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To: Economic & Allocation Advisory Committee
Subject: Economic and Allocation Advisory Committee

The Coalition for Sustainable Cement Manufacturing and Environment ("CSCME"), a coalition of all six cement manufacturers operating the 11 cement plants in California, would like to take this opportunity to comment on the EAAC draft report.

Yesterday, CSCME submitted detailed comments to EAAC. Today, we would like to reinforce the following four principle points.

- First, CSCME strongly agrees with the Committee's finding that it is advisable to use allowance value to "address emissions leakage problems associated with energy-intensive, trade-exposed industries", and we would note that the cement industry's EITE status has been repeatedly confirmed in various policy venues. As noted in our comment letter, several factors indicate that the risk of emissions leakage is likely to be particularly severe in the California cement industry.
- Second, CSCME also shares the Committee's view that border adjustments can be an effective method for reducing the risk of emissions leakage. By including products originating outside California that are sold in the California market, border adjustments are a necessary part of a comprehensive policy to target emissions associated with the consumption of products in California.
- Third, CSCME disagrees, however, with the Committee's implied view that the use of allowance value and the implementation of a border adjustment are mutually exclusive approaches. The use of allowance value is an important component of a comprehensive policy because it lowers compliance costs within the state of California. Depending on the design of the allocation mechanism (e.g., benchmarking), however, some domestic producers may still face incremental compliance costs over and above the allowance value received, and a well-designed and targeted border adjustment can impose an equivalent incremental cost on imported cement that has a similar GHG profile -- providing more robust and effective leakage prevention than allowance allocation alone.
- Finally, CSCME believes that it is possible and desirable to design a policy framework that leverages the benefits of both allowance allocation and border adjustment mechanisms in a manner that maintains incentives to abate in the California cement industry while minimizing the risk of leakage in a WTO consistent manner. CSCME has specific design proposals that would meet these criteria and looks forward to sharing these ideas with the EAAC in the near future.

As the EAAC recognizes, the nature and potential extent of emissions leakage can vary significantly across industries. Consequently, "one-size-fits-all" approaches are unlikely to effectively and efficiently resolve the leakage challenge. We encourage the EAAC to more closely consider the specific circumstances of the California cement industry and endeavor to develop a targeted, customized approach that has the greatest potential to minimize emissions leakage in this uniquely challenged industry.

Questions

(1) The EAAC states in its draft report that, "border adjustments or other leakage-oriented measures should be of short duration (though renewable)". We would submit that such a "renewable" border adjustment creates an unpredictable policy environment that, in and of itself, can impair investment and exacerbate emissions leakage. Can you please elaborate on the EAAC's views regarding the prioritization of the regulator's desire for "adaptability" over private industry's need for predictability, and the appropriate balance between these two objectives as it relates to minimizing emissions leakage?

(2) In its report, the EAAC notes that "the extent of emissions leakage depends directly on the presence or absence of a regional or national cap-and-trade program" and that leakage would be "substantially reduced with the arrival of a regional or national-level cap-and-trade policy." We would note, however, that the vast majority of California cement imports originate from jurisdictions that are unlikely to be covered by either the WCI or a federal climate policy. We would also note that in 2006, a year in which cement imports reached 40% of total California cement consumption, the vast majority of imports originated from China and other Asian nations that are unlikely to adopt similarly stringent, binding, and verifiable emissions targets for the foreseeable future. Can you comment on the EAAC's views regarding the extent to which a regional or national cap-and-trade program is likely to substantially reduce leakage for the California cement industry, and the extent to which this thinking is or is not currently incorporated into the current draft report?

(3) The EAAC report describes border adjustments as an "alternative" to allowance allocation. CSCME would like to emphasize that these two approaches should not be considered mutually exclusive. Can you comment on the EAAC's general views regarding how these two approaches might be used in a complementary manner and, more specifically, the extent to which it has considered options that have the potential to leverage the unique advantages of both approaches?

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