

CEMBUREAU comment on the Public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of Energy Intensive Industry

- 1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?**

CEMBUREAU: As the outcome of the COP15 with the Copenhagen Accord will not lead to any significant reductions of GHG emissions elsewhere in the world, the exposure to international trade has actually become even more critical. Production capacity in non-ETS countries can easily adjust to EU demand. The global cement industry can build enough capacity to supply the EU markets from the most competitive non-ETS countries if it is economically attractive. As a matter of fact, several new plants across the Mediterranean have already been announced for the next few years (9 in Saudi Arabia, 3 in Egypt and 7 in the UAE). Moreover, if capacity in North Africa, the Middle East and Turkey (NAMET) is not adjusted, imports from China and India would occur, though at a higher CO₂ price. On the other hand, new entrants are but a few foreseen in Europe for the period.

The comprehensive study “**Assessment of the impact of the 2013-2020 ETS - Proposal on the European cement industry**” commissioned by CEMBUREAU to the Boston Consulting Group in 2008 (<http://www.cembureau.eu/topics/climate-change/etd-carbon-leakage>) stated that “clinker imports are already occurring and customers are, to a certain extent, already accustomed to clinker produced in non-ETS countries; EU integrated plants, if required to pay the CO₂ cost, would eventually switch off the kilns and import clinker from non-ETS countries in order to favour margins and stay competitive vis-à-vis grinding facilities”. The following four conclusions were drawn from this study:

- I. Clinker production in the EU is not competitive vis-à-vis non-ETS countries if the cement industry is not deemed as at risk of carbon leakage, thus leading to production offshoring.
- II. Offshoring volume in 2020 will depend on the amount of free CO₂ allowances allocated.
- III. Not giving enough free allowances to clinker production also leads to cement production offshoring.
- IV. Maintaining a sustainable integrated cement industry in the EU is possible.

The full study is available from [The Boston Consulting Group](#).

- 2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?**

CEMBUREAU: No. The Copenhagen Accord makes it clear that, for developing countries, social and economic development and poverty eradication are the first and overriding priorities and that emissions monitoring of developing countries will only be made in

accordance with domestic rules. Therefore, no equitable efforts are expected from their part. Also, the climate policies now emerging in some countries all have more pronounced aspect of protection of the competitive position of their industries than the EU Climate Change policies and especially the revised Emissions Trading Scheme and its overly rigid implementation proposals. The respective examples list will change dynamically but, at this point in time, it is instructive to look at Japan (no cap), India (individual energy targets) or the US (politically little chance for cap and trade application to energy-intensive industries).

Against this background, it is justified not to conceive ways of reducing the leakage sector list (which cannot be done under Article 10b 1) but to use the provisions of the Directive to support those sectors and sub-sectors still working to achieve compliance with the leakage criteria. Actually Article 10a of the revised Directive is named "Transitional Community-wide rules for harmonised free allocation". The recitals of the Directive make it clear that "transitional" refers to the expectation that there will be a comprehensive international binding agreement and that, until this enters into force, the measures will apply to avoid equally short-term competitive disadvantages. The failure to achieve such an international agreement would inevitably affect the meaning of "transitional" as it would then be required to increase/extend support measures in order to address longer-term and more far-reaching impacts on the competitiveness of energy-intensive industries in the EU.

3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

CEMBUREAU: The factors upon which CEMBUREAU would consider reasonable to discuss a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage are:

1. the participation of countries representing a critical mass (85%) of production in sectors covered by the EU ETS and
2. equivalent CO₂ emission targets to the EU applicable to the cement industry in those countries and
3. similar emission reduction systems with equivalent effect imposed by all participating governments.

The recent economic crisis has seen EU integrated cement producers switch off kilns while, as pointed out in the answer to Question 1, several new plants across the NAMET countries have already been announced for the next few years.

4. Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?

CEMBUREAU: The cement industry requests that the European Commission leave the door open to discuss the adoption of border measures (inclusion of importers in ETS) as an additional instrument to address short term and/or very specific aspects of leakage when the consequences of the 3rd phase of the EU ETS are well known.

Also, CEMBUREAU calls for fair general rules in the revision of the EU State Aid Guidelines (to be finalised before end-2010) for financial compensation for the overwhelming ETS impact on power prices.
