

Carbon leakage: European cement industry at risk

Brussels 7 October 2008 - Today, The Boston Consulting Group has published a study highlighting the impact of the 2013-2020 EU Emission Trading Scheme (ETS) proposal on the European cement industry. This study, requested by CEMBUREAU, concludes that "clinker¹ and cement production in the EU will be seriously affected by carbon leakage". As a consequence, the relocation of clinker production to countries with no carbon constraints will accelerate from 2013 and will continue in the following years.

"The results of this study highlight the point which we have been making all along: that the European cement industry is vulnerable to carbon leakage. Recognition of this fact is urgently needed as any delay is already impeding investment decisions in the EU. In order to assess the risk, we need to take a pragmatic approach, that of a good, reasonable businessman looking at the future" stated Dr Jean-Marie Chandelle, Chief Executive of CEMBUREAU.

At current CO₂ prices of 25€ per tonne, approximately 80% of clinker production will be offshored if no free allowances are allocated. This would heavily affect employment and the gross value added (GVA) generated by the industry. With full auctioning at a price above 35€ per tonne of CO₂, integrated cement production (meaning cement and clinker) would be wiped out of the EU. BCG stresses that, even without auctioning in the EU-ETS, the proposed cap would still affect one third of the European cement industry. In addition, if the entire CO₂ cost were to be passed through to consumers - an unrealistic hypothesis as cement and clinker are already exposed to international competition - the European cement industry would still be vulnerable to carbon leakage.

As a result, the international competitiveness of the European cement industry will be at high risk due to the cap proposed in the EU-ETS unless appropriate measures are taken to prevent unfair competition from products (cement and clinker) imported into the EU from regions with no carbon constraints and, therefore, no CO₂ costs. Moreover, the study indicates that the relocation of the European cement industry will have a negative impact on global emissions.

The results of the study are being presented to all concerned stakeholders, including EU authorities, national governments, their Permanent Representatives in the EU, as well as trade unions representing workers in the cement industry.

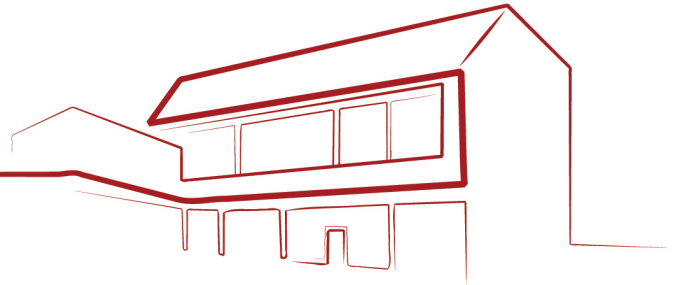
The full study is available from The Boston Consulting Group: baeza.ramon@bcg.com

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1 Clinker is only used to make cement. Clinker is produced from raw materials (mainly limestone) which are delivered in bulk, crushed and homogenised into a mixture which is then fed into a rotary kiln and heated by the flame at a temperature of approximately 1,450°C. New compounds are formed, releasing the CO₂ from decarbonation. Gypsum (calcium sulphates) and possibly additional cementitious (such as blast furnace slag, coal fly ash, natural pozzolanas, etc.) or fillers (limestone) are then added to the clinker and ground to a fine powder in the cement grinding mill.

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