Global Cement and Concrete Association

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GCCA Policy Document on Carbon Pricing

Global Cement and Concrete Association (GCCA) is registered in England & Wales, Company No 11191992

Registered office:
Paddington Central, 6th Floor,
2 Kingdom Street, London,
W2 6JP, United Kingdom

T +44 2035 804268

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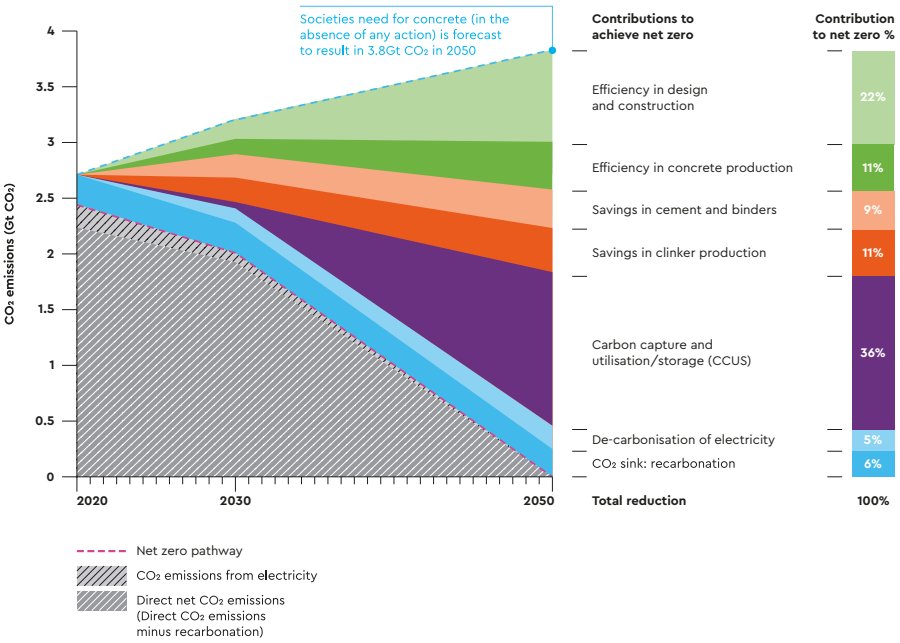

The Net Zero Pathway from the 'GCCA 2050 Cement and Concrete Industry Roadmap for Net Zero Concrete'[1]. Low Carbon Procurement, for which definitions are foundational, will support the decarbonisation achieved along the value chain from manufacturer through to construction.

[1] Global Cement and Concrete Association (2020). The GCCA 2050 Cement and Concrete Industry Roadmap for Net Zero Concrete. https://gccassociation.org/concretefuture/wp-contentuploads/2022/10/GCCA-Concrete-Future-Roadmap-Document-AW-2022.pdf.(2020)

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1. Background

Carbon pricing is a policy tool that captures the external costs of greenhouse gas (GHG) emissions and ties them to their sources in the form of a price on the carbon dioxide (CO_2) emitted. Putting a price on carbon can create a financial driver to reduce emissions and encourage lower-carbon behaviour and can also raise money that can be used to finance low-carbon investment and climate adaptation.

Carbon pricing schemes exist in many regions of the world, and several of these cover the cement industry.

Most of these established schemes follow the model known as cap-and-trade. Carbon emitting industries covered by such schemes must surrender carbon credits equivalent to their fossil carbon emissions. Overall emissions are limited by a declining "cap". Credits, limited in number by the cap, are made available (often via auctions) and can be traded within the system. This ensures total emissions reduce over time. Alternatively, some regions use carbon taxes.

- In Europe, the EU Emissions Trading Scheme (EU ETS) has existed since 2005. By 2023, the EU ETS has helped bring down emissions from European power and industry plants by approximately 47%, compared to 2005 levels.[2] UK and Switzerland also have similar schemes, the Swiss one being linked to the EU ETS, which means credits can be traded between the two, creating a larger market.
- In North America, emissions trading schemes exist in some US states, including California, Washington and Oregon in which cap-and-trade schemes are referred to as "Cap-and-Invest" and cover cement. Several other states are considering including cement in their schemes. In Canada, provincial schemes as well as the federal backstop scheme cover cement. The Quebec and California schemes were linked in 2014 and these authorities together with Washington State issued a joint statement in 2024 on potential formation of a shared carbon market between the three jurisdictions.[3]
- China is already implementing the inclusion of cement in the national ETS. Regional schemes already cover cement.
- In other parts of the world, carbon pricing schemes exist but mostly apply to the power sector and so do not yet include cement. For example, the V20, a group of 20 developing countries vulnerable to climate change, has announced its intention to adopt carbon pricing by 2025.

[2] European Commission. What is the EU ETS?. Accessed August 19th 2024

[3] Department of Ecology Washington State press release March 20, 2024 "California, Québec and Washington agree to explore linkage"

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2. Position Statement

A: GCCA supports the use of market-based carbon pricing to incentivise decarbonisation at lowest cost

An appropriate carbon price, as well as long-term predictability of the carbon price, allows companies to make the investments needed to reduce their CO_2 emissions in line with the GCCA ambition for net zero by 2050.

The advantage of market-based instruments, such as cap-and-trade schemes, is that they direct financial resources towards wherever it is most economical to reduce emissions, lowering the financial burden on society. While both carbon taxes and cap-and-trade mechanisms aim to reduce carbon emissions, cap-and-trade systems can offer more certainty in achieving specific emission reduction targets, greater flexibility and cost-effectiveness, and the potential to drive innovation through market dynamics. The effectiveness in achieving these outcomes depends on careful policy design, implementation, and the specific economic and political context in which they are applied.

B: The use of carbon pricing must not lead to distortions of competition between domestic producers and importers

If carbon pricing is applied in a region and other regions do not have similar carbon pricing, there is a risk that investments will move to those regions where carbon pricing is lower, leading to a global increase in CO_2 emissions (if production in those regions is more CO_2-intensive, or transport emissions for importing from those regions are greater than potential gains). This concept is known as carbon leakage. All carbon pricing schemes need mechanisms to avoid the risk of carbon leakage and ensure there is a level playing field for decarbonization among all industry players. This can be achieved with the provision of a certain number of CO_2 credits for free, through the application of benchmarks based on the best performers in the most leakage exposed sectors.

Since it has been seen in recent years that such measures can be insufficient to avoid carbon leakage where the carbon pricing disparity is very large (such as between the EU and other countries), "border mechanisms" applying an equivalent carbon cost to importers are also being applied as a way to level the playing field and ensure global emissions continue to decrease. In the case of North America, this could also apply to differing carbon costs imposed on producers in different states or provinces. Such mechanisms must be developed with care to ensure they benefit the climate and fairly apply similar carbon costs to importers and local producers as well as to avoid overlapping ETS systems with taxes (regional or local), as this may have a detrimental effect on competitiveness. Once more regions of the world apply carbon pricing using more consistent approaches, such mechanisms will become less necessary.

The Paris Agreement Article 6 establishes the potential of trading emission reduction credits across borders, between nations or jurisdictions. In this context, GCCA believes it is crucial to advance discussions on cooperative mechanisms.

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C: For carbon pricing to drive meaningful emissions reduction, environmental integrity is essential. This means that clear monitoring, reporting and accounting rules are needed. Carbon pricing should also drive innovation.

Carbon pricing should encourage both conventional and breakthrough technologies to reduce CO_2 emissions. Accounting rules should reflect the entire production, use, and disposal of products, and carbon uptake over the life cycle, and must be designed to reward investments in all carbon management technologies. The GCCA Energy and CO_2 protocol and guidelines [4] provides such clear monitoring, reporting and accounting rules.

D: The transition towards carbon neutral economies is dependent on the acceptance of carbon constraints and costs by all actors along economic value chains: a competitive level playing field on carbon cost must prevail.

While cap-and-trade schemes are a powerful means to apply carbon pricing, they tend to be applied to the source of emissions, for example at the electricity, cement or steel plant. This makes them difficult to apply to dispersed sources of emissions, such as forestry, and yet these difficulties should be overcome to ensure a competitive level playing field on carbon cost.

Introduction of cap-and-trade schemes should have appropriate transition periods for businesses and their value chains.

[4] The GCCA CO_2 protocol and guidelines www.cement-co2-protocol.org/en

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