Lafarge answer to the public consultation on "Structural options to strengthen the EU Emissions Trading System" based on the Commission report "The state of the carbon market in 2012"

Located in 64 countries with 65,000 employees, Lafarge is a world leader in building materials, with top-ranking positions in its Cement, Aggregates & Concrete businesses. In 2012, Lafarge posted sales of 15.8 billion euros. Since 2010, the Lafarge Group has been part of the Dow Jones Sustainability World Index, the first global sustainability benchmark, in recognition of its sustainable development actions. With the world's leading building materials research facility, Lafarge places innovation at the heart of its priorities, working for sustainable construction and architectural creativity. Additional information is available on the website at http://www.lafarge.fr/

Producing cement is a very energy intensive activity, highly capitalistic, which requires long term investment ; as a consequence of these characteristics, our sector needs predictability and stability in the regulatory framework to have a clear horizon on which to take investment decisions.

As a global player, we support and contribute to the climate policy initiatives currently being designed and implemented in several emerging economies, which represent more than 80% of the world cement production.

At EU level, Lafarge believes that regulations should be structured in order to be able to respond to market mechanisms of supply and demand. In that regard, we support the European Emissions Trading Scheme (EU-ETS) that allows the price of CO2 credits to fluctuate according the requirements of the market while minimizing market distortions for energy intensive and trade exposed industries.

We recognize that the functioning of the EU-ETS could be enhanced for the third trading period and beyond : the currently low level of the carbon price is due to the fact that there is no clear long term ambition of the policy, and surely due to other external factors, difficult to determine.

We believe that the *Carbon Market report* which presents some review options for the EU-ETS is a first step towards a comprehensive assessment on the structural measures needed to reshape the future EU Climate Change Policy : if we want the concept of the EU-ETS to be a stimulus to investment in emission reduction, we consider that a discussion on its scope, on post 2020 targets and the articulation with other energy-related objectives has to be engaged as soon as possible.

Lafarge will be happy to contribute to the climate change policy post 2020 debate, directly or through our trade associations : this debate must embrace a broader and holistic industrial policy vision, starting from climate change and including energy, resource efficiency, innovation and research, and industrial policy ; and it should be consistent with the structural transformation and decarbonisation of the EU economy, while at the same time improving Europe's economic competitiveness.

The *Carbon Market report* structural reform options are essentially short-term measures that primarily aim at adjusting the supply or demand of allowances under EU-ETS, based on today's expectations of the future. In a few years from now, these expectations might reveal to be as wrong and as outdated as those expectations that stakeholders had 2-3 years ago.

None of the six proposed measures can be considered as structural measures and we are opposed to any proposal that would result in multiple reforms in the few years coming. These 6 proposals are short term measures that won't provide solutions to the problems of low carbon price and surplus of allowances : all options concentrate on short term carbon price, which is the consequence not the root of the problem.

Nevertheless, a one-time adjustment to the number of allocations put on the market to take into account the structural changes resultant of the economic crisis should be accommodated : as an exceptional and temporary measure, we endorse, among the numerous proposals currently discussed, backloading combined with, when achieved, retiring of a number of allowances. This action should not change any of the other provisions of the current EU-ETS market that allows it to react to natural market forces and minimizes distortion through granting of credits to energy intensive and trade exposed industries. Such a move would make even more sense in the framework of an enhanced market governance, including the creation of an independent CO2 market regulatory authority.

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