The European Cement Association

CEMBUREAU

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EDITORIAL

Energy intensive industries: Why setting CO2 targets to 2050 is unrealistic

European industry is open to participate in developing visions towards 2050, an aspirational exercise - rather than setting strict targets - which industry recognises as being both challenging and inspiring.

Nevertheless, CEMBUREAU, together with Europe's other Energy Intensive Industries, stresses that it would be **unrealistic** for EU policymakers to develop or impose unilaterally long-term targets with specific â€˜milestones', in view of the enormous uncertainties concerning the impacts on industry, technological possibilities, the ability to attract investment within the EU in order to fund the R&D necessary to achieve such targets, and the global economic and social â€˜map' at the present time.

In addition, any EU centric initiative must be placed within the perspective of the global economy. In the wake of current global economy trends, Europe's share of global emissions will decrease from 13% today to 9% in 2030. European industry is not only loosing share of the world production. The increase in imports to Europe from developing countries in the timeframe from 1990 to 2006 led to a substantial rise of the GHG emissions in imported goods by 47%. Member States are called upon by energy intensive industries based in the EU to insist that all steps in this process will be conditional to a global level playing field.

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Path to 2020

Moving the existing 2020 targets would be unacceptable: Since the early stages of the Emissions Trading Scheme (ETS), European industry has supported action to combat climate change and is committed to take its share by contributing to the current 20% GHG emissions target by 2020. The European energy intensive industry, however, maintains that the unilateral burden imposed on it in relation to other sectors of the EU economy, and vis-a-vis the rest of the world, is disproportionate. Many European industries still have the ability to invest in the best technology in the EU, despite existing EU policies. However, visible trends indicate that production and even whole value chains are being invested outside Europe even though the products are destined for the EU market. We call on policy makers to reverse this trend, rather than move ahead with current plans which will only aggravate this situation further. For investment plans, industry requires certainty and, in this respect, 2020 is already tomorrow. The carbon price itself is already a huge uncertainty factor in this context. It would therefore be irresponsible to shift the goal post, thereby introducing additional uncertainties. Member States, with the approval of the European Parliament, already made any change of the 2020 target conditional upon a binding international agreement with enforceable commitments by a critical mass of economies. This requirement should be maintained.

Macro modelling is misleading: The modelling approach adopted by the European Commission to suggest that the drop in emissions caused by the crisis makes the cost of reaching the 2020 target easier is both simplistic and misleading - the cost of the crisis must be taken into account when analysing industry's ability to reach the 20% target. In addition, the current modelling assessments on indirect impacts on electricity prices and the pass through ability of sectors are lacking or erroneous.

Path forward to 2050:

Before taking steps towards developing targets for 2050, the ETS framework has to be given the opportunity of demonstrating its ability to bring the industry to the **best competitive level in a cost effective way while fostering innovative solutions**. Industry had always advocated against â€˜ex ante' allocation which bears the risk, not only of overallocation but also of severe under allocation that prevent the investment and growth in Europe needed for jobs and innovation. Attempts by DG CLIMA to artificially take away allowances from the markets, will aggravate the current problems and should be stopped as soon as possible. Such tampering with the market is unacceptable as it contradicts the very philosophy of the ETS as a market based instrument.

Since 2005, industry has had to bear the cost of ETS driven increased electricity prices, exploding renewable and grid levies, and is now paying the highest power prices in the world, with no offer of long-term power contract, unlike in competing regions. The new policy plans are explicitly increasing these unilateral costs even further.

Auctioning revenues and cohesion funds must, inter alia, be made available to finance, on the one hand, the aforementioned additional capital investment expenditure of 270 billion Euros annually foreseen in the draft Communication, and also to provide for the additional investment in R&D and Innovation estimated at 50 billion Euros over the next 10 years as required by the SET plan [Communication from the Commission of 22 November 2007 - "A European strategic energy technology plan (SET Plan) - Towards a low carbon future" [COM(2007) 723].

The priority to 2050 low carbon economy should be geared towards **cost efficient energy savings** policies. Energy efficiency can deliver significant gains, but the EU has yet to tackle the whole economy in an effective manner and get the optimum economic balance between ETS and non-ETS sectors of the EU economy. **Focusing on developing more sustainable production methods is just one side of the equation. Changing EU society's consumption patterns is an even more daunting task to be addressed by political leadership**. The EU Industry has to be seen as a solution provider to non-ETS sectors like housing and transportation.

Carbon leakage is a reality and leads to job, investment and growth being lost in Europe and to substantial off shoring of carbon emissions. Effective monitoring of carbon leakage is thus essential. Urgently, state aid guidelines concerning compensation of indirect ETS costs must be put forward.

Specific sector perspectives should be developed, which would take into account the individual technological and economic realities of each sector in the EU and accordingly devise realistic energy and GHG emission pathways and related impact assessments. The Alliance of Energy Intensive Industries (AEII) supports BUSINESSEUROPE's call for a bottom-up, sector specific investigation building on the sector benchmarks. Its members are willing and ready to cooperate with European institutions and other stakeholders within the EU, through transparent dialogue provided it is based on realism. Cooperation must be developed and strengthened within a spirit of partnership between the European Regulator and industry rather than in a spirit of conflict.

EDITORIAL

How the petcoke market functions - Petroleum coke used as a combustible in cement kilns

This report is written by Sven Rydahl, Energy Manager, Cimeurope especially for the attention of Eurobrief readers.

Most industries operate with fixed prices for their input materials, for periods of at least 3-6 months ahead, with prices set either by contracts or by the hedging of future prices. However, the *situation is different in terms of petcoke purchasing by the European cement industry.*

The European cement industry (including its non European subsidiaries) consumes around 13Mt of petroleum coke per annum, around 10Mt of which are priced according to indices set monthly, in US dollars on an FOB basis US Gulf/Venezuela, by Jacobs Consultancy (a unit of Jacobs Engineering Group Inc) in the US, and called the Pace indices.

The indices should, theoretically, be assessed as an average of the previous month's spot price deals and other new price agreements for petcoke cargoes on an FOB basis from the US Gulf/Venezuela. The way the indices are evaluated is not published and very often the price changes between months are inexplicable and direct. This is surprising given the known FOB prices of petcoke cargoes to European customers and the price developments of other combustibles, such as steam coal and natural gas.

The price assessments for January 2011 (published in mid February and used for the pricing of cargoes - depending on contracts - for loading in January or for loading at a later date), which are up around 15% from the indices in December of 2010, are very difficult to explain, given declines in steam coal prices of 10-15% based on FOB prices from South Africa, and falls in natural gas and crude oil prices, WTI. Furthermore, a number of spot cargoes to European buyers in January were priced at below the January Pace indices.

Historically, 100% of the petcoke from the US Gulf/Venezuela was shipped to buyers in the Atlantic basin (mainly to cement companies), meaning that the price assessments for new cargoes were based on FOB prices for Atlantic destinations.

However, petcoke has become a global commodity since 2008, with buyers in Asia (power and industrial users) becoming more and more focused on US Gulf/Venezuelan petcoke, whenever the C&F price Asia for petcoke is competitive with C&F prices Asia for Pacific steam coal. With record low freights (and Asian steam coal prices), due to a tighter supply/demand balance, set to level at US$10-20 above Atlantic coal prices, Asian buyers have come to set the floor price for FOB prices for petcoke in the Atlantic.

This development has meant that the price assessments by Pace have become more a gauge of Asian demand and prices than of the petcoke market in the Atlantic.
In fact, by applying these indices, European buyers accept the bidding up of the petcoke market in line with what Asian buyers are accepting.

The assessment of the future Pace indices are more and more difficult to predict. This means an extremely uncertain price pattern for European and Atlantic buyers of petcoke.

Most cement companies commit their petcoke volumes on an annual basis, but the actual FOB price for a given loading month is determined by the Pace indices (normally with a premium of

US$8-18 above these indices, as the premiums reflect the tightness of the market).
This means that it is impossible for a buyer who uses Pace indices for pricing to evaluate the cost of the petcoke to be delivered during the calendar year, in his/her budgets, forecasting etc...

An additional problem is that it is not possible to hedge the petcoke prices with most other commodities and, specifically, all other combustibles. A buyer can hedge the prices of steam coal, oil product and natural gas purchases, but not the petcoke price.

Buyers, such as power companies in Europe, are being banned from using petcoke by their risk management departments, as open positions of petcoke cannot be hedged. Other buyers, such as lime producers and brick companies, will only accept petcoke purchases based on a system with fixed prices. Contrary to these policies, the Atlantic cement industry continuously has huge positions of petcoke with unhedged prices. Every month a change in the Pace indices affects the liability of these positions.

The increasing Asian impact makes the indices more volatile and less predictable.
The Pace indices increased by nearly 15% both at the beginning of 2008 and in January 2011, and similar price jumps will be seen even more frequently in the future.

The only way to reduce the uncertainty in the cost of future petcoke shipments is for cement companies, acting individually, to reconsider their purchasing policy. This may be done by an increased share of the annual petcoke volume being agreed on fixed prices instead of being set on Pace indices. The petcoke price situation at the beginning of 2011 has, furthermore, been aggravated by overall low inventories, both with refineries and with end users. A more flexible system, with higher inventories during periods of rising prices, would alleviate buyers from the price shocks seen in January.

Buyers may also choose to switch to increasing their use of steam coal, with prices which are directly hedgeable.

The best alternative to petcoke is to burn the most competitive US steam coal. Already Asian cement plants are burning such coal and some European cement companies are also considering this option, such coal being priced at 30-40% discount for calorific content against petcoke.

However, given the very high growth in demand for steam coal in Asia over the next 5 years, steam coal prices, and thus petcoke prices, will stay at very high levels. For medium/long term, the only option for the world cement industry is to sharply increase its consumption of alternative fuels.

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EDITORIAL

CEMBUREAU quarterly economic report, 4th quarter and full year 2010: EU construction and cement activity still to catch path of EU economic recovery

After some positive results recorded during several months in 2010, EU construction and cement activities declined on both a quarterly and yearly level, despite signs of an overall EU economic recovery.

In 2010 the European economy (GDP) began to recover following vibrant growth in several Member States, including Slovakia, Germany, Denmark, Finland and Estonia. The European Union gross domestic product grew by 1.8% on yearly basis reaching 12.1 billion euros (after a -4% decline in 2009). The volume of EU industrial production showed yearly growth of 4.3% with positive trends in at least nineteen EU Member States. Accordingly, the index of new domestic orders showed positive trends since early 2009. Negative developments in both annual GDP and industrial output were present in Spain and Bulgaria only, while the industry was hit also in Denmark and Portugal.

This positive picture reverses when taking into account both construction and cement activities. According to the latest EUROSTAT data, the EU construction and cement output continued to fall, reaching in December their lowest level since the onset of the crisis. Compared with December 2009, last December's construction fell by 8% while the average yearly output index dropped by 4.1%. Likewise, there was a further 11.7% decline in monthly index of cement production in December.

The EU construction sector started to improve in March, showing the first signs of recovery after a two-year drop of more than 15%. The production index increased further in June, but fell back to its pre-March levels in September. Finally, some signs of upturn in October were offset by gloomy performance from the year's end.

(***To see graphs in pdf version, please click on the image***)

Similarly, according to estimates for 25 European countries, the civil engineering sector, including transport networks, energy, and water supply networks showed some varied, though stable, trend. New building sector, comprising both residential and non-residential buildings, showed further -8% drop in 2010 that followed the already registered slump in 2009 (-19%).

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In 2010 cement consumption in the CEMBUREAU countries is estimated at some 4% below when compared to 2009. When taking into account EU countries only, it further fell by some -6%. Up to year's end, stable or positive results were registered, in the following Western European countries: Germany, the United Kingdom, Belgium and Luxembourg. Other countries saw a decline in consumption, although at a lower pace than in the previous year.

EU EMISSIONS TRADING SCHEME

Stakeholders back plan on early ETS auctions

A stakeholder consultation on the early auction of CO2 allowances (EUAs) has revealed broad support for the Commission's proposals, which state that between 100 and 300 million EUAs should be auctioned before 2013. The Commission believes that the early auctioning of EUAs will help in the transition from the second to the third trading period of the ETS. There is still concern, however, over whether new auctioning platforms will be in place in time. The Commission will now submit a draft amendment to the auctioning regulation, which will most likely be adopted in the first half of 2011.

The consultation can be found here:
http://ec.europa.eu/clima/consultations/0006/index_en.htm

EU EMISSIONS TRADING SCHEME

Commission to launch public consultation on enhancing carbon market oversight

The European Commission plans to launch a public consultation on enhanced carbon market oversight in order to take into account the views of stakeholders and the public on enhancing oversight of the carbon market to avoid market manipulation. The public consultation was called for in the Commission Communication on an enhanced market oversight framework for the EU Emissions Trading Scheme on 21 December 2010. Since the publication of the Communication there have been cyber-thefts from serveral EU ETS registries in January 2011. A number of

Member State registries are still suspended as a result. The Commission hopes to come forward with a legislative proposal as soon as possible to stop any thefts in the future.

In addition, the Commission has identified a range of actions that Member States can take to improve security. The Commission recently recommended that Member States undertake a number of further short-term measures, including:

» Regular reviews and updates of registry security plans;

» A review and strengthening of policies concerning the opening of registry accounts, building on best practice, and a risk based review of existing registry account holders;

» Facilitation of information exchange between Member States regarding suspicious requests to open an account;

» Better training for registry users;

» Better use of options in existing EU legislation to prevent VAT fraud.

Click here to find the European Commission press release:
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/219&format=HTML&aged=0&language=EN&guiLanguage=en

EU EMISSIONS TRADING SCHEME

Spain's EU ETS registry latest to resume operations

The national emissions registry of Spain has resumed normal operations following the completion by the European Commission of its review of the adequacy of the Spanish national registry's security measures. Spain's registry is the seventh to resume normal operations following the suspension from 19 January 2011 of transactions, except for the allocation and surrender of allowances, in all EU ETS national registries due to cases of cyber theft. The registries of France, Germany, the Netherlands, Slovakia, the UK and Portugal have already resumed operations.

The Commission reported that Spain has provided reasonable assurances that the minimum security requirements are in place. Spain's registry is the seventh to resume normal operations following the suspension of transactions in all EU ETS national registries due to cases of cyber theft.

EU EMISSIONS TRADING SCHEME

Hearing on 'options to move beyond 20% greenhouse gas emission reductions'

Parliament's Environment Committee held a hearing on 'Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage' at its meeting on February 28th. The hearing included the opinions of a number of experts who were invited to give evidence. The European Parliament Environment Committee is expected to draft an own-initiative Resolution on stepping up the EU's emission reduction target to 30%.

The Resolution will be jointly drafted by the Environment Committee and the Industry, Research and Energy Committee. Although the lead Committee will be the Environment Committee, the Committees will be in charge of different aspects of the Resolution.

ENVIRONMENT

Commission issues communication on raw materials

On 2 February, the European Commission issued a communication entitled â€˜Tackling the challenges in commodity markets and raw materials'.

While CEMBUREAU welcomes the publication of the Communication, it regrets the addition of commodity markets, as this risks diluting the importance of raw materials. The scope was enlarged under pressure of France to tackle speculation and increased volatility of the commodity markets - food and oil prices - on the basis that "the challenges of commodity prices and raw materials are closely intertwined".

The Communication contains some key issues for the cement sector. For example, in the "Fostering sustainable supply within the EU" section, conditions to promoting investment in the European extractive industries set out:

- » having a definition of a national minerals policy
- » setting up a land use planning policy
- » putting in place a clear authorisation process for exploration and extraction
- » improvement of the EU minerals knowledge base

Furthermore, in the "Guidelines on the implementation of Natura 2000 legislation" section, it is stated that "... there is no automatic exclusion of non-energy extractive activities in or near Natura

2000 areas".

As far as the extractive industries are concerned therefore, there is disappointment with the inclusion of "agricultural commodities" and "energetic materials". This means that the focus of the Raw Materials Initiative (2008) on securing raw materials for Europe, addressing exclusively the non-energy extractive industry, will be diluted. There is however general support with regard to further improving, jointly with the Member States, the regulatory framework for sustainable extraction in order to promote investment in European extractive industries.
Antonio Tajani, Vice-President of the European Commission and Commissioner for Industry and Entrepreneurship, met with members of the Parliament's ITRE Committee on 28 February to present the Communication on Raw Materials.

ENVIRONMENT

Council conclusions on the EU's energy strategy for 2020 published

The European Council has adopted conclusions on energy that state the need to create a safe, secure, sustainable and affordable energy policy contributing to European competitiveness in the future. The conclusions state that the 2020 20% energy efficiency target agreed upon, which is presently not on track, must be delivered. The Council will carefully examine the upcoming Commission proposal for a new Energy Efficiency Action Plan, setting out in more detail a series of policies and measures across the full energy supply chain.

The Council also pointed out that as of 1 January 2012, all Member States should include energy efficiency standards taking account of the EU headline target in public procurement for relevant public buildings.
The Commission is currently finalising the Strategic Energy Efficiency Action Plan. The Action Plan is planned for adoption on 02 March 2011. Concrete legislative proposals are expected to be proposed after the summer 2011.

The ministerial resolution can be found here:

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/trans/119518.pdf

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BUILDINGS & BUILDING MATERIALS

Construction products Directive adopted by Council

The Council adopted the Commission's proposal on the placing on the market and sale of construction products without debate at a Council meeting held on 28 February 2011. The Construction Products Directive, which is being recast as a Regulation with simplified procedures and clearer definitions introduced to make it easier to apply in practice, will regulate the safety and technical requirements of all products used in construction works in the EU.
The finalised text of the proposal is based on an informal compromise agreement reached with the European Parliament's earlier in January 2011. The Directive means that building materials containing hazardous substances will have to be clearly labelled to protect the health and safety of building workers and other users. Following pressure from MEPs, the "declaration of performance" required for every construction product under the new rules will have to include information on hazardous substances, as required by the 2006 REACH Regulation, so as to meet health and safety standards and make the contents clear to all users. Other amendments to the legislation accepted by the Council deal with environmental protection, the recycling of construction products and the need to take account of health and safety throughout the life cycle of the construction product when assessing its performance.
The Directive will be published in the EU's Official Journal during March 2011 and will be fully applicable two years following its publication in the EU's Official Journal.

WASTE

Guidance on formula for calculating energy efficiency bring drawn up

The Commission and Member States are finalising a commission guidance document on the interpretation of the so-called r1 formula. This formula is included in annex ii of the waste framework directive to calculate the energy efficiency of municipal solid waste incinerators and is used to determine if the installation is considered as recovery facility or not.

The draft guidance document gives a rather wide interpretation. The scope of the r1 formula does not only cover municipal solid waste. If the facility also incinerates other waste together with the municipal waste, this is also included in the r1 calculation. In addition, the internal use of energy of the incinerator is considered as an output and hence increases the energy efficiency of the incinerator.

The Commission expects to finalise and publish the non-binding guidelines early 2011. The issue of the climate factor will be handled in a separate commission decision on which the tac will be consulted in the first half of 2011.

CEMBUREAU will prepare a paper on the interpretation of the r1 formula.

OTHER NEWS

Health & Safety - Commission adopts proposal for review of Seveso II Directive

On 21 December 2010, the European Commission adopted a proposal for the review of the Seveso II Directive, the EU legislation on the control of major-accident hazards involving dangerous substances. The content of the proposal is current being assessed by experts from several CEMBUREAU Working Groups and the Secretariat. If adopted, the new Seveso directive would enter into force as of 1 June 2015.

The main aim of the proposal is to adapt the Seveso II Directive to the new classification system from the Classification, labelling and packaging of chemicals regulation (CLP). With the proposal, the legislator also seeks a reduction of the administrative burden for companies. The underground storage of gas has been included in the scope as well as a corrective mechanism to adapt Annex I in the future to deal with situations where substances are included/excluded that do/do not present a major-accident hazard.

Under the co-decision procedure, the proposal is now being discussed in the Council and the European Parliament. It is expected to be adopted by the end of 2011.

The application of the new classification system from the CLP Regulation for substances and the fact that new information on C&L of substances is available from the REACH registration dossiers, have led to a more severe classification of some substances, eg heavy fuel oil. This reclassification can have severe consequences, as a plant previously outside the scope of the Seveso directive, could now be considered as a Seveso plant due to the presence on site of a certain quantity of the reclassified substance.

OTHER NEWS

Join us to learn more about the importance of mineral raw materials!

The next edition of the biennial European Minerals Day, organised by the industrial minerals, aggregates and cement sectors, will be held during the weekend of 13-15 May 2011. Various activities will take place at quarry and extraction sites across Europe to highlight the absolute importance of minerals industries to all stakeholders. A European Launch Event will again take place at a quarry site on the eve of the European Minerals Day.

Raw materials play an essential role in our lives, with 70% of EU manufacturing production depending on mined substances. Our cars, houses and domestic appliances all contain minerals. Our mobile phones contain over forty raw materials, our PCs, sixty. Nevertheless, the vast majority of EU citizens are unaware of the importance of raw materials to Europe's economy. The construction, chemicals, automotive, aerospace and machinery sectors, which provide a total added value of € 1 324 billion and 30 million jobs, all depend on access to raw materials.

Biodiversity remains one of the key themes in 2011. Visitors will be able to discover the unique biodiversity found in rehabilitated quarry and extraction sites, which provide habitats for rare plant and animal species. The sector will also highlight it key role in enhancing resource efficiency, notably in its extraction and production processes, the manufacturing of the end-use applications, as well as end-of-life recycling and disposal. Finally, the crucial role the sector plays in Europe's competitiveness will also be addressed.