



Climate Change policy and the UK Cement industry

1. The British Cement Association is the trade and research organisation that represents the interests of the United Kingdom's cement industry in its relations with Her Majesty's Government, the European Union and relevant organisations in the United Kingdom. The members of the BCA (Castle Cement, Lafarge Cement UK, CEMEX UK Cement and Tarmac, Buxton Lime and Cement) are the major domestic manufacturers of Portland Cement producing over 90% of the cement sold in the UK. Additionally, BCA supplies services concerning climate change issues to Quinn Cement.
2. Energy represents an increasing proportion of the variable costs of cement manufacture (>35%) and it is therefore a primary concern of the industry to take all cost effective measures to improve energy efficiency and thereby reduce its emissions of carbon dioxide.
3. The cement industry supports the principle of emissions trading. Through their parent companies, Lafarge Cement UK, Castle Cement, and CEMEX are committed to carbon reductions through the World Business Council for Sustainable Development Cement Sustainability Initiative, (WBCSD CSI). In addition, Tarmac, Buxton Lime and Cement have undertaken to adopt the commitments within the WBCSD CSI.
4. **The scope of the Directive**
 - 4.1. BCA generally supports the expansion of the EU ETS to include additional sectors and gases for which trading has proved to be a reasonable and appropriate tool. This is not the case for transport emissions, such as aviation, which face very different pressures than those of manufacturing industry.
 - 4.2. The aviation sector can directly pass on the cost of carbon to the traveller (at just a few euros per flight in many cases) and the growth in the industry will be unaffected. This will however mean that the allowance market is short or with higher prices for those sectors that cannot pass through the cost of carbon e.g. the cement sector, because they face the threat from imported product from non-carbon constrained economies.
 - 4.3. The regulation of carbon dioxide emissions from the aviation sector should be handled carefully for two significant reasons. The first is that the climate impact from air traffic is 2-4 times greater than that of its CO₂ emissions alone; and secondly because in the short term the aviation industry emissions are expected to increase and thus meeting CO₂ targets will be done by purchasing allowances from other sectors.
 - 4.4. It is for these reasons that the aviation sector would better placed in a separate emissions trading scheme covering 'transportation', also including road transport and shipping.



4.5. Other greenhouse gases should be included in the scheme at the earliest opportunity to guarantee that all sectors contribute to climate change. However, to ensure that small levels of emissions are not captured within the EU ETS a threshold should be set. For example in the cement sector the carbon dioxide emissions far outweigh the significance of small amounts of methane and nitrous oxide emission. Consequently, the Commission should seek to maintain the emphasis on CO₂ in industries such as cement as the CO₂ emissions represent the most cost effective GHG reduction in the industry.

4.6. When considering which activities should be included in an expanded EU ETS the Commission should consider the incineration and landfill sectors because at present waste is incinerated and energy is not recovered in many cases and landfill emissions are significant in global warming terms.

5. Harmonisation and increased predictability

The UK cement industry is supportive of a level playing field across member states and predictability for emissions reduction. However, harmonisation and increased predictability should not come at the expense of flexibility for investment decision making. Allocation methodologies and timeframes play an important role in this regard and two of the methods are commented on below.

5.1. Allocation Methodologies

5.1.1. Benchmarking

5.1.2. Benchmarking, can be simple, transparent and can reflect the technological potential of industries if designed properly. If applied across all sectors benchmarking can provide a scientific and controlled means for driving improvements. Benchmarking in the cement industry should be clinker or 'Portland cement' based. In the UK during Phase I EU ETS the UK cement industry worked with Government consultants to develop a national 'new entrant' benchmark. Building upon this work the UK cement industry is well placed to assist in the development of national incumbent benchmark methodologies. These methodologies can be used to drive emissions reduction by penalising the highest emission cement processes and in later phases expanded from a national to pan-European level, thereby delivering increased harmonisation. If benchmark methodologies are used to distribute a fixed sector cap there is a high level of predictability for the EU and Member States in the respect of their emissions targets.

5.1.3. Auctioning

5.1.4. Auctioning, although administratively quite simple (single stage top down) it has the disadvantage of penalising those processes with a high carbon dioxide level per unit of profit particularly those that have a low ability to pass through the cost. The cement industry could be severely impacted by auctioning for these reasons.



5.1.5. Auctioning is not a desirable allocation methodology either for Government or for industry. It is a relatively crude tool for achieving emissions reduction which in practice is no more than taxation. Industries that operate in relatively soft markets and can pass on the cost of carbon will treat auctioning merely as energy taxation, as we have seen in the UK electricity market during Phase I. Although auctioning can be a revenue generator for government it does not on its own promote a shift toward more efficient technology, neither does it give signals to industry as to what level of efficiency or what type of technology should be employed. The cement industry is highly sensitive to the auctioning of allowances due to the high proportion of CO₂ emissions per unit of profit and because cement is an internationally traded commodity. Consequently auctioning should be used for those sectors which are not under threat from imported material or have a very high profit to emission ratio. As such differential levels of auctioning should be applied to different sectors, taking into account exposure to international competition, ability to pass through compliance costs to customers, and sector specific technical issues that impact on abatement potential. Revenues raised from auctioning should be used to generate further environmental improvements. It is important that there is clarity at an early stage on the use of revenues and the options proposed/available that Government would use to support emission reduction goals.

5.1.6. *Harmonisation of allocation process on a sectoral basis*

5.1.7. While we recognise the desire to simplify the approach to allocation, a one-size fits all approach creates competitive distortions and is not appropriate. Instead, the allocation approach needs to be defined and harmonised on a sectoral basis. For some sectors such as cement it may be possible to define an EU-wide sectoral allocation methodology over time, thus minimising competitive distortions within the internal market. This will facilitate the extension of the scheme to a global stage. However, in the interim, national incumbent benchmarks should be the primary focus of effort.

5.1.8. *Other issues*

5.1.9. It is important to incentivise new investment in lower carbon technology and the NER should be allocated at the same or close to the level per unit product as for incumbents in the same sectors. A high level of free allocation should be considered to incentivise technology shift and the allocation should be based on need for the medium term.

5.1.10. There needs to be harmonised rules in respect of closures. The transfer of allowances from closed, upgraded or modified installations to new substitute operations should be allowed in full. This is an excellent way to foster investment in new less energy intensive technology.

5.1.11. With regard to complete closure of installations without establishment of new, modified or upgraded installations the closing installation should retain its allocation for the phase to encourage closure. Closure is a valid form of



abatement and therefore retention of allowances aids the decision making process by providing added incentive.

5.1.12. Harmonisation of cap setting

A single EU emissions cap is not desirable, at present, until domestic climate change policies and overlaps have been removed. The removal of domestic overlaps will ensure that agreement on the burden-sharing between the traded and non-traded sector will help to ensure that all economic sectors are required to contribute to meeting the EU 2020 emissions reduction target.

There are risks associated with an EU-wide cap as it may remove the flexibility for member states to determine the way they achieve their national emissions reduction targets and possibly reducing the cost-effectiveness of national programmes. The BCA view is that Member state caps can better account for national circumstances until a global scheme can be developed.

6. Robust compliance and enforcement

The monitoring, reporting and verification requirements of the EU ETS cause significant financial and administrative burdens. These burdens move business resources from emissions reduction to emissions accounting. Significantly reducing the administration effort and via simplified Monitoring, Reporting and verification requirements for example the use of standard emission factors for complex fuels will help to re-divert resources toward emissions reduction.

Further simplification can be extended by excluding small emitters and with a similar logic applying a threshold for insignificant emissions of nitrous oxide and methane from the cement industry.

7. Linking

The EU ETS needs to be kept simple and flexible so that it will be desirable for other trading schemes to link to the EU ETS. This will encourage the uptake of carbon trading internationally and to improve the liquidity of the market. It will help to level out carbon prices internationally and optimise overall allocation of resources.

To maximise operability between the EU ETS and other international carbon markets, the EU scheme should seek to work within the existing UNFCCC framework, building robustness at the international level rather than isolating the EU scheme. Artificial limits on the use of credits from flexible mechanisms (i.e. the Clean Development Mechanism, Joint Implementation and emissions trading) will steer the price of carbon in the scheme, arguably acting against the purpose of the



scheme. This will reduce the supply of credits to European companies, raising the cost of compliance, while doing little to encourage technology transfer to and emissions reductions in developing countries. Climate change is a global issue and GHG reductions should be made at the point of least cost, wherever in the world this may be.