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Subject: Public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors

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?

LAFARGE: Since the adoption of the climate change and energy package at the end of 2008, the European cement industry has been significantly hit by the economic downturn. As a consequence of the drop of the demand for building materials, including concrete products and therefore cement, our production costs in Europe have increased, reducing our margins and increasing our vulnerability to imports.
In non EU markets, such as NAMET markets (North Africa, Middle East and Turkey), demand remained strong, triggering new clinker and cement production capacity investments, allowing players from those countries to be in better position to export products to EU.
As an illustration, recent figures released by the French Cement Trade Association (SFIC), revealed that cement imports have increased by 74% since 2000 while clinker imports have increased by 250% over the same period.
Also in Greece cement imports for 2009 have increased by more than 100% since 2008.
In our opinion, key indicators of the risk of carbon leakage for the EU energy intensive industries, including the cement industry are even more valid than when originally designed.

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?

LAFARGE: We welcome the Copenhagen Accord as a first step toward an international legally binding agreement on climate change. However we consider that:

- since the pledges from those countries which are relevant competitors of the European cement industry are, for most of them, long term oriented, beyond the EU ETS phase III scope of time,
- since the pledges of these countries are intensity oriented (such as % of CO2 per GDP point),

they do not translate at all into comparable efforts to those applicable to the European cement industry and therefore are not sufficient to review the carbon leakage exposure of the cement industry.

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?

LAFARGE: For the sectors deemed to be exposed to a significant risk of carbon leakage, the carbon leakage risk could be reduced in the future if:
- the countries representing a critical mass (85%) of worldwide cement production are covered by an equivalent system as the EU ETS,
- these countries will have taken equivalent CO2 emission targets applicable to the cement industry,
- all participating governments will be submitted to similar emission reduction systems with equivalent effect
Only when these 3 cumulative conditions will be met, means or ways to fight carbon leakage risk could be reviewed.

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?

LAFARGE: We ask the European Commission to leave the door open to discuss the adoption of border measures (inclusion of importers) 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.
The mechanism of free allocations up to the benchmark considered in the ETS Directive will lead to a growing portion of allocations to be purchased through the auctioning process; therefore the issue of potential competition distortion from the ETS implementation fully remains in the future, function of the volume of allocations to be purchased and the value of CO2, which are still totally unknown.
So we may need at EU level a complementary negotiation instrument to combine ambitious climate policy with a fair competitive environment for the industry.
Furthermore, as the international negotiation on a global and legally binding agreement may last several years with, meanwhile, a high level of discrepancy between country targets and nature of commitments, EU needs to have a political tool for negotiation in case of tangible distortion of competition impacting its industry.

The European Commission should therefore keep the inclusion of importers in the ETS as a potential option for the future, which details and practicalities should be further explored with the Trade Associations.

We also call 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.

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