



- 1. INTERNATIONAL CLIMATE CHANGE POLICY AND THE UK CEMENT INDUSTRY**
2. 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 and CEMEX UK Cement) are the major domestic manufacturers of Portland Cement producing over 90% of the cement sold in the UK. Additionally, BCA supplies services concerning climate change issues to Quinn Cement.
3. Energy represents an increasing proportion of the variable costs of cement manufacture (up to 40%) 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.
4. The cement industry supports the principle of emissions trading. Through their parent companies, Lafarge Cement UK, Castle Cement, and CEMEX 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.
- 5. RESPONSE TO SPECIFIC QUESTIONS**
- 6. Q1 How could the structure of the existing system be altered so that incentives are more closely aligned to carbon content?**
  - 6.1. The Climate Change Levy currently permits primary targets to be set in relation either to quantitative energy efficiency improvements, (“relative targets”), or carbon reduction, (“absolute targets”). In practice the majority of participants opted for relative targets and whilst these have been in the most part met, they do not guarantee overall carbon reduction, since the level of production needs to be taken into consideration;
  - 6.2. The UK Climate Change Levy scheme is based upon “credit and trade” whereas the EU ETS is “cap and trade”.
  - 6.3. The British Cement Association believes that the administrative burdens arising from the UK CCL should be removed from companies that fall within the ambit of the EU ETS, which is directly aligned to carbon dioxide emissions.
- 7. Q2 Should the rates of the CCL be raised as part of a revenue neutral reform?**
  - 7.1. In practice, “revenue neutral” is a difficult concept equitably, for whilst overall the flow of revenues may be neutral, experience has shown that there is little correlation between the beneficiaries and the environmental improvements that they have effected.

7.2. Revenue generated by the Climate Change Levy was ‘recycled’ to business through reduction in the employers’ National Insurance Contribution payments, (NICs), and additional government support for energy efficiency measures. However, this is problematic since:

- for many businesses within the CCL scheme, the CCL payments exceed the NIC reduction by a substantial amount;
- “recycling” via NICs favours employers with a large workforce, and most energy intensive industry does not fall into this category;
- employers outwith the CCL scheme benefit from reductions in NICs, regardless of their energy efficiency/CO<sub>2</sub> emissions.

7.3. If the current system is maintained, the raising of the rates of the CCL would further exacerbate the inequalities, and would have little effect on carbon reduction.

7.4. Any proposal for the reduction of carbon emissions must take into consideration the potential for abatement of each of its participants. Most of the energy intensive industries have made significant reductions under the UK Climate Change Levy, the EU Emissions Trading Scheme, and other measures. As a consequence, the potential for further reductions is limited – a fact acknowledged by Defra consultants.

7.5. The British Cement Association believes that revenues generated within the CCL or similar schemes should be recycled more directly to companies achieving the reductions in emissions or improvements in energy efficiency, possibly through the regime of corporate taxation.

**8. Q3 How could the system of CCAs be reformed to provide more binding incentives for reducing carbon emissions?**

8.1. Although the Stern Report advocates the use of environmental taxes alongside emissions trading and regulation, this is in the context of a coherent policy package.

8.2. However, it is clear from Sir Nicholas’ Review and his evidence to the Treasury Select Committee that these instruments are to be used as alternatives. It is counter-productive to impose more than one instrument in order to achieve the same or very similar objectives. This is currently the case for many of the energy intensive industries which are subject to the UK CCL and EU ETS.

8.3. The matter will be further exacerbated should they additionally fall within the ambit of the proposed Energy Performance Commitment (EPC).

8.4. When more than one carbon-reduction instrument is applied, the industry or installation concerned is subject to the substantial additional costs associated with monitoring, auditing, and reporting to slightly different criteria. All sectors, including domestic and transport, must make significant contributions to reductions in greenhouse gas emissions. Further controls on the energy intensive industries will be counter-productive and unlikely to generate additional CO<sub>2</sub> reductions.

8.5. In the case of parallel operation of the UK CCL and EU ETS, there is the additional complexity of reconciling the target achievement in each scheme

and the carbon credits purchased or sold – the so-called “double trading” issue<sup>1</sup>. This alone highlights the folly of the current situation.

**8.6.** When reforming the existing system or introducing carbon taxation, it is essential that the desire to reduce carbon emissions does not adumbrate the issue of UK competitiveness and “carbon leakage”. Until emissions trading is established on a global scale, and there is a possibility that of UK-specific taxation or CO<sub>2</sub> restrictions will result in reduced domestic production and increased imports from countries with higher specific greenhouse gas emissions.

**8.7.** One means of addressing “carbon leakage” is through border tax adjustment. This will also promote the transition to a global trading system more quickly in a field of environmental action where speed of action is vitally important.

**8.8.** BCA believes that it is essential to remove the duplication between different the UK CCL and EU ETS. Companies could then focus their efforts on the reduction of carbon emissions rather than the achievement of for duplicate schemes and the complexities of compatibility between the schemes.

**9. Q4 How could the existing system be made compatible with emissions trading schemes and other policies over the long term?**

**9.1.** As noted in **Section 6.2**, the UK Climate Change Levy scheme is based upon “credit and trade” whereas the EU ETS is “cap and trade”. The choice must be made between these two options.

**9.2.** The achievement of compatibility between schemes is a complex task, as demonstrated by the “double trading” issue between the UK CCL and EU ETS, **Section 8.5**, by trading between the UK CCL and UK ETS schemes. Even where an appropriate formula has been developed for equating carbon *emissions* under different schemes, this does not take account of the differences in the *costs* of carbon.

**9.3.** The BCA believes that all sectors should make an effective contribution to the reduction in greenhouse gas emissions, and for energy intensive industry, the EU ETS is probably the most effective means of achieving this, providing the lessons learned are incorporated in the scheme *post-2012*. However, the UK CCL should be restricted to other industry sectors falling outwith the European scheme.

**9.4. Q5 Are there more fundamental changes to the existing structure that would improve the effectiveness of the system while meeting the principles described above?**

**9.5.** If energy taxation is introduced, as suggested in the consultation document, then it must genuinely directed towards changing behaviour. Hence, in addition to revenue neutrality, it must have an exit point, (i.e. when the objectives have been delivered), otherwise it will become just another tax.

**9.6.** The major impact of the increased rates of the UK Climate Change Levy in April 2007 will be additional revenue, not additional carbon reduction.

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<sup>1</sup> Defra document CCA 23, “Avoiding double counting between CCA and EU ETS”, 23<sup>rd</sup> March 2006.