



## **INTRODUCTION**

**1. The UK Cement Industry** The British Cement Association is the trade and research organisation that represents the interests of the United Kingdom 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, CEMEX Limited, and Lafarge Cement UK) are the major domestic manufacturers of Portland cement, producing over 90% of the cement sold in the UK.

**2.** Energy represents over 35% of the variable cost of cement manufacture, 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.

**3. Emissions Trading** The cement industry supports the principle of emissions trading, which is becoming an increasingly important component of its activities through the UK Climate Change Levy, (UK CCL), and the EU Emissions Trading Scheme, (EU ETS). Additionally, one Member Company is a Direct Participant of the UK Emissions Trading Scheme, (UK ETS).

**4.** In the UK, BCA, its member companies and Quinn Cement have been working with Defra, Dti, and their consultants in relation to the development of domestic schemes. At the European level, BCA and other European cement manufacturers work through CEMBUREAU.

**5.** Through their parent companies, BCA Members are involved in measures to reduce carbon dioxide emissions under the World Business Council for Sustainable Development Cement Sustainability Initiative, (WBCSD CSI). Additionally, Member Companies have made their own voluntary agreements to the reduction of carbon dioxide.

**6. The BCA Response to earlier Consultations** The British Cement Association submitted evidence relating to emissions trading to the Environmental Audit Committee's inquiry, "*The International Challenge of Climate Change: UK Leadership in the G8 and EU*"<sup>1</sup>; and is preparing evidence on its inquiry "*The EU Emissions Trading Scheme: Lessons from Phase I*"<sup>2</sup>.

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<sup>1</sup> "The International Challenge of Climate Change: UK Leadership in the G8 and EU", HC 105, Ev. 214.

<sup>2</sup> To be submitted.

7. In addition, it has submitted evidence on emissions trading to other select Committees of the House of Commons<sup>3</sup> and House of Lords<sup>4,5</sup>.

8. Together with other delegates from the European cement industry, the BCA contributed to the Paris workshop of the International Energy Association, IEA, on 4<sup>th</sup> 5<sup>th</sup> September 2006. This was one of a series of similar events held with the objective of informing the IEA in its role as advisor to G8 in its discussions on climate change.

#### **GENERAL COMMENTS**

9. The UK cement industry is committed to sustainable development, and a major component of its work in this area is the minimization of the impact of its greenhouse gas emissions. The UK industry is developing a carbon strategy, that will enable it to make a major contribution to the >60% reduction in greenhouse gas emissions by 2050.

10. In order to achieve this it is necessary to have in place SMART targets (i.e. specific, measurable, achievable; realistic; and time-bound) that enable all actors to make meaningful contributions to overall 60% target.

11. At the recent International Energy Association workshop in Paris, the European cement industry came to the following conclusions:

11.1.the industry is supportive of emissions trading;

11.2.experience with Phase I has demonstrated that the principle of *national* allocation of allowances is flawed;

11.3.there is a need for long term certainty of controls/rules associated with trading to allow industry to make the necessary investment decisions for new plant. In addition, it is important to avoid market distortions occurring as a result of windfalls;

11.4.the legislation timescale must match industry investment cycle;

11.5.the cement industry believes that bench-marking is the way forward, but current approaches are not ideal; the technical potential of industry for reducing CO<sub>2</sub> must be taken into consideration.

12. The pre-requisites for the development of meaningful measures on a *global* basis are:

12.1.Sound data on the current level of emissions;

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<sup>3</sup> BCA Evidence to Environment, Food and Rural Affairs Committee, Ninth report, Session 2004-5, Climate Change: Looking Forward, HC 130-I.

<sup>4</sup> BCA Evidence to House of Lords Science and Technology Committee, "Energy Efficiency", 2nd Report of Session 2005-06, HL Paper 21-II, 197, 213

<sup>5</sup> BCA evidence to House of Lords, European Union Committee, Sub-Committee D (Environment, Agriculture, Public Health and Consumer Protection): "The EU and Climate Change", 30<sup>th</sup> Report of Session 2003-04, HL Paper 179-I, 88 (written evidence), 92 (oral evidence).

**12.2.** Robust procedures for measuring, monitoring and reporting emissions.

**13.** At the IEA workshop, it was identified that this is not the case for nationally-generated data (on emissions from cement manufacture) pertaining to India, China and Latin America, although multi-nationals operating within these countries have the necessary structure and procedures for achieving this within their own organizations.

**14.** Through the World Business Council for Sustainable Development's Cement Sustainability Initiative, (WBCSD CSI), a *global*, externally accredited, monitoring and reporting protocol has been produced, and is being used within Europe in relation to the EU ETS and other measures.

#### **COMMENTS ON THE QUESTIONS RAISED BY THE COMMITTEE**

***What is the likely outcome from the meetings in Nairobi in November? Will the Parties to the Protocol be able to maintain whatever momentum they possessed at Montreal in 2005?***

**15.** BCA believes that unless momentum is maintained, the credibility of current GHG initiatives may be seriously undermined and will be difficult if not impossible to regain.

**16.** Vital to building on the current momentum is the acceptance, by a substantially larger audience than at present, of the urgency for meaningful GHG reductions to be achieved.

***What is the likely shape of an agreement post-2012 which will (presumably) include at least all those currently signed up to the Protocol? To what extent will the current stance of the United States of America and other countries not signed up to the Protocol influence the discussions concerning any post-2012 framework?***

**17.** Although an increasing number of parties are now signatories to the Kyoto Agreement, there appears to be relatively little enthusiasm, even within Europe, for the adoption of meaningful targets for GHG reduction.

**18.** It therefore seems likely that *post-2012*, any modifications are likely to be incremental rather than significant step changes. Unless there is acceptance, by a substantially larger audience than at present, of the urgency for meaningful GHG reductions to be achieved, global reduction in greenhouse gas emissions will be insufficient to prevent significant climate change.

**19.** In addition, there will be a growing imbalance in competitiveness between those countries that are taking realistic measures to reduce their GHG emissions, and those that do not. Commitment of the United States of America to such a goal must be a primary aim of future negotiations, and current discussions with the State of California indicate the possibility of progress in this area.

**20.** BCA believes that global failure to expand the application of GHG abatement through an ETS approach will ultimately lead to the demise of

basic domestic industries such as cement manufacture where imports from non-regulated countries will ultimately dominate. Within the United Kingdom, planned development for two new manufacturing plants has been postponed, while investment in plant for handling imported cement has increased.

21. Important lessons can be learned from the first Phase of the EU ETS, and the BCA is preparing a submission to the Environmental Audit Committee inquiry on this issue. In the context of this enquiry, these lessons may be summarized as follows:

21.1. The current *national* approach to the allocation of carbon credits is illogical and anti-competitive. Each Member State has a different Kyoto target to meet, and has allocated the capped emissions in a different manner. Pan-European sectoral allocations is one possible solution.

21.2. There must be an acknowledgement that each industry sector has different technical and commercial abilities to reduce GHG emissions. This will influence its ability to contribute to an emissions trading scheme.

21.3. The European Emissions Trading Scheme can provide a model for similar schemes elsewhere in the world. However, such a replication will be of little value unless trading between such schemes is possible. This would demand a greater degree of parity in target-setting than in the current European scheme, in addition to sound measurement, monitoring and reporting schemes.

21.4. The current difference in the price of carbon between the UK and the EU ETS scheme provides a clear indication of the need for parity between trading schemes - UK ETS: €2.2 to €5.9, (depending on quantity); EU ETS: €16, (spot); €20, (forward, 2008).

***What should be the position of the UK Government and of the EU in the discussions? Is the UK Government and the other governments of the EU in a good position to show leadership?***

22. To date, the United Kingdom has demonstrated leadership through the development of the UK CCL and ETS schemes. This has resulted in a number of benefits:

22.1. The achievement of the targets set, although there is less progress towards the domestic 20% aspirational goal ;

22.2. The establishment of a trading registry, and experience of government and industry in trading.

23. However, there are still lessons to be learned:

23.1. The UK ETS and EU ETS are directed towards the same goals and provide a clear example of the "double banking", contrary to the EU and UK aim of "Better Regulation". This was highlighted by BCA in its response to the Hampton and Davison enquiries. These two trading

schemes are incompatible, place burden on industry, and generate carbon credits that cannot be effectively inter-traded.

- 23.2.** Procedures within the UK are inflexibility in relation to the operation of the EU ETS Clean Development Mechanism, (CDMs), to the extent that UK firms are using through countries such as Holland to develop their schemes, rather than the UK.
- 24.** Whilst the record in achieving greenhouse gas reductions of some Member States, including the United Kingdom, places them in a good position to demonstrate leadership, this does not appear to be the case for the EU as a whole.
- 25.** The BCA welcomes the initiative of the Secretary of State to develop an "UK Manifesto on the EU Emissions Trading Scheme", with a view to encouraging others in Europe and else where to adopt an effective trading scheme as a means of reducing their greenhouse gas emissions.
- 26.** In this context, the areas in which BCA believes that there could be common ground between business, environmental groups and government to shape the idea of a manifesto for the future of the EU Emissions Trading Scheme include:
  - 26.1.** Development the current Kyoto agreement to include additional countries, and more meaningful targets, working towards the goal of achieving CO<sub>2</sub> reductions of 60% or more by 2050.
  - 26.2.** Development of global emissions trading based upon schemes that are compatible with the EU ETS.
  - 26.3.** Further development of the EU Emissions Trading Scheme to incorporate lessons learned from Phase I and the UK Climate Change Levy.
  - 26.4.** The requirement for a long term view on carbon policy, and certainty on the measures to be implemented.
  - 26.5.** The development of a market that functioned efficiently.
  - 26.6.** The requirement of a level playing field.
  - 26.7.** The need for all sectors of society to work to achieve reductions in carbon dioxide emissions.
  - 26.8.** Application of the "proximity principle", internalizing the cost of carbon where possible, i.e. it is preferable to achieve carbon reductions from BAT plant in the UK, than to import products from plants outside the EU with equivalent or worse environmental performance.
  - 26.9.** Sector-specific R&D for the promotion of energy efficiency, that will lead to the investment in technologies for energy reduction and product alternatives.

27. Whilst government is clearly best placed to exploit such positions of leadership, it should recognize the role that certain industry sectors might play.
28. For example, through the World Business Council for Sustainable Development Cement Sustainability Initiative, WBCSD CSI, an externally-verified, globally-agreed protocol for the monitoring and reporting of CO<sub>2</sub> emissions has been developed. Such global initiatives will be necessary if an effective emission trading is to be expanded beyond the European Union.

**British Cement Association**  
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