



# The EU ETS and the European Cement Industry: A decade of lobbying and distortion

**February 7th, 2017:** Since the conception of the EU ETS over a decade ago, the European cement industry has succeeded in crippling the original ambition of the policy, which was to decarbonise European industry, whilst booking billions of Euros in pure profits from the allocation of credits. In advance of a February 15th vote on the recommendation by the ENVI report to adopt AM84, a reform that introduces a Border Adjustment Mechanism to the EU ETS, InfluenceMap tracks the past lobbying from the cement industry on this key EU climate policy. This release also highlights how the industry’s latest U-turn on border adjustment mechanism<sup>1</sup> is the next step in a history of disrupting the effective implementation of ETS. The industry's lobbying centres around the cement trade group [CEMBUREAU](#).

Development of the ETS	Position of the European Cement Industry
<p><b>The formulation of the ETS (2000-2001):</b></p> <p>The European Commission announces auctioning is the preferable mechanism to distribute emissions permits. Most <b>business associations</b> responded by <b>opposing</b> this method and following this, the Commission issued a directive proposal with free grants as the main allocation rule.<sup>2</sup></p>	<p><b>Early opposition and influence over the ETS’s formulation (2000-2001):</b></p> <p>CEMBUREAU did not support emissions permits auctioning: “As <i>auctioning is tantamount to a tax, it would further <b>impair the competitiveness of companies</b> based in Europe compared to those located in the rest of the world</i>”.<sup>3</sup> CEMBUREAU also advocated for the introduction of “grandfathering” (which was adopted) whereby free allowances are attributed to EU producers based on <b>historical emissions</b>.</p>

<sup>1</sup> A mechanism that is intended to give parity between importers not subject to the EU ETS and domestic industries, removing the need for free allowances post-2020.

<sup>2</sup> Corporate Responses to EU Emissions Trading: Resistance, Innovation Or Responsibility, Pg 173

<sup>3</sup> Lobbying for carbon permits in Europe, Julien Hanoteau, Recherches économiques de Louvain 2014/1 (Vol. 80), 2014

**Member-states given responsibility for the ETS's implementation (2003):**

Member states are tasked with deciding the overall emissions cap (quotas) and what percentage of available emissions permits are auctioned or given away for free to their domestic industries.

**Incorrect industry data undermines the scheme's early design (2003):**

Many industries, including cement, **inflate the data** they give to member states on the **historical emissions** levels in order to receive higher emissions allowances going forward.<sup>4</sup>

**The EU ETS (Phase I) is officially launched and encounters major problems (2005):**

In April 2006, member states and the EC disclosed data on the 2005 verified emissions showing there are more permits than emissions. With too many emissions permits in the market, the traded permit price drops by 50% in four days.

**Having contributed to its weakening, the Cement industry continues to oppose the EU ETS (2005):**

**Industry influenced** the free emissions allocation process in **every member-state**<sup>5</sup>, contributing to an over-allocation of permits representing **100 million tonnes** more than there were emissions.<sup>6</sup> CEMBUREAU argue *"the unilateral initiative of the EU to launch its ETS is leading to major problems of competitiveness of the EU cement industry and will not succeed in reducing global CO2 emissions."*<sup>7</sup>

**EU launches Phase II promising more ambition (2008):**

The Commission promises full auctioning of the emissions permits by 2013. Some sectors, such as power & heat sectors, lose free permits as they are deemed less susceptible to international competition. Cement does not lose free permits, despite inland cement being protected due to high transportation costs.

**Cement sector lobbies intensively for carbon leakage status (2008):**

CEMBUREAU lobbies the Commission and DG Enterprise, writing to Commission President Barroso in October stating *"Any delay, and the resulting uncertainty, is already impeding decisions to invest in Europe"*<sup>8</sup>.

<sup>4</sup> Corporate Responses to EU Emissions Trading: Resistance, Innovation Or Responsibility, Pg 173

<sup>5</sup> Buchner, B., Carraro, C., Ellerman, D. (2006). "The Allocation of European Union Allowances. Lessons, Unifying Themes and General Principles", CEPR Discussion Papers n° 5843

<sup>6</sup> Kettner, C., Köppl, A., Schleicher, S., Therius, G. (2008). "Stringency and distribution in the EU emissions trading scheme. The 2005 evidence", *Climate Policy*, vol. 8(1), pp. 41-61

<sup>7</sup> Corporate Responses to EU Emissions Trading: Resistance, Innovation Or Responsibility, Pg 173

<sup>8</sup> Letter from Jean Marie Chandelle to Commission President Barroso dated 3 October 2008

**The Commission begins making exemptions for certain sectors (2009):**

In December 2009, the Commission approved the final list 20 of sectors, including cement, deemed to be at risk from carbon leakage and which are entitled to free permits beyond 2013. The Commission introduces an option to include an **importers tax 2009** ETS Directive.

**Industry succeeds in institutionalising significant protections from carbon leakage (2009):**

Referring to cement sector new carbon leakage risk status, CEMBUREAU declared: “*the outcome resulted in the **best achievable compromise** following all the efforts of CEMBUREAU on an issue which filled the associations calendar in 2008.*”<sup>9</sup> CEMBUREAU and French cement makers promote the idea of a **border adjustment scheme**, influencing a new EU Directive amendment.<sup>10</sup> This mechanism is intended to give parity between importers not subject to the EU ETS and domestic industries, **removing the need for free allowances** post-2020.<sup>11</sup> Environmental groups, such as The Carbon Trust, **also express** their support for border adjustment mechanisms.

**The Commission introduces an inefficient cement benchmarking scheme (2010):**

It opts for a clinker benchmark over a cement benchmark. This meant that the cement industry would be allocated **free emissions** permits based on **historical clinker emissions**, which is the most GHG intensive part of the cement producing process. DG CLIMA proposes an initial benchmark of 689.5kg per tonne of grey cement clinker.

**Industry was divided on benchmarking clinker (2010):**

In 2010 CEMBUREAU successfully **argued** that benchmarks should be based on clinker and not cement production. Holcim did not publicly support that position, arguing it **disincentives alternative clinker products** and efforts to reduce the emissions from clinker itself. CEMBUREAU also claims success in lowering the ambition of the clinker benchmark to a final CO2 price of 766kg CO2 per tonne of grey cement clinker.<sup>12</sup>

**The Commission acts to fix over-allocation (2013):**

The Commission introduced Backloading to **remove 900m permits from the system** to

**Industry rejects measures to fix over-allocation and again advocates for a border adjustment measure (2013):**

CEMBUREAU continued to **stress the threat of carbon leakage** and opposed measures such as back-loading,

<sup>9</sup> Corporate Responses to EU Emissions Trading: Resistance, Innovation Or Responsibility, Pg 173

<sup>10</sup> Corporate Responses to EU Emissions Trading: Resistance, Innovation Or Responsibility, Pg 173

<sup>11</sup> Please see this Sandbag [briefing](#) for more details, January 2017

<sup>12</sup> EU Emissions Trading System: failing at the third attempt, CEO & Carbon Market Watch, April 2011.

increase the price and effectiveness of the scheme. Several reports, including from the London School of Economics, claim the effects of **carbon leakage** on European business “*have been overstated*” by industry.

the **Cross-Sectoral Correction Factor** and the Market Stability Reserve which it believes would “*undermine the integrity of the market based approach.*” In 2013 it reiterated its **support** for free emissions allowances and border adjustment mechanisms as how “*a level playing can be achieved most effectively.*”

**The Parliament’s environmental committee reacts to the ETS’s continued ineffectiveness (2016):**

Carbon Market Watch **calculated** that the cement sector has made a **€4.7bn windfall** (between 2006-2014) due to over allocation. Whilst another Sandbag **report** shows that the cement sector has not been experiencing carbon leakage and has **not reduced its GHG emission intensity** since the start of the ETS. In December 2016, the European Parliament’s ENVI committee proposes border adjustment mechanisms.

**CEMBUREAU’s switches its position on border adjustment mechanism (2016)**

Despite its **previous support**, CEMBUREAU **now argues** that the proposed border adjustment mechanism lacks overall clarity; would create legal trade difficulties; problems calculating embedded CO2 emissions of imported products, whilst unfairly discriminating against European cement producers. Bruno Vanderborght, former Holcim Senior Vice President of Climate Strategy, calls CEMBUREAU’s arguments “**a bit fluffy**”. He **draws attention** to fact that full free allocation is simply the easiest way for clinker industry to maximise its profit margin. EcoCem, CEO, Donald O’Riain, who supports the border adjustment schemes, stated publicly that the cement industry has “**no economic incentive, whatsoever, to shift...we are constrained to live the past in the future without some serious policy changes**”.

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