

Energy prices and EU Energy Council 9 September 2022 position

The current situation on Europe's energy markets has seen, in some Member States, including Bulgaria, a tenfold increase in electricity prices compared to last year. **Such a high level of prices triples the costs of producing cement in the EU**¹. This comes on top of already significantly increased prices for other energy carriers and is posing a near-term, direct threat to operations across the European cement industry. Unless urgent actions are taken at both European and national level, the current energy prices will lead to widespread plant closures across the EU, creating a crisis in the construction supply chain.

Against this background, several concrete actions should be taken without delay to support energy-intensive sectors and households alike. In the short term, BACI and CEMBUREAU support the following measures:

- ✓ All available sources of electricity generation should be used to boost power supplies.
- ✓ Emergency measures, including energy price caps, should be implemented immediately to relieve energy markets and the reduce prices for both businesses and households.
- ✓ Co-processing in cement kilns should be actively encouraged: the use of non-recyclable waste and biomass waste in cement kilns ('co-processing') is a readily available solution that reduces reliance on imported fossil fuels and helps decarbonise cement production. It should be supported by targeted measures at the EU level. At a national and local level, authorities should seek to redirect non-recyclable waste and biomass waste towards cement kilns as opposed to landfilling or incineration.

Furthermore, the following measures should also be urgently considered:

- ✓ The electricity market design rules, including the marginal price setting mechanism, should be changed to prevent further electricity price hikes in the future.
- ✓ The cement sector should be made eligible for financial compensation under the EU ETS indirect state aid Guidelines. Electro-intensity should be a main criterion for eligibility. In parallel, indirect emissions should be included in the EU Carbon Border Adjustment Mechanism (CBAM).
- ✓ The large-scale deployment of renewable energy should be supported across the EU, through faster permitting measures and grid infrastructure deployments (including direct grid connections to industrial sites).
- ✓ The pace of the EU climate agenda ('Fit for 55') should be maintained, and the Carbon Border Adjustment Mechanism (CBAM) should be implemented in a timely manner. Eurostat data shows that EU cement imports have spiked significantly (+300% in five years, +54% in 2021 alone), a trend which has continued in the first three months of 2022 (+47% as

¹One tonne of cement takes around 110kwh of electricity to produce. Therefore, with electricity prices now between EUR 700-1000 MWh as observed in several EU Member States, electricity costs amount to EUR 70-110 per tonne of cement, tripling the total cost of production.

compared to the same period in 2021). This rise of EU cement imports further highlights the need for a CBAM to be implemented swiftly. In parallel, continued support for breakthrough technologies such as Carbon Capture, Utilisation and Storage (CCUS) plays a critical role to decarbonise the industry.

BACI stands ready to further work with policymakers on concrete solutions to support the cement industry, which underpins the construction of energy efficient homes and vital infrastructure to achieve carbon neutrality.

Furthermore, on 9th September, the Energy Council (Energy Ministers) of the EU met to discuss measures to address the extraordinary increase in energy prices. No decisions taking immediate effect were taken but Member States requested the Commission to come up with proposals by mid-September. References to Commission suggestions below are from non-final Commission documents but give an indication on the possible type and content of the measures.

The Commission has been asked to present proposals in the following areas:

✓ **Capping revenues of inframarginal electricity producers and introduce a solidarity contribution from fossil fuel companies**

The Commission suggests a revenue limit of EUR 200/MWh on electricity producers. With the measure, it aims to reduce the impact that the margin-setting technology in the electricity market (mostly gas-fired power plants) has on the revenues of other generators with lower marginal costs (e.g. renewables, nuclear)². In addition, the money generated from the excess revenue above the cap would be used to support consumers. From the texts drafted by the Commission so far, it is not clear under which conditions companies can benefit from such support (in one text, support to consumers other than households is even explicitly excluded) and how state aid rules will be applied. One of the systems the Commission is reflecting on is an auction (organized at Member State level) whereby industrial consumers can submit bids on the amount of financial compensation they would need to cut electricity consumption.

✓ **Emergency and temporary intervention to mitigate impact of gas prices; this can include a gas price cap**

The imposition of a cap on gas prices is probably the most contentious issue in the Council discussions. Member States are divided with Germany most vocal in warning against a price cap as it would jeopardize security of supply with gas going to higher-paying regions. There is also a discussion on introducing a gas price cap only on gas coming from Russia given that a cap imposed on all third countries threatens the LNG deals with and political connection to the US, Egypt, Qatar and Azerbaijan. A positive element in the debate is that Member States have confirmed that the EU level of gas storage has now reached 83%.

✓ **Incentivize electricity demand-reduction across the EU**

The Commission suggests a mandatory target of 5% reduction in net electricity consumption during peak hours. The Commission is assessing the potential of industry to

²Coal-fired and oil-fired power plants can be excluded by Member States from the revenue capping if the price of hard coal and crude oil has increased their production costs above EUR 200 /MWh.

move parts of their production processes to off-peak periods. We understand that most cement companies do have PPA's that already include provisions requesting some of the steps in the manufacturing process (e.g., grinding) to be carried out off-peak. We encourage companies and national associations to engage with their governments based on the specific PPA's (companies) or average PPA agreement (trade associations) in place (please make sure competition law rules are complied with).

✓ **Design liquidity emergency instruments for power producers**

Power producers de-risk by going short on future markets before selling the electricity. However, this requires them to post collateral and most regulators impose this collateral to be made in cash (some limited EU countries allow bank guarantees). So, while the increasing energy prices reassure the power companies high revenues when the power is sold, the collateral requirements cause liquidity problems. The Commission's proposals will probably involve accepting a wider range of assets as collateral and an extension of state guarantees.

Suggested advocacy points for BACI and CEMBUREAU (in addition to the points made above on energy prices):

- ✓ We welcome that the Energy Council recognizes the pressure put by the increasing electricity and gas prices on inflation and the EU economy, therewith threatening the competitiveness of European companies;
- ✓ However, we do miss a sense of urgency: with electricity prices increasing by the day (up to tenfold increases in some countries), the production costs of the cement industry have now tripled and there is no perspective for a downward trend;
- ✓ **Action by the EU and national governments is needed urgently but the outcome of the Energy Council raises major concerns that, if not addressed urgently, will lead to plant closures and affect the long-term viability of the whole sector;**
- ✓ Instead of a price cap on electricity, the EU is opting for an indirect measure in the form of a limit on the revenue of power companies with a subsequent distribution to consumers of the proceeds coming from the difference between the cap and the real electricity price; the suggested measure does not provide any immediate relief to industry; in addition, the conditions under which the distribution of these excess revenues amongst consumers will be done is still very unclear and the application of state aid rules has not been clarified;
- ✓ The same is true for the solidarity contribution that will be required from the fossil fuel producers and should be used to finance reduced energy bills for vulnerable households and businesses and/or support a faster move to green energy. The suggested measure needs a proper legal framework and clear conditions under which support can be granted. This will require time which the current crisis does not allow for;

- ✓ Similar questions arise around the call for coordinated efforts to reduce peak energy demand; we understand that the Commission is reflecting on auctioning systems, to be introduced by Member States, whereby industrial users can submit bids on the amount of financial compensation they would need to cut consumption; the elaboration of such system requires time as it requires an assessment of the role played by existing PPA's in the different Member States and the extent to which compensation provided needs state aid clearance (which also takes time);
- ✓ The frequent reference to the application of state aid rules in the previous points is of particular importance for the cement sector as, too often, an easy cross-reference is made to eligibility under the ETS indirect compensation State Aid Guidelines. However, the cement sector does not qualify under these Guidelines because of a trade intensity criterion and this while it is amongst the sectors with the highest electro-intensity; **trade intensity is of no relevance in deciding on financial compensation in the current energy crisis;**
- ✓ While we understand that a cap on gas prices risks to affect security of supply and poses challenging political issues vis-à-vis third countries, especially those who offered support in supplying LNG, such cap would have a consequential capping impact on the level of the electricity price to which it is linked, which is positive. A more clear-cut and preferable solution consists in a decoupling of gas and electricity prices but we understand that this will be part of a larger electricity market reform preceded by an impact assessment.

On the subject, a letter dated September 13th, 2022 was also sent at the EU level to the Vice-President of the European Commission, Margrethe Vestager, and a number of other commissioners, insisting that the need for urgent support to the cement sector is addressed in the current circumstances, while we propose:

- i) inclusion of the cement sector for indirect compensation in Appendix I to the ETS Guidelines;
- (ii) implementation of a rapid state aid approval procedure for individual notifications by Member States of national measures supporting the cement industry in these energy crisis times.

To this position statement we are attaching the joint statement of the energy intensive industries on the consequences of the emergency Energy Council on September 9th, 2022.