

Cement Criteria

Frequently Asked Questions

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Questions on Scope

[What can be certified by these Criteria?](#)

The Cement Criteria can certify:

1. Use-of-Proceed (UoP) bonds financing decarbonisation measures (e.g., retrofits) – see section 3 of the Cement Criteria.
2. Use-of-Proceed (UoP) bonds financing cement production facilities (i.e., assets and activities) – see section 4 of the Cement Criteria.
3. Entities (cement production companies) and Sustainability Linked Bonds (SLBs) – see section 5 of the Cement Criteria.

[What assets and activities are within scope?](#)

The Cement Criteria can finance entire cement production facilities or groups of facilities. They can also certify limestone quarries *if* the quarry is located on the same site as a production facility. However, quarries in and of themselves cannot be certified.

The cement criteria can also potentially certify any measure *within* a cement production facility providing it meets the subsequent criteria. This includes, but is not limited to, equipment such as Waste Heat Recovery systems, precalciners, burners, and equipment dedicated to Supplementary Cementitious Material (SCM) production.

A full description of what is in scope can be found in section 2 of the Cement Criteria document.

[Can concrete production companies, or concrete mixing plants, be certified?](#)

No, the boundary of the Cement Criteria does not include the production and use of concrete. As such, only cement production companies or facilities can be certified. This also means that a concrete and cement production company can only have its cement production subsidiary certified.

[What emissions must be considered when determining whether a plant or company meets the thresholds?](#)

The boundary for emissions begins after the raw materials have been transported to the raw mill and ends at the production of the final blended cement. Emissions from the burning of Alternative Fuels and Raw Materials (AFR) must be included, and scope 2 emissions must also be accounted. For the avoidance of doubt, this means that the emissions from quarrying and transport/logistics are outside of the scope of emissions counting, even if commonly accounted in the sector.

Carbon sequestration (negative emissions) from recarbonation is outside of scope.

[Is recarbonation within the scope of emissions?](#)

Carbon sequestration (negative emissions) from recarbonation is outside of scope. Negative emissions from recarbonation can thus not be used in meeting thresholds.

Questions on Market and Finance

[Are these criteria likely to be used by the bond market?](#)

As a significant source of global emissions, providing cement investment with clear transition pathways will be crucial to meeting decarbonisation targets in line with limiting global warming to no more than 1.5-degrees Celsius. Climate Bonds expects sustainable labelled debt to be a large part of this.

Bondholders have a key role to play in decarbonising the cement industry as, on average, bonds make up 52% of the financing mix of the 21 largest cement companies. Moreover, there are already considerable and tangible prospects of certification. This might be SLBs, but equally the Use-of-Proceeds (UoP) model of bonds should be considered by cement producers and investors. The upcoming updates to the Climate Bonds Standard means that both types of bond will eventually be certifiable.

Remember, the CBI Standard and Certification scheme is an additional layer of information which gives investors an indication of whether an entity's transition strategy or a bonds proceeds are aligned with the Paris Agreement. The inclusive nature of the Criteria means there are many opportunities for certification.

[Can Sustainability Linked Bonds \(SLBs\) be certified?](#)

No, but this will soon change. Climate Bonds has put out a revised overarching Standard for public consultation¹ which includes a ruleset for certifying whole non-financial corporate entities and Sustainability Linked Bonds (SLBs). This invites all stakeholders to provide input on the additional criteria required to certify these types of instruments or entities. Public Consultation will end in November 2022 and thus criteria will not be available for formal use in certifying entities and SLBs prior to December 2022.

However, the Cement sector criteria component for certifying entities or SLBs means that, once consultation is ended and necessary changes are made, certification will be possible.

[What does it mean to certify an entity?](#)

If an entity (in this instance a cement production company) meets the entity-level sector criteria as outlined in section 5 of the Cement Criteria document, all debt issued by that company will, by extension, be certified by Climate Bonds. This certification is effective for five years from that point, after which the entity cannot use the certification mark without reapplying for certification.

Currently, the only entities that will be able to get certified (following update to the overarching Standard) will be non-financial corporate entities. Note, similar to SLBs (see above) entities will not be certifiable until the latest update to the Climate Bonds Standard is finalised.

[Does CBI view securitisation as green if the backed assets are green and/or the proceeds from the securitisation are used for green purposes?](#)

It is our view that the actual use of proceeds should be green, not necessarily the securitised assets. In other words, it is the projects and assets which the proceeds are allocated to that have to pass the requirements of the Standard. While we encourage the use of green receivables for securitised bonds, it is not a prerequisite.

[Can covered bonds be certified?](#)

Yes, covered bonds can be certified. Provided that the assets to which the proceeds will be used are compliant with their respective thresholds. However, we do not require that the pool of assets used as collateral in the covered bond are compliant with the respective threshold.

[How do the Cement Criteria correspond to the EU Taxonomy on Sustainable Finance?](#)

The Cement Criteria are aligned with the requirements for the corresponding economic activities in the EU Taxonomy². This means that if your bond is financing cement production assets or activities and is certified under these Criteria, that investment would be defined as green under the EU Taxonomy.

As the EU Taxonomy works at the scale of cement production *as an activity*, being certified under section 3 (decarbonisation measures) or section 5 (entities or Sustainability Linked Bonds) of the Cement Criteria would not indicate compliance with the EU Taxonomy definitions for cement.

Questions on Criteria requirements

[Can retrofits of equipment or infrastructure improvements be certified?](#)

Yes. A bond may be financing capital investments in specific retrofits or improvements to existing infrastructure. These might be eligible under the criteria for decarbonisation measures (section 3 of the criteria document). There are two categories those measures might fall into: automatically eligible, and conditionally eligible. Note, this only covers the cost of the measures, not the facility they operate within.

¹ Climate Bonds Standard V4.0 | Climate Bonds Initiative

² https://eur-lex.europa.eu/resource.html?uri=cellar:d84ec73c-c773-11eb-a925-01aa75ed71a1.0021.02/DOC_2&format=PDF

Automatically eligible indicates that the measure has no climate downside and does not lock in technology that prevents decarbonisation further down the line. Such measures subsequently have no further screening criteria.

Conditionally eligible indicates that the measure has *the potential* for decarbonisation so long as it meets certain requirements. Things such as Carbon Capture and Storage (CCS) would be an eligible measure, so long as it meets additional criteria for transport and storage.

[How can decarbonisation measures be bundled together to count the cost of the whole facility in the bond?](#)

As mentioned above, eligible decarbonisation measures do not necessarily mean the whole facility is also eligible. Normally this means that only the cost of the measures can be included in certification. However, the issuer may be implementing a bundle of measures within a cement plant. If these measures *collectively* deliver emissions reductions equivalent to the emissions decrease in the plant-level pathway for the same period, the whole plant can be considered. For a 10-year bond, for example, the bundle of measures would have to deliver the same emissions percentage decrease as witnessed in the plant-level pathway between the bond starting year, and its maturity year.

[How frequently must verification take place for meeting the various emissions pathways?](#)

Issuers have two options for showing compliance with the emissions pathways:

1. They can demonstrate that their facility's emissions or the company average emissions are already exceeding the average emissions threshold for the bond tenor. For a 10-year bond, the average emissions intensity over that period must be calculated. If the cement plant or company already meets that threshold, it effectively meets that aspect of the criteria.
2. They can demonstrate every three years that the plant or company continues to meet the pathway every three years, with verification taking place alongside the annual reporting for those years.

[Why is there a correction factor to apply to emissions pathway thresholds?](#)

The Cement TWG strongly advocated that the criteria should encourage in some way improvements to cement (clinker) 'quality'. Cement quality in this sense means clinker with high reactivity and burnability which in turn has greater scope for blending with SCMs. Clinker reactivity itself is complex; requiring testing of this metric and subsequently setting criteria would be difficult. As such, the TWG decided that the cement grade (based on compressive strength after 28 days) was the closest, most widely available proxy for cement quality. For all cement grades, the emissions can appear lower by having a higher percentage of Ordinary Portland Cement (OPC), diluted with poorly reactive materials. The aim, however, is to have encourage blending rather with highly reactive SCMs.

The correction factors were determined using simple calculations of the relationship between emissions factors if diluting was occurring with inert materials. This means that, when producers in fact dilute with reactive SCMs, it becomes far easier to meet the thresholds, thus encouraging this practice. As such, it doesn't disfavour a certain grade of cement – different applications require different strengths. It rather levels the playing between the various grades.

EU-197 Standard

The Criteria recommend testing the cement grade using EN-197 Standard. However, this is not the adopted practice in many countries, which may have their own national standard equivalent. Climate Bonds permits such national standards to be used so long as they correspond to the necessary compressive strength categories (in mpa).

[Why are there different Adaptation & Resilience requirements for decarbonisation measures and cement plants?](#)

When evaluating the climate credentials of an asset, in light of the Climate Resilience Principles (CRP), all system boundaries and interdependencies within them must be identified. This ensures that all relevant climate risks and impacts on system resilience are managed by the issuer. When the scope of evaluation is a cement plant, this is naturally a more complex and larger list of interdependencies than a single piece of equipment. When a single decarbonisation measure is being financed, it is clearly unfair to require the issuer to consider all possible climate risks that would exist for an entire plant. As such, the A&R checklist for measures is considerably smaller than for plants. This reflects the narrower scope of assessment.

Questions on the Pathways

[How was the Cement Criteria company pathway \(for entities and SLBs\) produced?](#)

The Cement Criteria adopted the sectoral 1.5°C pathway for cement from the Science Based Targets Initiative (SBTi) guidance³. This pathway was developed through a Sectoral Decarbonisation Approach (SDA) and is based on the IEA Net Zero Emissions Scenario, thus making it 1.5°C-aligned. The pathway traces its line down from a 2022 starting point down to near zero by 2050. The Cement TWG determined this the most suitable pathway for adoption, being robust and aligned with the scope of emissions considered by the group.

[Does that mean if I am a company whose targets have been validated by SBTi, I can be automatically certified?](#)

No, being SBTi verified does not fulfil the requirements of the Cement Criteria. This is because the Cement Criteria have additional requirements that must be met, and the convergence mechanism to reaching the pathway is not the same as for SBTi. The Cement Criteria require all certified companies to either be on the pathway already (Tier 1 certification), or to reach the pathway by 2030 at the latest (Tier 2 certification).

[If the pathway is based on a carbon budget, won't the cement correction factors risk the budget being exceeded?](#)

The TWG's view was that clinker quality, tackled through the proxy of cement grade, was crucial to capture. It is easily testable in the industry and thus should not be difficult to verify. Ultimately, improving the performance and quality of cement is crucial to delivering considerable savings in emissions. The key here is to encourage replacement of clinker in higher grades with reactive materials, rather than replacing clinker with unreactive substitutes that reduce the quality of performance. As such, it is primarily intended to encourage highly reactive SCM use. As for the carbon budget being exceeded, it is as likely this could occur *without* the presence of these correction factors, as it is to occur with them.

[Why doesn't the company pathway end at zero emissions in 2050?](#)

As mentioned in the previous point, the SDA used by SBTi reflects an *overall* decrease in emissions across a range of sectors taken into consideration and in line with a 1.5°C carbon budget. This means that some sectors may be above zero emissions in 2050, while others will be below, but overall reaching *net* zero emissions is the key target. Moreover, recarbonation (the absorption of CO₂ by concrete over its lifetime) could account for those remaining emissions. This characteristic becomes most pronounced when concrete is crushed up during recycling.

[How was the Cement Criteria facility pathway produced?](#)

There were no existing pathways at the level of cement production facility available for adoption (unlike the case of the entity-level pathway). Naturally, the thresholds for cement plants would need to be more ambitious than those for companies. This is because those plants must represent the best performing assets of a company, whereas the company pathway represents a sectoral average decrease.

With this in mind, the EU Taxonomy threshold for 'green' cement production, one of the few existing benchmarks for the activity, was chosen as the starting point for a plant pathway. Then, the trajectory of the SBTi 1.5°C pathway was used to determine the appropriate rate of change per decade, down to zero emissions in 2050. This ensures the ambition of the pathway reflects technological availability balanced with necessary emissions reductions.

[Cement production is extremely regionally specific. Are regional pathways acceptable demonstrations of compliance?](#)

No, regional pathways cannot be used to replace the pathways set out in the criteria. One of the trade-offs of the Cement Criteria was that regional coverage had to be sacrificed to ensure usability. Firstly, verifying each regional pathway would be extremely challenging and time consuming. At the same time, many such pathways simply do not have the level of ambition necessary for meeting 1.5°C targets. Secondly, regional pathways exist for some, but not all, regions. It creates a more level playing field to apply the same requirements to all issuers. Lastly, even regional pathways create inconsistencies across countries. Regions will always have countries or sub-regions that will be favoured or disfavoured by that pathway. As such the same issues exist for setting a global pathway.

³ [Cement-guidance-public-consultation.pdf \(sciencebasedtargets.org\)](#)