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Att: CDM Executive Board

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Your ref.:	Our ref.:	Date:
CDM Ref 1084	KCHA/MLEH	27 August 2007

Response to request for review "Optimal utilization of clinker by increasing the additives in cement production at Holcim Lanka Ltd (HLL), Sri Lanka" (1084)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by three Board members concerning DNV's request for registration of the "Optimal utilization of clinker by increasing the additives in cement production at Holcim Lanka Ltd (HLL), Sri Lanka" (1084) and would like to provide the following initial response to the issues raised by the requests for review.

Comment 1:

Section B5 of the PDD states that the project commenced in 2002. Section C.1 indicates the start date in 2006. This inconsistency should be explained. Also as required by the guidelines for completing section B5 of the PDD it should be clearly validated that "incentive from the CDM was seriously considered in the decision to proceed with the project activity".

DNV Response:

The objective of the CDM project activity is to increase the additives (natural additives such as limestone and dolomite and artificial pozzolanic materials such as slag and potentially fly ash) in the current Portland Limestone Cement (PLC) production process at Holcim Lanka Limited (HLL), from a baseline blend level of 12.6% in 2005 to 29% over a period of time (as described in section 4.2 of the validation report).

Section B5 of the PDD clearly states that HLL commenced switch over from OPC to PLC in the year 2002. Since 2002, PLC was manufactured and sold as per stipulations under Sri Lankan Standards (SLS 1253), which allows for only a maximum of 15% additives as limestone. Moreover, SLS 1253 also does not allow the usage of any artificial pozzolanic material like slag or fly ash.

In 2006, HLL decided to produce cement with additives in excess of 15%, adopting the concept of CDM. The slag test starting dates (trail dates have commenced from January 2006) and the MIC committee (a committee set up in HLL for developing high blend cement) meeting dates confirms the project starting date to be 1 January 2006.

Thus from the above, it is clear that while HLL decided to switch over to PLC production in 2002, it was only in 2006 that the project activity was conceived and hence the project start date of 2006 is justified.

The documents that were verified to confirm that CDM was indeed seriously considered in the decision to proceed with the project activity were.

1. The presentation made in April 13 & 14 2005, regarding the support of CDM incentive to similar projects.
2. The e-mail discussions with PwC in India to prepare the PDD for the projects during December 2005.

References attached: (a) SEp comittee 2005
(b) historic_proposal PwC
(c) Slag Trial Holcim Lanka - Palavi plant

Comment 2:

Further evidence is required to determine that the barriers faced are specific to the increase in blending rates achievable in the baseline.

DNV Response:

HLL, being the only producer of PLC in Sri Lanka, continuation of the same as per SLS 1253 (and SLS mark) would have been a viable alternative, since it had an established domestic market. The production data for the year 2006 clearly indicates PLC is only produced by HLL and that PLC is the top branded produced cement by HLL.

Since no other cement manufacturer produces blended cement, the awareness levels in the markets are low and thus acts as a barrier. The increased cost of marketing in the years 2003 and 2004, after its commencement of production in 2002, demonstrates the additional efforts HLL had to put-in to market the blended cement brand..

We also draw your attention to section 4.4 of the validation report, wherein it has been that "The arguments for market acceptability criteria are supported with figures on marketing and advertisement cost of the earlier launch of PLC. As the new cement is not in line with SLS, coupled with the low awareness of blended cement, the introduction of this cement will definitely face similar barriers as the PLC faced" have been confirmed during March 2007. In March 2007, HLL crossed the threshold of 15% additive and had to remove the SLS 'standard mark' from the cement bags. The step to remove the SLS mark from HLL's main product (roughly 80% of the entire sales portfolio) has been exploited by competitors ever since (for example in TV commercial stating that "some cement brands do not bear the SLS mark" – video enclosed). To counter this, HLL has had to invest more on marketing and training, towards increasing the awareness levels among customers.

Further increase is also only possible with reactive pozzolonic material such as slag and fly ash. Currently, HLL is in the process of evaluating a capital expenditure programme in order to add slag. This is leading to another barrier, as the slag has to be transported from India, stored and ground. Again, this has also been addressed in the validation report (section 4.4).

HLL, thus far, has been unsuccessful in convincing SLS for a standard for composite cement (with slag and flyash) and this is also demonstrated to be a barrier. This was proved to the validation team by the number of meetings held with SLSI on the subject. During the time when the project was submitted for registration, the Sri Lanka Standard, brought out a new set of draft on standards (July 07) and opened for comment via newspaper and invitation letter to the cement companies. The SLSI' draft didn't include any change in the composition. Therefore composite cement regarding international norms is still not integrated. The 3 available standards OPC, PLC and blended cement (using either slag or fly ash neither without limestone nor without mixing the additives) remain the same. The response by HLL to SLS on the draft standards is submitted

(Since it gives a more recent perspective to the issue), to demonstrate the efforts by HLL to create awareness and necessary changes in standards to promote high blended cements.

References attached: (d) Marketing and training_HLL
(e) Overview market_Sri Lanka
(f) Competitor cement (movie clip)
(g) reply to SLSI new Draft - Final to be submitted to SLSI

Comment 3:

The approved methodology requires project participants to "demonstrate that there is no alternative allocation or use for the additional amount of additives used in the project activity." This should be confirmed for the slag to be used in the project activity.

DNV Response:

The Holcim Group has a long term contract for the supply of 400,000 T to 600,000 T of slag with the Indian company 'Prathyusha Asssociates Shipping Private Ltd' (PASPL) who source the same from the steel company 'Vizag Steel Plant' at the port of Visakhpatman, in India. The quantity required by the HLL's project activity reaches a maximum of 85,000 T and will be supplied vide this contract (document annexed: Holcim Trading_slag.pdf). HLL is not taking away the slag from any other application. Indeed, slag is considered as a waste in India and the cement industry is the main consumer for the same. This contracted quantity of slag from Prathyusha Associates is only a part from the slag which is produced in the Vizag steel plant.

References attached: (h) Holcim Trading_slag

Comment 4:

The monitoring plan should contain detailed information on the frequency on which parameters will be measured and how data will be archived.

DNV Response:

The log books were verified during validation and it is found that all relevant parameters are monitored and these requirements are also audited under the quality management system of HLL, which is certified against ISO 9001:2000. These values are also entered into a SAP system through which it can be cross verified. At the end of the year, the whole data is collated and reported as Annual Technical Report or ATR.

HLL has confirmed that the monitored data (soft and hard copies) will be kept for at least 2 years after the end of crediting period. The PDD is revised to incorporate this statement (page 29).

References attached: (i) CDM_PDD_ver03_HLL_V05_27.08.07

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

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