processes, where such use allows for both energy recovery and the simultaneous recycling of minerals, thereby, lowering the demand for primary materials and reducing landfilling and/or incineration.

Aid for energy infrastructure

CCUS will be a key enabler of the decarbonization of the European cement industry. This will require capture technology as well as the appropriate CO2 infrastructure across the EU.

- We, therefore, appreciate the inclusion of a new definition/section on “Aid for energy infrastructure”. We, however, note that the definition of CO2 infrastructure is overly restrictive by including only two types of CO2 utilization, namely “*using carbon dioxide as feedstock or to enhance the yields of biological processes*”. This definition does not reflect the variety of CO2 utilization projects ongoing, which can cover the production of synthetic fuel, use of CO2 in chemical processes and permanent storage through mineralization.
- Finally, we stress that in addition to pure “energy infrastructure” like CO2 pipelines, it would be highly beneficial to recognize other transport modes such as ships under the State Aid Guidelines. This would ensure a faster scale-up of CCUS and also enable deployment of low carbon breakthrough technologies regions where pipeline access will be delayed or not economical.

We suggest to broaden the definition for CCUS infrastructure (paragraph 35) to allow for a wider range of applications. At the same time, the type of infrastructure covered should go beyond pipelines, including e.g. ships.

About Us

HeidelbergCement is one of the world's largest integrated manufacturers of building materials with leading market positions in aggregates, cement and ready-mixed concrete. Around 58,000 employees at over 3,000 locations in more than 50 countries stand for long-term profitability through operational excellence and openness to change. Responsibility for the environment is at the center of everything we do. As a pioneer on the way to carbon-neutrality, HeidelbergCement is continuously working on sustainable building materials and solutions for the future.