Here we send the contribution of SECIL- Companhia Geral de Cal e Cimento, S.A. related to the Stakeholders Consultation on structural options to strengthen the EU ETS.

General Comments

Legal framework

In SECIL's opinion the European Commission should engage all stakeholders involved in a reflection on the functioning of the EU-ETS for the third trading period and after 2020. Such a reflection should be undertaken from the perspective of an integrated approach which includes climate change, energy, industrial policy and resource efficiency considerations. Within this integrated approach should be taken in account the competitiveness of the European industrial sectors, namely the ones which remains exposed to the risk of carbon leakage.
A simple and consistent legal framework is needed to provide the stability over a longer period and to ensure that those industrial sectors continued committed to the European economy.

SECIL expected that the carbon market report would bring a real diagnostic of the situation as well as a clear view of the objective(s) pursued through the different measures.

However SECIL finds that the carbon market report which presents some review options for the EU ETS is only a first step towards a comprehensive assessment on the structural measures needed to reshape the future EU Climate Change Policy. Namely, it does not address long term and structural issues, such as the integration of Climate Change policy within other policies. SECIL hopes that in a very near future this integration will be discussed in a really needed coordination with other DGs and with Member States in a full transparent consultation process.

Setting an adequate timeline instead of avulse measures

The majority of the options outlined in the document require a change in the EU Emissions Trading Directive (ETD), which induce the conclusion that they are not foreseen to be during Phase III and they will only be considered for the post-2020 period. In our opinion the weaknesses of the system need to be addressed, which requires a serious review the EU ETS and the amendment of the ETD accordingly. In this way, SECIL strongly opposes tothe introduction of multiple avulse reforms that do not properly address the root cause of the problem. Consequently there should be no change to the Directive during Phase III i.e. before 2020.
An early start of a constructive discussion on phase IV, with the focus of the debate on the need for the European institutions to ensure long-term a stable, reliable and predictable legal framework, is essential and it will trigger a different attitude of the stakeholders with consequences in the behaviour of the carbon market already on the Phase III.

SECIL is concerned by any proposal that would introduce uncertainty for the third trading period. The essential parameters for the third trading period have been already fixed in the EU ETD (linear reduction factor; benchmark methodology) and the executing legislation (carbon leakage list including impact assessment, number of allowances, elaboration of benchmarks per sector) provide the framework for industry to operate and plan investments. A one off change could be envisaged only in the light of the current exceptional circumstances, however as it stands is a short-term intervention that by definition may require multiple recurrent interventions.

This constitutes an approach that is not acceptable for industry and even can affect the credibility of Emissions Trading.

Focus on the root causes of the problem

The Carbon Market Report structural reform options are short-term measures aiming to adjust the supply or demand of allowances under EU ETS, taking in account the today's expectations of the future. The options propose to push carbon prices up without addressing the root cause and the main weaknesses of the ETS (i.e. the current low carbon prices is a consequence of the problem and not the problem itself). The core issue of EU ETS is the predefined supply of allowances, independent from economic reality. The structural reform options presented in the carbon market report don't fully address the weaknesses of EU ETS. On the contrary, they would tend to weaken the stability and predictability of the legal framework, affecting deeply the credibility of EU ETS. The recent experience shows that would entail the same errors,if not amplify them.

In conclusion, SECIL calls on the Commission to confirm that the suggested options will not affect the EU ETS Directive in Phase III as it understands that the options suggested relate to the post-2020 period. SECIL would like to see from the Commission the will to promote a serious reflection on the ETS design, along with the participation of the stakeholders involved. There are several alternative options including the implementation of mechanisms allowing adjustment of the supply of allowances to economic development, as far as mechanisms aiming to create a level playing field between EU producers and importers.

Comments on the proposed options

SECIL strongly recommends, once more, the European Commission, the European Parliament and the Council to promote an adequate consultation aiming to achieve a predictable, consistent and simple legal framework which provides industry with the legal certainty required. Without a legislation that ensures both legal certainty and predictability it is impossible to carry a long term investment planning in Europe.

- **Option a: Increasing the EU reduction target to 30% in 2020**
  This option would introduce changes in Phase III which, as we said before, is not acceptable. As stated by the Commission before, and supported by the Council any further reduction in CO_2 emissions above the targets agreed should remain conditional upon the conclusion of an international agreement between all major GHG emitting countries. This requires to establish a global crediting scheme, taking in account the need to implement a comparable methodology to measure GHG emission reductions and equivalent monitoring and reduction efforts.

  If such conditions are not applied, SECIL cannot support a unilateral increase of the EU reduction target to 30% in 2020.

- **Option b: Retiring a number of allowances in phase 3**
  Option b) as entails market interference, is not in principle acceptable for SECIL. This short term intervention will not provide the long term structural change that is necessary to properly address supply and demand of allowances adequate to assure the environmental and industrial policy ambitions of the EU.

- **Option c: Early revision of the annual linear reduction factor**
  This option, as the previous one, introduces changes in Phase III which, as outlined above, is not acceptable. SECIL insists that what we need are long-term measures relating to the functioning of the European carbon market and those measures should be evaluated by an Impact Assessment, including competitiveness-proofing for the sectors concerned, otherwise is the credibility of the system that is putted in cause.

  Additionally, this option implies consequences for the EU-ETS after 2020 which has to be assessed. Mainly, companies increased exposure to the risk of carbon leakage would need to be properly reviewed before any decision is taken to avoid damaging the competitiveness of European business, when one of the priorities for the next budget period is the reindustrialization of the EU.

- **Option d: Extension of the scope of the EU ETS to other sectors**
  SECIL believes that climate change policy can and should include sectors other than those currently covered by the ETD, nevertheless, the instruments to be used to achieve this have to be tailor-made. The EU-ETS is one of the tools to achieve emission reductions at allegedly the lowest cost. This may well be the case for the sectors currently covered by the ETD. However, to cope with CO_2 emissions from other sectors such as transport, buildings (commercial and residential) and agriculture other tools needed to be developed. We think that a blind extension of the ETD to those sectors can induce distortions that could jeopardise the operation of the EU-ETS altogether.
  Against this background, it should be evaluated whether the inclusion of sectors under the EU-ETS with characteristics similar to energy intensive industry (e.g. waste incinerators) can be implemented without burdensome regulatory overlaps and lead to a level playing field between similar industries.

- **Option e: Limit access to international credits**
  SECIL is opposed to any cap that would limit the conversion of credits from projects into allowances, once these credits provide equal environmental benefit and may reduce the economic burden of emission reductions. Any limitation, including limitations on the ability of companies to use such credits to meet emission reduction targets, will be yet another restriction on the competitiveness of European industry, it makes no environmental sense, is inconsistent with the spirit and the letter of international agreements, will adversely affect the cost-effectiveness of the JI/CDM instruments and, furthermore, create a deterrent for parties envisaging such projects and would constitute a barrier to trade in a commodity market, i.e., the CO_2 market.

  Other crediting systems may prove useful, such as the development, under Article 24a ETD, of domestic projects, as they will allow toachieve further emission reductions.

- **Option f: Discretionary price management mechanisms**
  In our opinion this is the only option which introduces a *real* structural measure. However, we think that adjustment mechanisms over price management mechanisms should be more adequate. Anyway SECIL considers that "price management mechanisms" cannot be combined with a volume based mechanism, otherwise such a combination can induce even more confusing effects.

<u>Summary of SECIL's opinions</u>

SECIL supports the need to undertake structural changes to the ETS aiming to strengthen it and acknowledges that the 2012 carbon market report is only a first step towards a more deep and comprehensive assessment.

SECIL is strongly opposed to any proposal that would introduce changes in the Phase III period and that would result in multiple and avulse measures in the space of a few years.

The options presented in the report are not real structural measures, once all proposed options focus on the short term carbon price, or in other words, they thus address the consequences instead of the root cause of the problem.

SECIL strong believes that, on post 2020, the EU needs an integrated approach which takes into account climate change, energy, industrial policy and resource efficiency. Additionally, this approach should be addressed taking into account the following concerns:

1. Ensuring predictability;
2. Ensuring a level playing field, either under a geographical as a sectoral point of view;
3. Stimulating a long-term growth, jobs and investments in Europe.

Alternative options should be explored, such as the implementation of mechanisms allowing adjustment of the supply of allowances to economic development and mechanisms aiming to create a level playing field between EU producers and importers.