



Introduction

1. The UK Cement Industry

The British Cement Association is the trade and research organisation that represents the interests of the United Kingdom's cement industry in its relations with Her Majesty's Government, the European Union and relevant organisations in the United Kingdom. The members of the BCA (Buxton Lime Industries, Castle Cement, Lafarge Cement UK, Cemex) are the major domestic manufacturers of Portland Cement producing over 90% of the cement sold in the UK. Climate change services are supplied to Quinn Cement by BCA.

Energy represents an ever escalating component of the variable costs of cement manufacture (now well in excess of 35%) and it is therefore a primary concern of the industry to take all cost effective measures to improve energy efficiency and thereby reduce its emissions of carbon dioxide.

Through their parent companies, Lafarge Cement UK, Castle Cement, and CEMEX UK Cement are committed to carbon reductions through the World Business Council for Sustainable Development Cement Sustainability Initiative, (WBCSD CSI). In addition, Buxton Lime Industries has undertaken to adopt the commitments within the WBCSD CSI.

2. Goals and Targets

Importantly, the recently published emissions projections recognise that the UK is well on target to meet its Kyoto commitment and as such does not need to take drastic measures in Phase II. To ensure equity with the cement industry colleagues in mainland Europe we urge the UK Government to replace the aspirational goal of -20% CO₂ by 2010 with the UK Kyoto agreed improvement of 12.5% when developing the Phase II NAP. Alternatively, Government's aspirations could be modified to meet the 20% goal by 2012, consistent with Kyoto and by reducing all greenhouse gases not just CO₂. It is also important to point out that emissions from the UK Cement Industry are already more than 20% below the 1990 level and that in accordance with the CCL agreements the industry has already committed to meeting targets on fuel efficiency and waste derived fuel use, demonstrating the cement industry's commitment to climate change and recycling targets and show that further caps on CO₂ emissions are not necessary.

3. Total Quantity of allowances

BCA agrees with the Government plan to allocate at 'business as usual' levels for industrial sectors and that the effort (between -3MtC and -8MtC) will be borne entirely by the electricity supply industry.

4. Security of construction material supply

The UK is increasingly under threat from imports. The construction material sector is no different. The chart in **Annex I** demonstrates that cement imports



from those companies which are not domestic manufacturers are increasing. The potential impact of carbon constraints has already affected investment decision making in the cement industry^{1,2} and Government should consider this when allocating EU ETS allowances in Phase II and when developing measures for post-2012. **Table 1** illustrates the potential of Far East countries to export to Europe, whereas **Annex II** illustrates that nearer nations have existing export potential already in place with carbon prices currently trading at around the same cost as the freight costs.

Table 1

Imports into EU25 (tonnes*)	2004	2005
From Asia,	379,959	2,540,000
of which from China	10,558	2,000,000

5. Auctioning and free allocation

BCA does not support any auctioning as an allocation method as it unduly affects those industries that are more sensitive to carbon reduction, particularly those industries with a high process CO₂ such as cement manufacture. In an international context the UK should not move alone toward auctioning as UK competitiveness will be disproportionately affected. The cement industry is the most carbon dioxide intensive industry per unit of turnover, with the exception of the lime sector **Annex III**. When compared to profit the cement sector would be the most sensitive to carbon dioxide reduction. Due to this high sensitivity to carbon reduction the profit of industry will be affected as illustrated in **Annex IV**. The consequence of just a 10% auction on the price of cement is illustrated in **Annex V** Government should recognise this impact when finalising Phase II allocations and developing post 2012 measures.

6. Policy measures

BCA believes that consideration should be made to removing the requirement of the UK Climate Change Levy to those installations covered by EU ETS in Phase II. The Levy, as a domestic driver for energy efficiency, has now been replaced by the EU ETS as an international economic instrument. In accordance with 'cost effective emissions reduction' the additional cost to the cement industry incurred by the levy could be used to further our GHG reductions. The continued

¹ Lafarge Cement UK (21st May 2004) confirmed that it is delaying the development of its new cement works at Snodland in the Medway Valley

² CEMEX UK Operations (14th March 2006) has announced that following the completion of a feasibility study, the company has suspended an application for planning permission for a new cement plant at Barrington, Cambridgeshire "due to uncertainty over the future of CO₂ strategy in the UK".

* metric ton



duplication of carbon reduction between the UK CCL and the EU ETS is contrary to the interests of "Better Regulation" – and represents 'double banking'³.

In addition to requiring duplication of effort by government and industry, the UK Climate Change Levy also has other structural shortcomings. The Climate Change Levy Agreements, may have in some sectors contributed to energy efficiency. However, in energy intensive industries such as cement, the efficiency savings have resulted from good business management and product/energy market pressures. With the development of the EU Emissions Trading Scheme there now is considerable overlap between policies that are designed to address the same issue of climate change. In the cement sector the CCAs promote the use of alternative fuels and this aspect of the climate change policy should be retained to ensure that the UK does not lose an important waste recovery outlet. However, with the introduction of EU ETS there is no longer any need, beyond Phase I of the EU ETS, for a cement sector climate change agreement. Also given the added complexity of double trading, the added compliance issues, the intricate verification issues and the huge burden on the technical management of industry during the first three months of the year resulting from the overlapping issues for CCA EUETS and Double Counting there is no cost benefit from CCAs for EU ETS operators. In the event that the Chancellor fails to take our advice and refuses to discontinue CCL for EU ETS operators it is essential that the 80% rebate in CCL is automatically accorded to EU ETS operators and their requirement for completing CCA verification and associated bureaucracy is withdrawn.

7. New entrants and closures

The proposal to allocate only 95% of the allocation calculated by the new entrant spreadsheet will disincentivise the diffusion of clean technology and does not send the correct signals to investors⁴. The proposal to cut the allocation of the best performing installations does not concur with the proposals that the ESI sector should take the full burden of CO₂ reduction. The proposal will not promote the internalisation of carbon cost because as a new entrant the most efficient technology will be employed following IPPC permitting. If the operator proposed methodology does not meet the benchmark criteria then a reduced allocation will result, which provides new entrants with an incentive to meet the benchmark criteria. This is certainly the case for the proposed benchmark method for the cement sector which is based on a single technology type, although this may not be the case for the ESI where a number of benchmarks exist.

The proposal to allocate only 95% of the benchmarked emissions appears to be related to the ability of industry to utilise GQCHP at an allocation rate of 100%. The cement industry cannot use CHP due to the fact that modern cement process technology already utilizes full heat recovery as such a 100% allocation of the benchmark emissions is also appropriate for the cement sector.

³ "Double Banking: Where EU legislation covers the same ground as domestic legislation and the two regimes have not been fully streamlined" Davidson Review of the Implementation of EU Legislation 3/3/2006

⁴ At a recent meeting between BCA member company CEOs and Dti, officials were made aware that with the current plans for cement industry benchmark allocation there would be no new UK investment in the cement industry.



In the cement sector the proposals⁵ for a standardised benchmark approach are unacceptable to the cement sector and BCA has made its views clear. It believes that the consultant's proposals for Phase II benchmarking are an incorrect interpretation of the 'simplicity and transparency' guidelines in the European Commission guidance for National Allocation plans. If however our views are not accepted by Government then the use of the arbitrary 95% allocation factor should be common to other member states, the UK should not go it alone. Additionally, the consultation document does not provide any indication as to what would happen to the 5% allocation left over, we would expect that this is returned to the sector cap.

8. Technological potential

The FES-Carbon Consortium report⁶ concerning the carbon dioxide abatement potential of certain sectors correctly identifies the limited potential for carbon dioxide in the cement sector during Phase II. The cost curves in this report state that cost effective emissions savings are in the range of 0.3% to 0.5%. All technical potential savings are only a fraction greater. Dti should take this into consideration when allocating allowances to installations for Phase II.

In addition, the cement industry combustion emissions (according to the text in section 5.1 of the OEF-CC report⁷) have received an adjustment of 6% between 2002-2010. The data in Table 5.1 of the report correctly illustrates that around 40% of the emissions from the cement sector comes from the combustion process. If for example, a 6% reduction factor is applied to cement sector emissions then this is equivalent to 15% reduction on the reducible cement industry emissions see **Figure 1**. We are unclear on how the 6% figure has been derived because it does not relate to the abatement potential of 0.3 to 0.5% stated above.

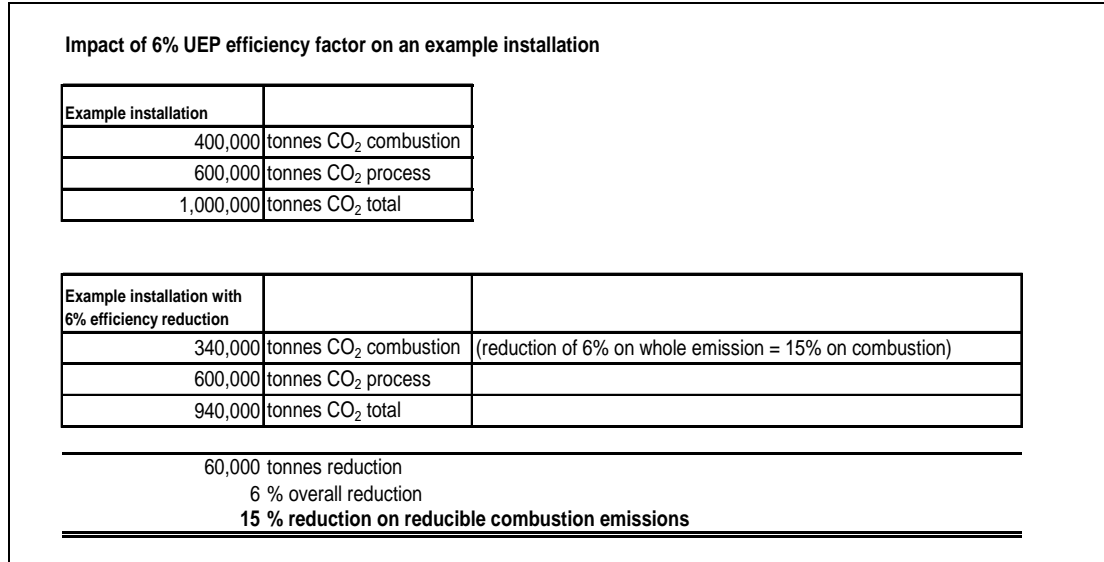
⁵ Dti EU ETS Phase II New Entrants Benchmarks Review – Consultation Document, March 2006

⁶ Industrial Sector Carbon Dioxide, A report for the Department for Environment, Food and Rural Affairs Produced by Future Energy Solutions and the Carbon Consortium, July 2005

⁷ Research on Output Growth Rates and Carbon Dioxide Emissions of the Industrial Sectors of EUETS, February 2006



Figure 1



9. Process CO₂

Only around 40% of the cement industry emissions are derived from the combustion of fuel. This highlights the importance for the consideration of ‘process CO₂’ from the calcination of limestone which is irreducible when manufacturing cement clinker. The EU Commission guidance on National Allocation Plans⁷ is contradictory concerning process CO₂ because paragraph 10 identifies that the technological potential to reduce emissions should be recognised whilst paragraph 29 states that it would be considered inappropriate to maintain special provisions on process emissions. Firstly, we do not believe that process CO₂ has been given any special treatment in Phase I, rather it has been recognised that the potential for reducing process CO₂ is near zero. Secondly, we believe that consideration must be given to the technological potential to reduce process CO₂ in order that the NAP is produced on a scientific basis and does not discriminate between industries with high process CO₂ and those with none in accordance with articles 87 & 88 of the Kyoto Treaty and Annex III (5) of the Emissions Trading Directive. We would therefore encourage Government to lead other Member States on a sensible and scientific interpretation of the Commission guidance. In doing so Government should allocate fully, and free, for process CO₂ emissions both in Phase II and beyond.

⁷ “Further guidance on allocation plans for the 2008 to 2012 trading period of the EU Emission Trading Scheme” COM(2005) 703 final. Brussels, 22.12.2005



10. Recarbonation

Given enough time, concrete absorbs a significant part of the carbon dioxide emitted during the manufacture of cement. Scandinavian researchers⁸ have concluded that the net contribution of cement products to climate change has been significantly over-estimated and that some policies will have to be re-thought. Carbonation is very slow while concrete is in use, but can approach 86% over 100 years, according to the Danish technological institute assuming good recycling practices following demolition.

If this level of carbonation is achieved then 57% of carbon emitted during calcining is reabsorbed. This corresponds to 20-35 % of the total CO₂ emissions in the life cycle of concrete products, the researchers estimate. Government should seek to acknowledge the whole life of manufactured products in its climate change policies.

11. Clean technology

As recognised in the FES-CC report⁹, emissions reduction in the cement sector is highly dependent upon investment in new technology. Importantly the report also recognises that due to competition from the electricity supply industry the market for biomass fuels is distorted by the renewable obligation. The consequence for the cement sector is reliance upon traditional fossil fuels and non-bio waste alternatives. Government can help to disseminate the use of biomass and waste alternative fuels by easing the permitting burdens introduced by the substitute fuels protocol and by providing incentives for fuel switching.

12. NAP assumptions

BCA was surprised to see such low energy price forecasts in the Phase II draft NAP, as these are not the prices currently being experienced in forward contract negotiations for cement companies.

Due to its importance in relation to the overall abatement of emissions or replacement of material using imports BCA believe that the Phase II National Allocation Plan should include price assumptions for carbon dioxide allowances. Furthermore, we believe that the European Commission NAP guidance requires member states to include assumptions on carbon price¹⁰.

⁸ Danish Institute of Technology

⁹ Industrial Sector Carbon Dioxide, A report for the Department for Environment, Food and Rural Affairs Produced by Future Energy Solutions and the Carbon Consortium, July 2005

¹⁰ Further guidance on allocation plans for the 2008 to 2012 trading period of the EU Emission Trading Scheme COM(2005)703 final COMMISSION OF THE EUROPEAN COMMUNITIES. (P23)



13. Specific Consultation Questions

Determination of the Total Quantity of Allowances (Section 1)

1. Do you think the factors discussed at paragraph 1.11 are the appropriate ones to be considered for the final decision on the total quantity of allowances to be issued?

BCA believes that the sustainability of UK manufacturing should also be considered.

2. Do you agree that all other sectors aside from the Electricity Supply Industry (ESI) should be allocated allowances in line with their projected emissions? Views from all sides of industry are sought on this point and should be supported by evidence.

BCA agrees that the cement sector should be allocated in line with BAU due to the inability to pass through the cost of carbon and the limited abatement potential (0.3-0.5%) identified in the FES-CC report¹¹. The ESI will pass through the carbon cost and large electricity users such as the cement industry will ultimately pay for emissions reduction.

3. Would you favour a stepped allocation for those that bear a reduction from Business as Usual or an equal allocation in each of the five years of the Phase?

No comment

4. What proportion of allowances, (between 2% and 10%) should be auctioned in the second phase? Please explain the reasoning behind your preferred level of auctioning

Zero. BCA does not support any auctioning as an allocation method as it unduly affects those industries that are more sensitive to carbon reduction, particularly those industries with a high process CO₂ such as cement manufacture. In an international context the UK should not move alone toward auctioning as UK competitiveness will be disproportionately affected. The cement industry is the most carbon dioxide intensive industry per unit of turnover, with the exception of the lime sector **Annex III**. When compared to profit the cement sector would be the most sensitive to carbon dioxide reduction. Due to this high sensitivity to carbon reduction the profit of industry will be affected as illustrated in **Annex IV**. The consequence of just a 10% auction on the price of cement is illustrated in **Annex V** Government should recognise this impact when finalising Phase II allocations and developing post 2012 measures.

5. Do you agree that the allowances to be auctioned should be deducted from the ESI?

BCA does not agree with auctioning. The ESI will pass through the full cost to consumers. Post 2012 the UK cement industry would favour global sectoral agreements in preference to auctioning.

6. Would you favour auctions held by Government only or in collaboration with other Member States?

BCA does not agree with auctioning, see response to question 5.

7. Do you agree that the level of effort should be the basis for setting the limit for use of project credits?

The level of effort for a company is not only a function a BAU estimate as described in Box 1. Production, market and regulatory conditions will also play a

¹¹ Industrial Sector Carbon Dioxide, A report for the Department for Environment, Food and Rural Affairs Produced by Future Energy Solutions and the Carbon Consortium, July 2005



significant role at the installation level. Consequently BCA believes that a sensible limit should be set for the use of project credits that encourages UK companies to invest in international projects. Companies investing in project credits need certainty that a market will be available. Therefore, an upper limit, taking account of the supplementarity principle, should be no lower than 25%.

8. If so, do you agree it should be based on a proportion of effort?

Refer to question 7.

9. If so, what proportion (between 0% and 100%)?

Refer to question 7.

10. Should the limit be:

- set at a national level;
- set at an installation level;
- a flat rate or vary according to the effort required in the relevant sector?

Installation level.

11. Do you agree that the limit should be set on an annual basis? If not please provide suggestions on how it should operate.

Refer to question 7.

12. Do you agree that use of the credit limit should be bankable between years?

Banking should be allowed

13. Do you agree that a contingency reserve of allowances is desirable in Phase II?

A contingency reserve should not be required if Government consults properly and fully on installation level allocations and allows sufficient time for corrections.

14. If so, how should the size of the reserve be calculated and where should allowances come from?

If Government progresses the proposal for a contingency reserve then it should be funded by the ESI

Determination of the Quantity of Allowances at Activity Level (Section 2)

15. Do you agree with the proposed sector classification? If not, please provide details and rationale for any suggested amendments.

Yes, the cement sector should be separated from other sectors for UEP and NAP purposes.

16. Do you agree with the definition of the ESI sector? If not, please provide details and rationale for any suggested amendments with evidence to support the arguments put forward.

No comment

17. Do you agree with the creation of a separate GQ CHP sector?

No comment

Determination of the Quantity of the Allowances at Installation Level (Section 3)

18. Do you agree with the use of historic emissions for the GQ CHP sector allocation methodology?

No comment

19. Do you agree with the methodology to separate GQ CHP emissions from others in the host installation?

No comment



20. Do you agree with the methodology to account for partial qualification of CHP schemes?

No comment

21. Do you agree with the thresholds applied to avoid small portions of emissions remaining in host sectors of GQ CHP?

No comment

22. Do you agree with the use of a benchmark for the ESI sector allocation methodology?

No comment

23. Do you agree with the proposed technology categorisation for the ESI benchmark? Do you have any comments on the detail?

The benchmark for the ESI relates to a variety of generation technologies. In the cement sector the new entrant (and new entrant incumbent) benchmark relates to a single process type. This approach is inconsistent.

24. Do you agree with the use of Transmission Entry Capacity data for the ESI benchmark? If not, what other capacity data should be used?

No comment

25. Do you agree with the methodology for deriving load factors for the ESI benchmark? If not, what alternative would you propose and what evidence supports this alternative?

No comment

26. Do you have any other comments on the formulae and factors proposed for the ESI benchmark?

No comment

27. Do you have any comments on the potential use of a benchmark for the brewing sector allocation methodology?

No comment

Better Regulation and Simplification Measures (Section 8)

28. Do you agree that the better regulation and simplification proposals will result in reductions in burdens for businesses?

The Dti proposals for the simplification of new entrant benchmarking have misinterpreted the Commission guidelines on NAPs. BCA has commented separately on this matter and asks Government not to replace simplification with standardization.

29. What other better regulation and simplification measures should be considered?

If the Government are serious about better regulation and simplification then they would seek to remove the climate change levy and CCAs from the regulatory burden of those installation covered by EU ETS.

New Entrants and Closures (Appendix D)

30. Do you agree with the methodology for quantifying the NER? If not on what basis should the NER be calculated.

Bottom-up data are appropriate for the 'Group 1' sectors

31. Do you agree with the methodology for contributing to the NER? If not, on what basis should sectors contribute to the NER?



The proposal for Group 1 sectors to make a sector specific contribution to an NER appears sensible. In Phase I all sectors contributed to a GQCHP NER. The cement industry cannot use CHP and therefore in Phase II no contribution to the GQCHP NER should be made from the cement sector cap.

32. Do you agree with the application of a "direct emissions" approach for new entrants in all sectors? What effect might it have on investment in new entry in your sector?

Yes

33. Do you think the rates of allocation for new entrants set out in paragraphs 62 and 63 of Appendix D are appropriate? If not what would you propose and why?

The cement industry cannot use CHP due to the fact that modern cement process technology already utilizes full heat recovery consequently a 100% benchmark allocation is also appropriate for the cement sector.

34. Do you think the 10% differential for GQ CHP is appropriate? If not why not?

There should be no differential between GQ CHP and a BAT new entrant that cannot use CHP due to efficient heat recovery.

35. What impact might all the proposed measures for the ESI sector, including those for new entrants, have on investment in generation capacity during and after Phase II?

No comment

36. Do you agree the rationalisation rule should remain in place? If so do you have any comments as to how it could be refined or improved for Phase II.

Yes. The current rules discourage the closure of low efficiency installations rather than maximising production at more efficient plants. The preferred approach is to retain allowances from the closed installations for the remainder of the phase as outlined in the BCA proposal on closure and rationalization, included for completeness in **Annex VI**.

37. Do you think surplus allowances from the NER should be cancelled or auctioned?

If auctioned, we believe that the revenue from auctioning the allowances should be returned to the sectors from where the allowances originated.

38. Do you agree with the proposed approach to allocating to late Phase I new entrants (i.e. those that start operation between 1 July 2006 and 31 December 2007)?

BCA does not agree with the benchmark shortfall factor for the reasons outlined in the general comments above

Additional Consultation Questions supplied to BCA by John Griggs, Dti Construction Products Issues and Impact Manager

A. Level of Investment

Can you provide any headline costs for any expansions or new builds that have or will lead to an application to the NER?

The BCA is unaware of any significant expansions or new build in the cement sector during Phase II furthermore due to uncertainty over climate change policy BCA members have postponed investment decisions to post 2012, see below question B.



Can you provide any equipment costs for standard equipment within the sector. (This figure can be expressed as a range as we appreciate that this information can be highly dependent on site specific factors)

A new kiln would cost between £100M – £150M if one were to be built

B. Impact of NER policy on investment decisions

Has the UK NER policy contributed to the outcome of investment decisions? Positively/Negatively (rather go elsewhere in EU or outside)

If so, can you provide further details?

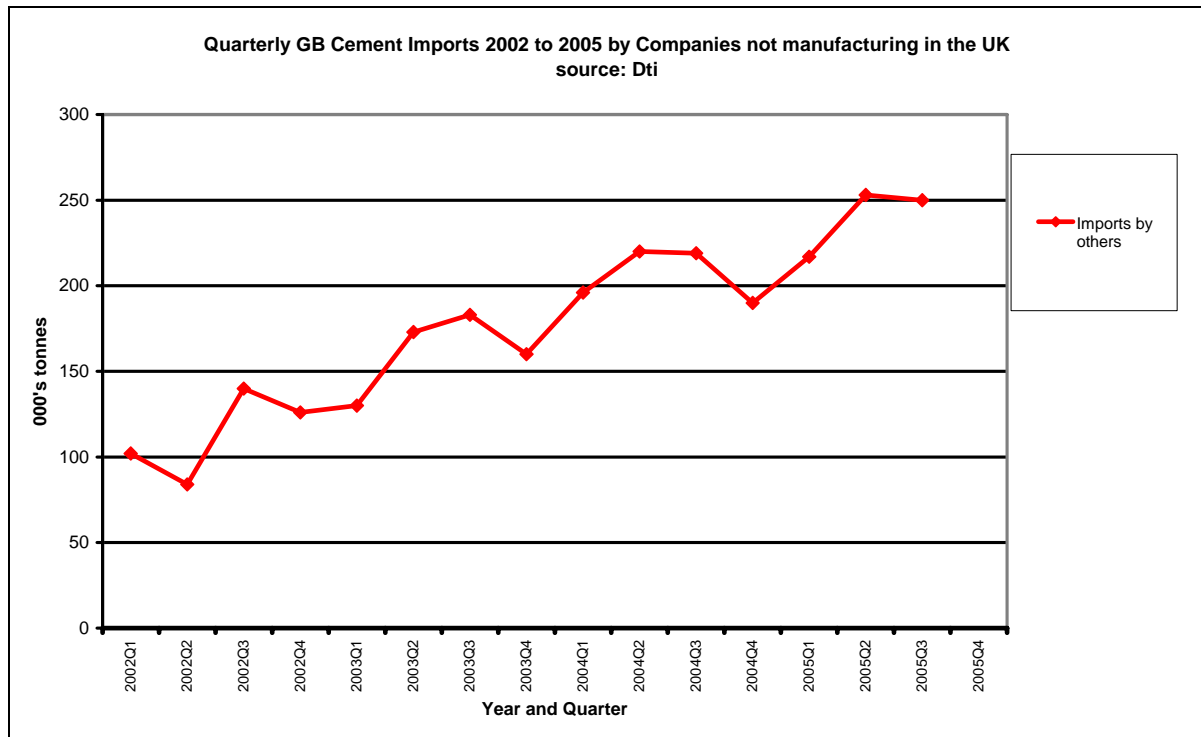
Yes negatively. Lafarge Cement UK (21st May 2004) confirmed that it is delaying the development of its new cement works at Snodland in the Medway Valley and CEMEX UK Operations (14th March 2006) has announced that following the completion of a feasibility study, the company has suspended an application for planning permission for a new cement plant at Barrington, Cambridgeshire "due to uncertainty over the future of CO2 strategy in the UK". This loss of investment totals around £300m and job opportunities totaling around 350 direct and 3500 indirect.

Is the level of allocation to NEs likely to be a deciding factor in any investment decision in the future? If yes, how important? (between 1 and 10) and why?

Yes (10), because the cement industry is one of the most carbon intensive production operations. It is particularly a factor when Government proposes to reduce the allocation of new entrants by an arbitrary 5%.



Annex I





Annex II



Annex 1 - D4940

Country	Clinker and Cement Millions MT				Freight to Antwerp as per August 2005
	A*	B	C	D	E €pmt **
Russia	4.0	1.0	3.0	2.0	13
Ukraine	3.0	1.0	2.0	2.0	13
Turkey	12.0	6.0	6.0	2.0	12
Egypt	9.0	5.0	4.0	0.8	12
Romania	1.0	1.0	0.0	0.0	12.5
Bulgaria	1.0	1.0	0.0	0.0	12.5
Croatia	1.0	0.5	0.5	0.2	11.5
Morocco	1.0	0.5	0.5	0.0	10
Belarus	1.0	0.5	0.5	0.5	na
Algeria	0.5	0.0	0.5	0.5	na
Tunis	1.0	0.5	0.5	0.2	11.5
Libya	0.0	0.0	0.0	0.0	11.5
Syria	0.0	0.0	0.0	0.0	12.5
Lebanon	2.0	2.0	0.0	0.0	12.5
Georgia	0.0	0.0	0.0	0.0	13.5
Total	36.5	19.0	17.5	8.2	

A	Total exportable volume	36.5
B	Non European destinations	19.0
C	European destinations including Spain & Italy	17.5
D	European destinations excluding Spain & Italy	8.2

* Our forecast for the period 2004- 2010 including exports by land
 ** Vessel size 40,000mt with 8000/10000 load/discharge rate assumption

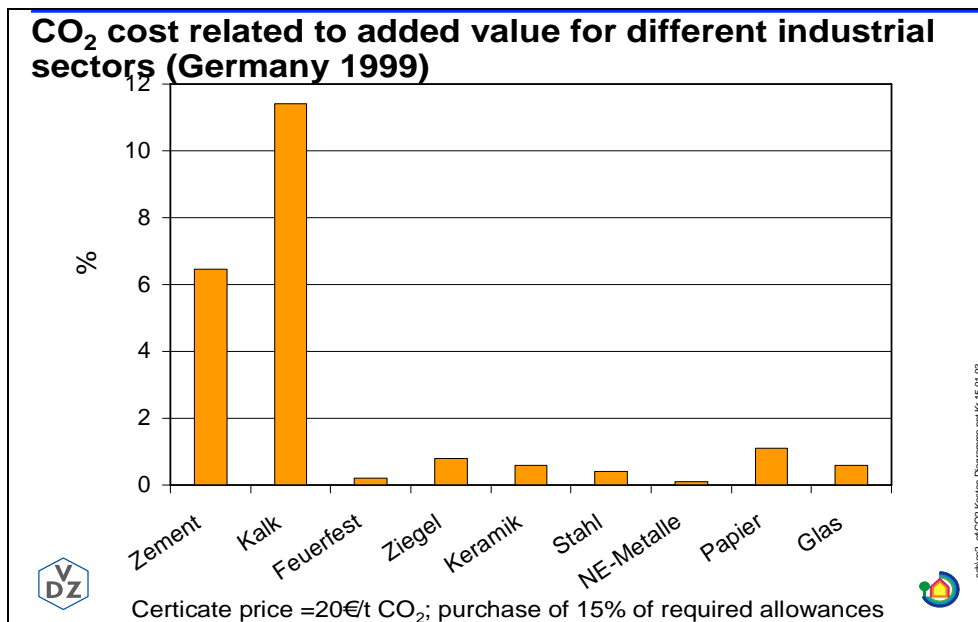
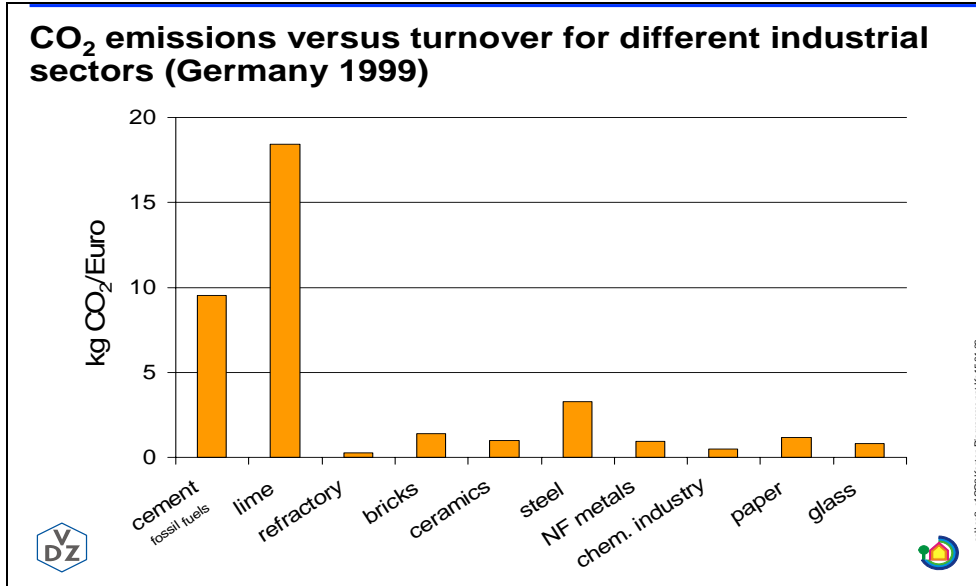
This table shows relatively local country per country capacities currently available for export to the EU, i.e., altogether 17.5 million tonnes for countries without carbon constraints in addition to their current level of exports to the EU (10.0 million tonnes). It must be stressed that this capacity is readily available, without need to invest, meaning that the threat to the European cement industry can materialise at any time. It is also to be noted that this export capacity is additional and does not include capacity earmarked for well-established export routes from those countries to other regions than Europe. If Europe was to become more attractive, further capacities could easily be diverted to the European market.

The table also shows the freight rates for export of cement/clinker from those countries to Europe. As it can be seen, freight costs per tonne are significantly lower than the CO₂ prices have been trading in the ETS, current volatility aside.



Annex III

Comparison of CO₂ Intensity for different industries showing why Lime and Cement are so badly affected by proposals to auction allowances.





Annex IV

Impact of auctioning on the profitability of cement manufacture

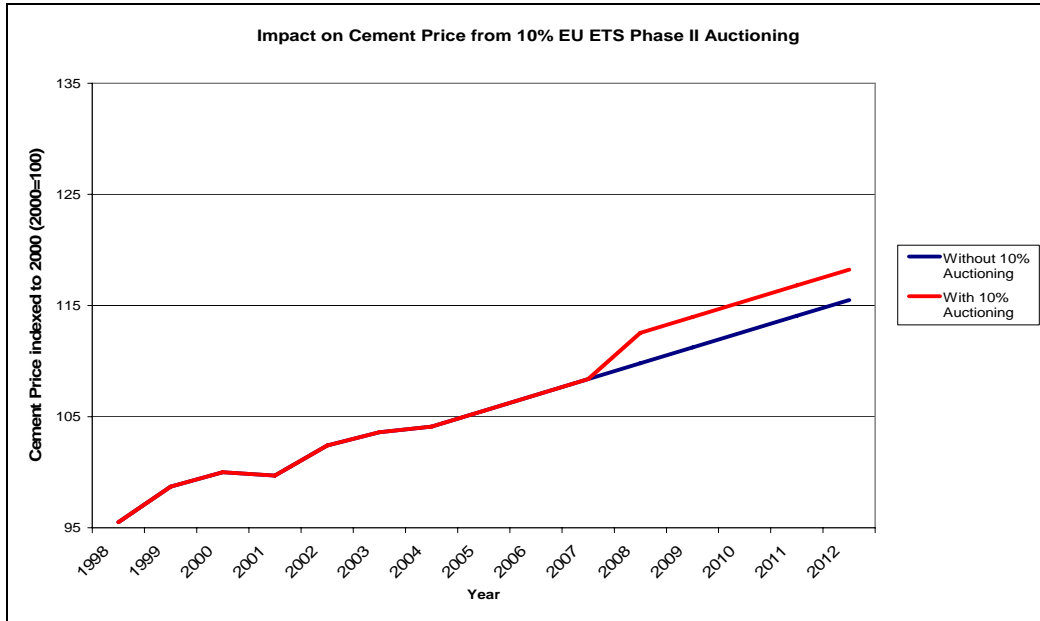
- Tonne CO₂ / tonne cement = 0.8
- Cost of CO₂ = €22 / t CO₂ = £ 13.20 / t cement
- Selling price of Cement = 50 /t (typical ex- works)
- Say Profit = £5 /t (assume 10% of turnover)
- Full Allocation
 - Profit = £5.00 / t cement
- 10% auctioning
 - Profit = £3.68 / t cement -26%
- Full auctioning
 - Loss = £8.20 / t cement -260%



Annex V

Impact of auctioning on cement prices

10% auctioning in EU ETS phase II will double the 'typical' annual price increase of cement which would not be acceptable in the market place and would cause further import penetration.



Indices relative to 2000 (2000 = 100)

Year	1998	1999	2000	2001	2002	2003	2004	Projected with 10% Auctioning							
								2005	2006	2007	2008	2009	2010	2011	2012
Indexed*	95.5	98.7	100	99.7	102.4	103.6	104.1	105.5	107.0	108.4	112.5	114.0	115.4	116.8	118.2
£Price /te**	47.75	49.35	50	49.85	51.2	51.8	52.05	52.76	53.48	54.19	56.27	57.0	57.7	58.4	59.1

0.713 average price increase 2000 to 2004
1.025 indexed price increase 2000 to 2004

*Table 14.1 Price Indices 1,2 of Construction Materials – Annual Averages
Construction Statistics Annual - Dti
2005 Edition

** Cost relative to notional £50/te in 2000
10% auctioning
1 million tonnes CO2 at Euro 22 = 22million euro per year
1.913 euro /te increase at nominal 11.5 Mt/year sales
1.3665 £/te increase in price

Year	1998	1999	2000	2001	2002	2003	2004	Projected without auctioning							
								2005	2006	2007	2008	2009	2010	2011	2012
Indexed*	95.5	98.7	100	99.7	102.4	103.6	104.1	105.5	107.0	108.4	109.8	111.2	112.7	114.1	115.5
£Price /te**	47.75	49.35	50	49.85	51.2	51.8	52.05	52.76	53.48	54.19	54.9	55.61	56.33	57.04	57.75

0.713 average price increase 2000 to 2004
1.025 indexed price increase 2000 to 2004

*Table 14.1 Price Indices 1,2 of Construction Materials – Annual Averages
Construction Statistics Annual - Dti
2005 Edition

** Cost relative to notional £50/te in 2000



Annex VI

British Cement Association

Proposal Changes to the Closure and Rationalisation Rules for EU ETS Phase II



The British Cement Association on behalf of its' member companies, Buxton Lime Industries, Castle Cement, Cemex UK Cement and Lafarge Cement UK would like to propose that DTI amends the existing Closure and Rationalisation rules for phase II. The current rules in phase I do not encourage operators to close less efficient installations and conversely have/could encourage operators to keep them operational. The existing rationalisation rules do not work for industries such as cement. Cement installations often have large capacities and it is not possible to increase output at other installations to be greater than 50% of the output of the installation which is closing without complete plant re-builds as was the case for Tunstead and Padeswood. The current rules do not allow for ongoing improvements in operational reliability and efficiency.

BCA request that in phase II the rules make the closure of a less efficient plant more attractive so that allocation for the closing plant can be moved to the remaining more efficient installations and/or be used to fund improvements in these installations. The current rules would result in an installation that closes, losing its allocation for the remainder of the phase. This allocation currently cannot be used to close shortfalls in allocation of the remaining installations, which due to the cost of CO₂ could lead to imports closing the gap in production capacity.

BCA are proposing two options, option 1 being the easiest to administrate and it is inline with the principles adopted by the Netherlands for phase I and option 2, which should option 1 be not workable for all sectors, is an improvement on phase I rules. Both these options would not impact on the UK NAP because these adjustments would take place during phase II and would not result in an increase in the sector cap. These options are summarised below:

Option 1:

Allowances for a closed installation can be retained for the remainder of the phase. The allowances can be transferred to enable the remaining more efficient operations to run at full capacity, and/or be sold to fund improvements to remaining operations. If the operator has a new entrant, then they would not receive an allocation unless the new installation required allowances in addition to those gained from the closure. Only the surplus allocation would be provided by the NER subject to availability.

Advantages: easy to administration, strongly encourages operators to close less efficient installations and maximise output at existing more efficient installations which have been capped by the shortfall in allocation. This option discourages operators importing from outside EU25 to close the shortfall in production due to insufficient CO₂ allocation.

9th February 2006



British Cement Association

Proposal Changes to the Closure and Rationalisation Rules for EU ETS Phase II



Option 2:

That allowances can be transferred from a closed installation, in the years following closure for the remainder of the phase, to existing installations to close the shortfall between maximum emission in the baseline period (2000 to 2003 or other specific basis used as baseline for an installation) and actual allocation in phase II. Operators would be able to apply for higher levels of transfer subject to them being able to demonstrate that plant modifications had been made to increase output to above those achieved in the baseline used.

Advantages: relatively easy to administer, provides some encouragement for operators to close less efficient installations and maximize output at existing more efficient installations that have been capped by the shortfall in allocation. This option discourages operators importing from outside EU25 to close the shortfall in production due to insufficient CO₂ allocation.

Please find below BCA's suggested changes to the Closure Rules:

**Appendix C
Section E Closure:**

- 51. Remains as original.
- 52. Remains as original.
- 53. Remains as original.

54. Installations that permanently cease operation in accordance with paragraph 51 will retain **allowances** *or an agreed portion of the allowances for the remainder of the current phase.*

- 55. Remains as original.
- 56. Remains as original.
- 57. Remains as original.

58. ~~Where a closure has taken place, this will be reflected by making a correction to the UK's national allocation plan table to reflect the fact that no allocation shall be made to the installation in the years after that in which it closed, and that those allowances are to be added to the NER.~~

Please find below BCA's suggested changes to the rationalisation rules:

**Appendix C
Section E1 Rationalisation**

59. In the context of new entrant and closure considerations, rationalisation occurs where the Schedule 1 activities at one installation are closed and operations are moved to another installation or installations during the period ~~2004-7~~ *(2008-12)*. Under the closure rules described above the closed installation will lose its right to further allocation, potentially leaving the

9th February 2006



British Cement Association

Proposal Changes to the Closure and Rationalisation Rules for EU ETS Phase II



remaining installation(s) short of allowances with respect to the transferred production.

60. Where an operator considers that rationalisation has taken place, the operator may apply to continue to receive ~~(a percentage of)~~ the allowances *or an agreed portion of the allowance* from the installation where the Schedule 1 activity closed. These allowances could be used to cover the emissions from the production transferred to *at* the other installation(s).

61. The ~~proportion~~ *amount* of allowances retained will be equal to the ~~proportion allowances or an agreed portion of allowances~~ of production associated with the EU ETS activity that ~~will and can be transferred to the remaining installation(s) was closed.~~

62. The installation(s) receiving the transferred production may also be eligible to apply for NER allowances. However, such an application must be distinct from the rationalisation application. The operator cannot apply for NER allowances for an investment that is needed to extend the installation so ~~that the operator can receive the amount of production being transferred other than that above the total allowances that have been transferred~~ under the rationalisation rule. ~~Rationalisation will only be allowed where the receiving installations have sufficient existing capacity, not extended through the NER application in the first phase, to accept the transferred production claimed in the application.~~

63. Remains as original

64. Remains as original

65. Remains as original

66. Remains as original

67. To qualify for rationalisation the transfer of production must take place between installations within the same sector. ~~Also, at least 50% of production (i.e. final output of goods and services) taken as an average of three previous years, from the closing site must be transferred to another site owned by the operator.~~ The production being transferred must be classified as the same product according to the Standard International Classification code taken to the three digit level.

68. Remains the same as original

69. Remains the same as original

9th February 2006