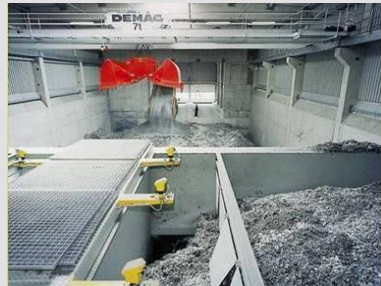


# HeidelbergCement perspective on MSR

Rob van der Meer

18<sup>th</sup> November 2014



# HeidelbergCement position on MSR proposal

## ■ Challenges associated with the MSR proposal:

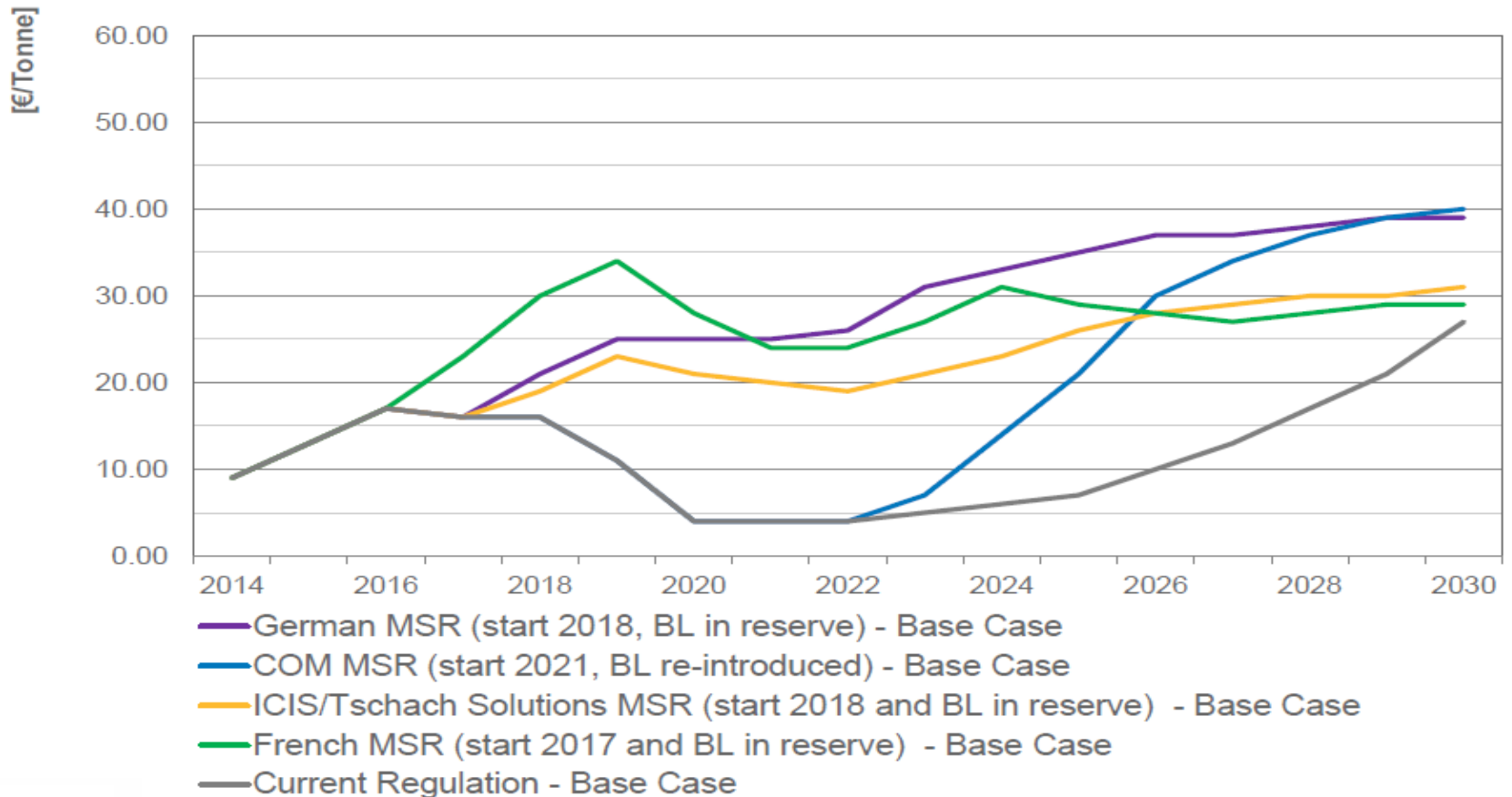
- MSR brings artificial reduction of the cap until 2030 with heavy consequences
  - The average of volumes which go into the reserve in the period 2021-2030 (196m) translates in a CO<sub>2</sub> reduction target of 50% in 2030 (compared to 43% in legislation)
  - The Linear Reduction Factor would increase to 3.08% (from 1,74% changed to 2.2% in 2020)
  - Cement industry: This is technologically not feasible and increases carbon leakage risks in light of already reduced free allocation of 2.2% per year after 2020
- Utilities sector's forward hedging is bigger than MSR's proposed upper treshhold
- The MSR acts with too much delay leading to an less predictable carbon price
  - MSR's reaction delay of 2 years might lead to price volatility in the years in between
- The MSR proposal does not tackle the issues of over-allocation and carbon leakage
  - The issues of carbon leakage and free allocation (dynamic allocation ????) should be tackled in a holistic proposal for phase 4

## The MSR is a good idea but it should:

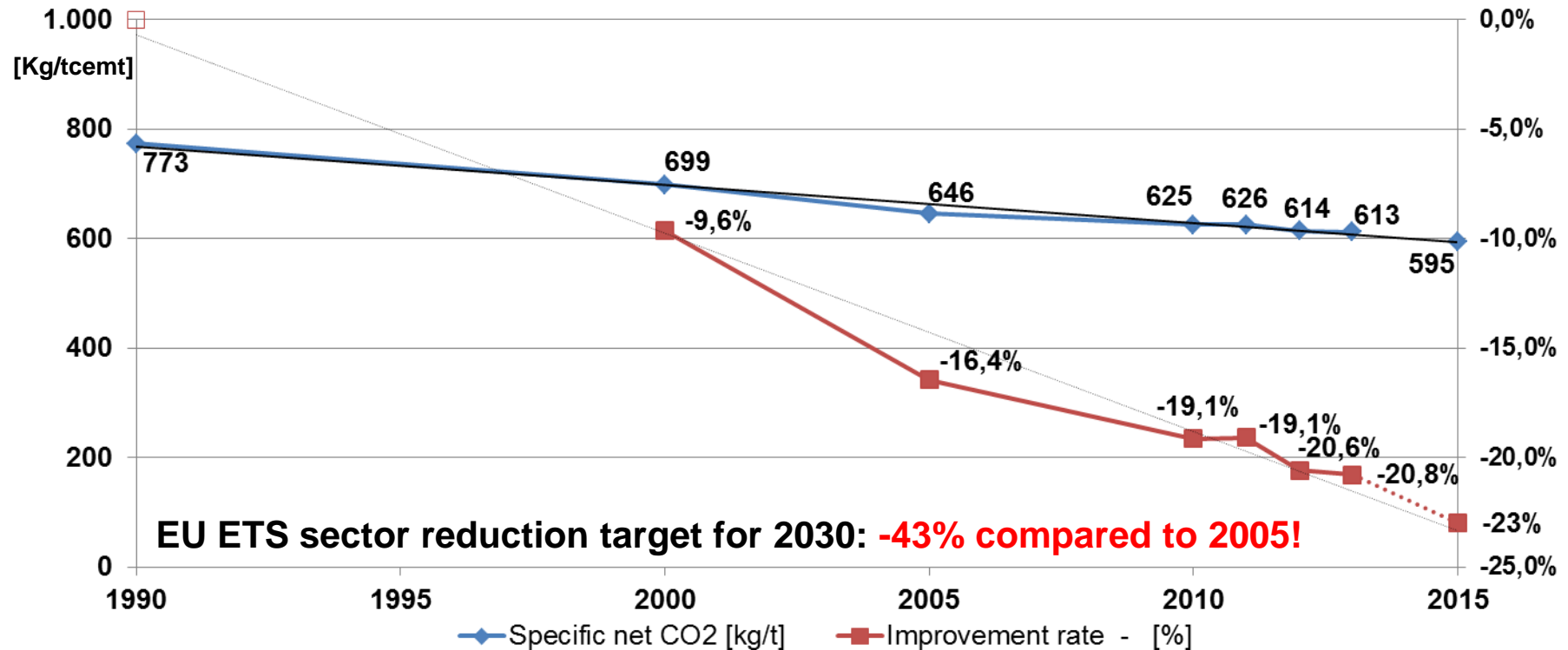
1. Not lead to long term effective change in the cap.
2. Should lead to higher stability of the prices, also short term.
3. Should be discussed in conjunction with further reform options

# Impacts of Different MSR Designs on Carbon Price

## Overview proposals – Price impact

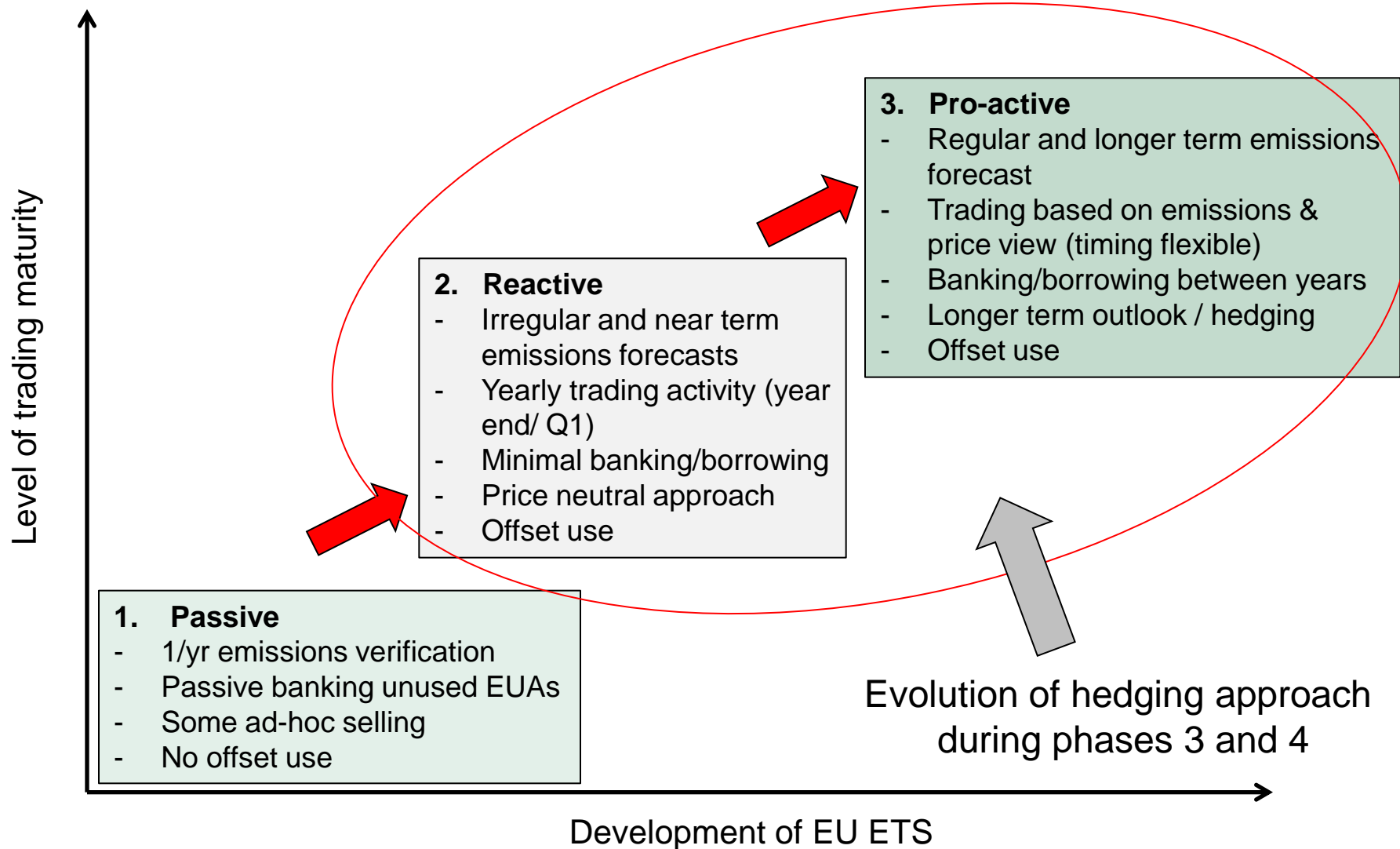


# CO<sub>2</sub>-reduction in cement sector



**Industry's carbon leakage risk increases with new reduction target and artificial cap due to MSR**

# Cement sector hedging approach in light of MSR



# Regulatory uncertainty in EU ETS – The example of the Discussion regarding Backloading and MSR

## ■ Q1 2014:

- COM, Council and EP support „backloading proposal“ including release of backloaded allowances to market in 2019 and 2020
- COM proposes MSR starting 2021

## ■ Q3 2014:

- COM starts changing perspective on MSR start date and return of backloaded allowances
- EP ENVI starts discussion on transfer of backloaded allowances into MSR or cancelling of backloaded allowances
- Individual MS lobby for early start and table own proposals for MSR including the direct transfer of backloaded allowances into MSR

## ■ Q4 2014

- Director-General Jos Delbeke openly prefers early start of MSR and thinks about direct transfer of backloaded allowances into MSR

**Backloading and MSR discussions exemplify huge regulatory uncertainty surrounding EU ETS**

# Timeline of changes in the EU ETS

2005	■ 2005	Start of Phase I
	■ 2005	Most NAPs approved
2006	■ 2006	Additional NAPs approved
	■ 2006	New targets for NAPs phase 2
2007	■ 2007	Verdict on German ex post adjustments
2008	■ 2008	Most NAPs approved
	■ 2008	Connection of CITL & ITL after delay
2009	■ 2009	Change on CDM / JI emission rights
	■ 2009	CCS directive adopted
2010	■ 2010	Benchmark decisions phase 3
2011	■ 2011	Compensation for CO2 costs in electricity
	■ 2011	NAPs 2 Poland and Estonia approved
2012	■ 2012 /2013	Backloading / Set aside discussion
	■ 2013	Delay in allocation decision <u>and</u> allocations
2013	■ 2013/2014	Structural reforms EU ETS
	■ 2013/2014	Re assessment carbon leakage
2014	■ 2014	New 2030 target
	■ 2014	Backloading with promise of return in 2019/2020
	■ 2014	COM proposal for MSR starting in 2021 published
	■ 2014	COM promotes early start and transfer of allowances
	■ 2014/2015	Discussion of carbon leakage provisions post 2020

**EU ETS regulatory uncertainty has continuously  
and creates difficult investment environment for industry**