Association Européenne du Ciment The European Cement Association
CEMBUREAU

POST 2020 CLIMATE AND ENERGY LEGISLATION

The cement industry's reflections on a post-2020 climate policy

With a view to creating a predictable legal framework and ensuring a stable long-term carbon price to foster investments in low carbon technologies, CEMBUREAU suggests essential changes to the existing emissions trading system.

A possible option would be a trading system **with performance based free allocation and no CSCF** with the following essential features:

- A performance based free allocation for direct emissions to be provided by multiplying the benchmark by a historic activity level (HAL) which could be more closely aligned to recent production to avoid surplus allocation e.g. the average of the preceding 3 years.
- The benchmark would be calculated as the average of the top XX% performer of specific direct emissions and be updated periodically to ensure that it is relevant and challenging. The XX% should be set at an ambitious but reasonable level and should not be distorted by statistical outliers.
- To ensure that free allocation plus auction amounts do not exceed overall EU trading system cap an adjustment may be necessary. The adjustment should be made to the auction amount using an Auction Amount Correction Factor (AACF) to replace the Cross Sectoral Correction Factor (CSCF).
- EU Compensation should be granted for indirect emission impact where carbon leakage vulnerability is a combination of direct plus indirect emission cost.
- Access to free allocation is provided by being on a list of sectors which is created using the cumulative combination of a direct plus indirect carbon cost intensity criteria and a trade exposure metric.

The cement industry is ready to discuss such a design with policymakers from whom it requests open exchanges on:

- Recognition that the burden share of emissions needs to be rebalanced between energy intensive sectors and other sectors such as transport and households;
- Recognition that the cement manufacturing sector has technical limitations on reduction and that reduction effort must take into consideration the real reduction potential within the 2020-2030 timeframe.
- Recognition that the current ETS with its cap and cross sectoral correction factor for energy intensive industry will de-industrialise Europe before it decarbonizes European manufacturing.
- Early modifications to the ETS for post 2020 so that certainty can be maintained.
- Recognition that the emissions CAP can be met by adjusting the auction amount so that the environmental goal is maintained.
- Hypothecation (earmarking) of revenues from allowance auctions and direct innovation support to those sectors facing the greatest abatement challenges
- Introduction of a fair EU compensation for indirect cost of CO_2 coming from electricity.

Some of the features set out above could be complemented or modified **by rules allowing for the inclusion of importers and a sectoral cap on allowances so as to result in the following essential features:**

- Free allocation for direct emissions should be provided by multiplying the benchmark by a historic activity level (HAL) which could be more closely aligned to recent production to avoid surplus allocation e.g. the average of the preceding 3 years
- Free allocation for EU and non-EU producers through the introduction of importers in the system, treated in the same way as local producers.
- Exports from the EU should be excluded
- The benchmark would be calculated as the average of the top XX% performer of specific direct emissions and be updated periodically to ensure that it is relevant and challenging. The XX% should be set at an ambitious but reasonable level and should not be distorted by statistical outliers. The same benchmark would be applied to local producers and importers.
- The cap and the benchmark would be set at sector level.
- The cap must take the real reduction potential of the cement industry into account according to its 2050 roadmap. The cap would accommodate for imports i.e. consumption
- The EU Industrial cap must be defined in a bottom – up approach as the sum of all sectoral CAPs

The cement industry commits to engage in discussion with policymakers from whom it expects:

- Recognition that any cap must take into account the real capacity of reduction from all industrial sectors in Europe, setting a global industrial cap based on differentiated targets by sector.
- Introduce importers in the system, in a fair way, giving them the same treatment as local producers i.e. policy makers would need to accept that they should provide free allocation to non-EU producers
- Recognize that the industrial cap must take in consideration the evolution of the EU economy; otherwise it would hamper EU recovery.
- Recognition that the burden share of emissions needs to be rebalanced between traded and non-traded sectors
- Introduce a fair compensation mechanism for the indirect cost of CO_2 coming from electricity.

In any of the solutions set out above, a carbon pricing mechanism which is market-based and prone to wide fluctuations will militate against effective investment and realisation of the policy objectives. This has to be dealt with effectively. CEMBUREAU is ready to explain why this is so crucial and to explore mechanisms which deliver price stabilization with the aim of maintaining the carbon price within a predetermined fluctuation band. The adjustment of the allowances supply would need to be done against objective and publicly available criteria and indices in order to make the future trend of carbon prices predictable. In this context, CEMBUREAU considers the recently released EcoFys study (Dynamic allocation for the EU Emissions Trading System, Enabling sustainable growth, 20 June 2014) and its allowances allocation reserve as an interesting step forward.

Finally, in the context of discussions on more radical changes to the Climate Change policy, CEMBUREAU is ready to engage in a discussion on alternative solutions to an emissions trading system. CEMBUREAU initiated a reflection on a system that is designed around the concept of tackling emissions from consumption rather than emissions from production and is prepared to exchange views on such approach with policymakers.

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