

Holcim Position Paper on Climate Change:

2. The European Union Emissions Trading System

<p>Introduction</p>	<p>On 1 January 2005 the European CO₂ Emissions Cap and Trade System (hereinafter EU ETS) commenced. Its objective is to reduce CO₂ emissions at lowest cost to industry and society, from eight industrial sectors in the European Union, representing around 45% of man-made CO₂ emissions in the EU. The installations of those sectors were allocated a certain quantity of emission rights (EU allowances) by the competent authority of the relevant Member State according to its National Allocation Plan (NAP). Installations that reduce emissions below their allocations may sell excess allowances; installations with a shortfall must make additional reductions or buy allowances on the emissions trading market.</p> <hr/> <p>Holcim welcomes the concept of emissions trading as a means to use the power and flexibility of the market to achieve an environmental objective in the EU, but believes it should be based on benchmarking and fit within a global framework.</p>
<p>Inherent Challenge</p>	<p>The Emissions Trading Directive (ETD) requires Member States to develop a plan describing how, and by how much, CO₂ emissions will be reduced across different sectors of society - industry, transport, building, services, etc. - with the aim to not exceeding the absolute cap defined by the Kyoto Protocol and Burden Sharing Agreement.</p> <p>This obligation to quantify the reductions by each sector demonstrates the inherent challenges facing society for absolute CO₂ emissions reduction.</p>
<p>Isolation of European industry</p>	<p>The directive also obliges Member States to set an absolute limit on industry emissions, but not on other sectors of society, while industry outside the European Union also goes unregulated.</p> <p>In an increasingly globalized world, such a policy is an unprecedented distortion of competition, and unlikely to be sustainable in its current form.</p>
<p>Stimulation of progress</p>	<p>The objective of the ETS is to accelerate innovation and investment in more CO₂ and energy efficient products, production processes and consumption. This would imply that new industrial installations are built more swiftly than without the ETS.</p> <p>Therefore, emission rights (emission allowances) should be allocated as a function of CO₂ or energy efficiency, thus rewarding the more efficient incumbents and new investments.</p> <p>However the current system allocates allowances based on existing installations and past emissions, which is clearly contrary</p>

	to the objective, thus eroding its effectiveness and efficiency.
Risk for relocation	Continuation of such distortions in a globally competing economy will lead to investments and production being relocated to regions outside the system without benefit to climate protection, quite the contrary because transport emissions may increase.
Two critical problems with the current EU ETS	<p>This leads to the two critical problems with the current EU ETS:</p> <ol style="list-style-type: none"> 1. The imposition of an absolute cap on EU industry, in isolation from global industry and other sectors of society; 2. The allocation of emission allowances based on past absolute emission instead of future efficiency performance.
Two solutions for the current EU ETS	<p>The solution is to be found in the efficiency principle:</p> <ol style="list-style-type: none"> 1. The CO₂ reduction objective for EU industry must fit within a global framework. Incentives and obligations must be compatible with policies used in other developed countries outside the EU and in developing nations; 2. The allocation of emission allowances must be based on CO₂ and energy performance - gradually improving as a function of time - and not on absolute historic emissions. <p>These solutions are largely possible within the current Emissions Trading Directive if the National Allocation Plans are properly designed.</p>

Further information on Holcim's CO₂ objective and strategies can be found at: www.holcim.com/sustainable/ or by contacting Bruno Vanderborght at: bruno.vanderborght@holcim.com

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