

## Holcim Position Paper on Climate Change:

### 6. Absolute or specific targets

<p><b>Absolute or specific ?</b></p>	<p>The current EU ETS is based on an absolute cap on CO<sub>2</sub> emissions. Performance Based Allocation, however, is based on specific emissions.</p> <p>Is PBA then a departure from an absolute cap? Or compatible with a Cap &amp; Trade system? Is it about ex-ante or ex-post allocation? And does it provide the market with the predictability and certainty needed for proper functioning?</p>
<p><b>Ex ante allocation</b></p> <p><b>Ex post adjustment</b></p>	<p>Performance Based Allocation is compatible with Cap &amp; Trade.</p> <p>Allowances are allocated ex-ante by multiplying a performance standard with a production volume. The operator thus has legal certainty and ownership of the initial allowances at the start of the commitment period.</p> <p>There are good reasons to evaluate an ex-post adjustment of the final volume of allocated allowances as a function of the difference between the forecast and realized production volume during the commitment period:</p>
	<ul style="list-style-type: none"> <li>▪ Ex-post adjustment gives certainty to the operator about his long or short position anytime during the commitment period.</li> </ul> <p>Knowing his specific emission during production, the operator knows precisely his position with respect to the initial allocation. On the other hand, a fixed absolute initial allocation only enables this knowledge at the end of the commitment year, as it is dependent on production variations during and up to the end of the period.</p> <p>Ex-post adjustment therefore gives more predictability and certainty to the operator and the market than an ex-ante absolute allocation.</p>
	<ul style="list-style-type: none"> <li>▪ Industry needs long-term predictability of obligations for investment decision-making. Performance of an installation can be anticipated but future production volumes cannot, certainly not on the long-term.</li> </ul> <p>An ex-ante allocation, which is not adjustable to real production volumes, is incompatible with the needs of business decision-making.</p>
	<ul style="list-style-type: none"> <li>▪ Ex-post adjustment enables the most efficient installations to increase production at the detriment of the less efficient ones. This will lead to overall lower emission.</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Ex-post adjustment also to some extent prevents electric power companies from passing on the whole opportunity cost to customers, thus preventing undue windfall profits.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Ex-post adjustment is feasible within a cap &amp; trade system: at the end of the commitment year, the operator surrenders i) a volume of allowances equal to the verified emissions, plus ii) a volume of allowances equal to the performance standard multiplied by the difference between realized, verified production and initially forecast production. The latter volume can be positive or negative.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ An emissions trading system with Performance Based Allocation with ex-ante allocation and ex-post adjustment is the practical implementation of the efficiency principle.</li> <li>▪ An emissions trading system with this concept would probably enable the participation of the USA, Canada and Japan, thus enabling the integration of Europe's system in a global framework.</li> </ul>
	<p>Holcim believes that the balance of arguments is in favour of ex-ante allocation with an ex-post adjustment to production.</p>
	<p>However, this is not the current interpretation of the Emissions Trading Directive by the European Commission. Stakeholders should await the ruling of the European Court of Justice (in the EC – Germany case) before the concept can be progressed for the 2008–12 period.</p> <p>If the ECJ rules in favour of ex-post adjustment, then the EC and Member States should adopt the concept for 2008–12. If the ECJ would rule otherwise, then the concept should be included in a review of the ETD.</p>

Further information on Holcim's CO<sub>2</sub> objective and strategies can be found at: [www.holcim.com/sustainable/](http://www.holcim.com/sustainable/) or by contacting Bruno Vanderborght at: [bruno.vanderborght@holcim.com](mailto:bruno.vanderborght@holcim.com)

Zurich, 24 April 2006