

The Issue

In order to address the challenges posed by climate change, the regions and countries of the international community are investigating and implementing a variety of policy instruments. The principal vehicle for discussion and negotiation is the United Nations Framework Convention on Climate Change, although other entities such as the G20 and Major Economies Forum are also addressing the issue. The key principle that has been adopted is that of common but differentiated responsibilities, which recognizes the different historical contributions, responsibilities, and abilities that countries possess to address the issue.

At a country level, there are a number of policy mechanisms to control emissions. The main ones are command-and-control, cap-and-trade, and taxation.

Under the Kyoto Protocol, developed countries agreed to achieve emissions targets mainly through national commitments. The same protocol also introduced a number of market-based mechanisms, which include International Emissions Trading, the Clean Development Mechanism, and Joint Implementation. The European Union is at the forefront of carbon markets with the Emissions Trading System, which covers some 45% of the EU's carbon dioxide (CO₂) emissions or about 2 gigatonnes of CO₂ per year.¹ In the U.S., the only mandatory market is the Regional Greenhouse Gas Initiative in the Northeastern states. California will continue with its climate change program, including legislation implemented during 2012. Other carbon markets are being considered or developed in countries such as Japan and New Zealand. Recently, carbon markets have increasingly caught attention in developing countries such as South Korea, China, and Brazil, and the first pilot schemes (some of which at the sub-national level) are expected to be up and running by the middle of this decade.

CEMEX's Position

CEMEX believes that a global carbon market is the most efficient policy tool to tackle climate change and attract private investment for greenhouse gas reduction projects. CEMEX believes that a cap-and-trade market mechanism is more effective than a carbon tax because it allows carbon prices to be determined on the basis of market efficiencies. It also establishes the right mechanisms and incentives to promote research, development, and investments in climate change abatement initiatives. It further offers greater financial certainty for future investments and allows for the

¹ The Encyclopaedia of Earth: [www.eoearth.org/article/European_Union_Emissions_Trading_Scheme_\(EU_ETS\)](http://www.eoearth.org/article/European_Union_Emissions_Trading_Scheme_(EU_ETS))

automatic allocation of an appropriate carbon emissions cap necessary to confront climate change. However, our global presence demonstrates the importance of the principle of common but differentiated responsibilities; meaning that emissions' trading, particularly with absolute caps, is not yet a viable option for many developing and emerging economies that, in the absence of technologies and fund transfers from developed countries, could limit their development potential. For the time being, we believe that developing countries can find different, appropriate ways to contribute to the fight against climate change—ways that consider their level of economic and institutional development, as well as their low per capita greenhouse gas emissions.

The global carbon market has to be built step by step. We are well aware that managing the transition between today and the long-term goal of a global carbon market is not easy. CEMEX believes that—apart from the political decision of when a country is ready to take on caps and develop a carbon market or similar measures—the most crucial issue is the avoidance of carbon leakage (see Box). CEMEX advocates thoroughly designed Border Adjustment Mechanisms (BAMs) as a way in which both developed and developing nations can address carbon leakage without either being protectionist or causing market distortion. BAMs can ensure fair competition in a world where some countries are willing to implement much stricter climate change legislation than others.

CEMEX also supports offset mechanisms (see Box) and their acceptance on a one-to-one basis in all emissions trading schemes. Offset mechanisms are an efficient way of integrating developing countries into the global carbon market. However, to exploit their full potential, it is necessary to develop more pragmatic approaches for those mechanisms.

Carbon Leakage: In a nutshell, carbon leakage means that emission control policies do not reduce real emissions but merely shift them to other geographies or sectors. The best known example of carbon leakage is when a plant in country A, which is subject to a carbon auction market, loses competitiveness against imports from country B, without carbon regulation, and finally the plant in country A has to close. At first sight, country A has achieved an emissions saving because the plant on its territory no longer produces, but the emissions in country B go up, typically by a similar amount. Furthermore, there are additional emissions resulting from transport from country B to country A. In the process of amending its Emissions Trading Scheme, the European Union has put the concept of carbon leakage under scrutiny because it found that it is a real threat to the effective functioning of the market and its main objective of achieving global emission reductions.

Offsets: Offsets are credits that are issued for emission reductions beyond the scope of an emissions trading scheme (e.g., in other sectors or geographies). The most important offset scheme to date is the Clean Development Mechanism (CDM), one of the project-based mechanisms defined in the Kyoto Protocol. In a CDM project, credits are issued for monitored and verified emission reductions beyond business as usual. For instance, a renewable energy project could be credited for the emissions of the fossil energy that it avoids.

CEMEX has successfully registered 16 Clean Development Mechanism (CDM) projects for a total reduction of 1.89million tons of CO₂ per year. One example is Eurus, located in Oaxaca, Mexico. It is the largest wind farm in Latin America and one of the largest wind projects registered under the CDM. Since they require large investments, the CDM furthers the promotion and execution of all of these carbon reduction projects. CEMEX is currently developing a pipeline of 3 additional CDM projects.



CEMEX has successfully registered eight Clean Development Mechanism projects for a total reduction of 1.89 million tons of CO₂ per year.

Furthermore, conscious that robust and cost-effective Monitoring, Reporting, and Verification (MRV) are an absolute must for any emissions trading scheme, we continue to track and audit emissions in line with the Greenhouse Gas Protocol developed by the Cement Sustainability Initiative within the World Business Council for Sustainable Development and the World Resources Institute. CEMEX has also participated in the Carbon Disclosure Project since 2006.