



Ash Grove Cement Company Greenhouse Gas Legislation and Regulatory Mechanisms

Background

Currently policy makers have concluded that greenhouse gas (GHG) emissions must be reduced by the United States population through a federal legislative structure in order to preserve the country's future quality of life. Ash Grove Cement Company (Ash Grove) remains unconvinced that the scientific evidence is sufficient to conclude that anthropogenic (man made) carbon dioxide (CO₂) emissions influence global ambient temperature to the extent that they will seriously erode the future quality of human life several decades from now, as EPA has concluded. While we agree that global ambient temperatures have been trending upwards in recent history, it is not conclusive that an 80 percent reduction in CO₂ emissions, as proposed by many of the current legislative initiatives, would result in a measurable reduction in ambient temperature. Specifically targeted government programs aimed at symptoms of any issues emanating from climate change are a much more efficient use of scientific knowledge and financial resources, whether the climate change is the result of anthropogenic or natural forces.

Why Ash Grove Prefers a Carbon Tax Mechanism

Recognizing that much of the current legislative debate presumes that CO₂ emissions will be regulated and that the program may likely consist of a cap and trade mechanism, Ash Grove continues to support the concept of a carbon tax as a superior public policy mechanism to reduce CO₂ emissions in the United States. An upstream, economy-wide carbon tax would assign a given cost to CO₂ emissions, based on the carbon content of fossil fuels.

The following aspects of a carbon tax explain why we support this approach:

1. Most economists agree that a carbon tax is more efficient than a cap and trade mechanism, since the mechanism is straight forward and readily administered.
2. A carbon tax is fixed and predictable.
3. A carbon tax is not subject to manipulation, while a market-based cap and trade system is.
4. A carbon tax does not cap emissions and therefore does not impose unachievable reductions.
5. Currently, reducing energy consumption is the only technical and economically viable method to reduce CO₂ emissions. A carbon tax would provide an effective incentive for improved energy efficiency throughout the U.S. economy.

The simplicity and efficiency of a carbon tax to reduce CO₂ emissions has been favored by most leading economists. But cap and trade mechanisms are being favored by most lawmakers because of the political expediency of avoiding the imposition of a new direct tax.



Ash Grove Position on a Cap and Trade Mechanism

A cap and trade mechanism is preferred by many policy makers because, presuming that the technology becomes available to capture and store CO₂, specified emission reductions will be achieved as the cost of CO₂ escalates and available CO₂ allowances diminish. Depending on its structure, a cap and trade approach can facilitate trading emission allowances for the financial benefit of those who own more allowances than they emit. Emission offsets also can be accommodated with proper verification of the credits and emissions involved in the transaction.

A cap and trade mechanism can be versatile, but it is also much more administratively complex than a carbon tax; therefore, a cap and trade system is more susceptible to manipulation, corruption and failure. The control over the economy inherent in a cap and trade system will be used to enact economic policies and social change that may not benefit the country as a whole.

Cap and trade legislation will force a tremendous economic burden on the United States which ultimately all U.S. citizens will bear. While not recognized as direct taxation, cap and trade will clearly result in a huge indirect tax burden for all Americans.

Baseline Year

The Kyoto protocol relies on a baseline year of 1990, and many GHG bills have advocated the use of 1990 as the baseline year for measuring progress toward future reduction goals. Utilizing a more recent baseline year avoids complicated issues associated with authenticating credits for early actions, which must be addressed in any system that relies on the 1990 baseline. Ash Grove supports using 2006 as a more current and verifiable baseline year.

Process Emissions Exemption

Emissions of CO₂ from the calcination of limestone are inherent to the production of cement and cannot be reduced by any known means. For this reason, Ash Grove supports the exemption of process related emissions from any cap and trade program. Only emissions related to fuel combustion should be subject to a carbon tax or cap and trade provisions. Process emissions should not be included in a cap and should not be reduced over time, as efficiency gains can have no impact on these emissions.

Leakage Protection

Regardless of the mechanism, energy intensive industry is exposed to unfair trade practices if a significant monetary cost is placed on CO₂ in one country or state versus another. Whether a carbon tax or a cap and trade approach prevails, energy intensive industries must be protected from unfair trade exposure from manufacturers in unregulated regions by utilizing an intensity based benchmark standard on a per ton of cement produced basis. Cement production is one of the most energy intensive manufacturing industries and is particularly vulnerable to production relocation resulting from emissions "leakage."



Intensity Standard for the Industry: Sector Approach Advocacy

Ash Grove is a member of the World Business Council for Sustainable Development, Cement Sustainability Initiative (WBCSD-CSI). The CSI, along with the Portland Cement Association (PCA), has advocated adoption of a voluntary, regional sectoral approach for energy intensive industries such as cement. A regional approach is necessary to account for variations in product specification and market demands that may impact the emissions profile; however, the intensity benchmarking concept brings the industry together under a common protocol and energy benchmark, regardless of regulatory constraints on GHG by the country where any particular plant is located. In this way the global metric for cement (or clinker) would be specified by region and each cement manufacturing company not meeting the specified intensity metric for its portfolio of plants would be required to purchase additional allowances for the amount by which that company exceeds the intensity standard.

Free Allocations Versus Auctions

If a cap and trade mechanism is enacted, Ash Grove supports a system where allocations are granted freely for at least the first several years of the program. Over time, a portion may be subject to auctions. However auctions must be carefully controlled and limited to participation by emitting sources subject to the cap in order to avoid market manipulation and speculation. In any case, industries with process related emissions of CO₂ should not have the process portion of their emissions subject to the cap and trade program at least until carbon capture and sequestration technology and the necessary related infrastructure are commercially available and economically feasible.

The alternative of imposing import tariffs reflecting GHG emission is difficult and expensive to implement across a broad range of commodities and likely is illegal under the U.S. Constitution and World Trade Organization Agreements.

A handwritten signature in cursive script that reads "Kent W. Sunderland".

Kent W. Sunderland

A handwritten signature in cursive script that reads "Charles W. Wiedenluft".

Charles W. Wiedenluft