Your environmental tax and regulation update

1 February 2012

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In the background the global financial crisis continued to take its toll. Low economic growth, cautious markets and an oversupply of carbon permits, has meant that carbon prices have taken a tumble, with European prices more than halving in value since May last year. Environmentalists and businesses are urging authorities to intervene, to reinstil confidence and prop-up the market.

In a promising move for the European market, the Danish Government has overtaken presidency of the European Union, and has prioritised ‘a green Europe’ as one of its top four objectives while in term.

So what are we expecting from 2012? With the full force of a global agreement still years away, we are expecting continued development of subnational, national and even multinational policies as governments looks to alternative approaches to address the impacts of climate change. In the last few months alone, there has been suggestion, subsequently denied, of China introducing a new carbon tax, Mexico has passed key climate change legislation, Rio de Janiero has announced the introduction of a state-wide environmental exchange market and progress has been made towards the development of an emissions trading scheme in South Korea. A number of significant developments have also emerged in other territories, which are also covered in this edition of Global Green Policy Insights.

If you wish to discuss any of these developments in more detail, or are looking to develop strategies to manage global environmental taxes and regulations in your organisation, please don’t hesitate to contact us. We have a strong global network of Sustainability and Climate Change Tax experts, covering more than 30 countries, who can help you to better understand what these policies mean for your organisation, how you can manage associated compliance obligations, as well as identify opportunities to claim incentives and other funding.

I hope you are finding Global Green Policy Insights useful in staying on top of what is happening in environmental taxes and regulations around the world, and we would welcome any feedback you have on this new publication series.

Best wishes

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What Durban delivered
Europe, Middle East and Africa

European Union

**Inclusion of aviation in EU ETS declared legal by highest EU court**

On 21 December, the European Court of Justice delivered its much-anticipated ruling on the legality of existing European Union (EU) laws which require all airlines flying in and out of Europe to be covered by the bloc’s Emissions Trading Scheme (ETS) from 1 January. The Court found in favour of the EU, on the basis that inclusion of all airlines in the EU ETS “infringes neither the principles of customary international law at issue, nor the open-skies agreement.”

The case was brought about by the Air Transport Association of America and two of its member airlines, arguing that inclusion of non-EU airlines in the EU ETS violates international law and international aviation agreements.

The ruling by Europe's highest court means that the existing EU law will remain in place, and that all airlines flying in and out of the 27-nation bloc and three neighbouring countries, must now surrender allowances to cover carbon emitted on those routes. These rules took effect from 1 January.

Airlines will receive a significant portion of their allowances free in the first year, and these permits are expected to be made available to airlines from February.

There has been a mixed response to the ruling, with a number of predominantly European airlines taking advantage of the low price of carbon allowances and buying up in bulk, some introducing per flight levies to pass the additional costs on to customers, and a small number of non-European airlines closing selected routes through Europe.

Meanwhile, China, India and the United States, are continuing to look for alternative ways out of the scheme.

**Market looks to European Commission for intervention**

The European Commission has been facing growing pressure from environmentalists and some businesses to intervene in the EU ETS in an attempt to prop up carbon prices and restore confidence in the market. Carbon prices have more than halved in value since May last year, as reductions in industrial activity and projections for a slow economic recovery across Europe have resulted in an oversupply carbon credits. Concern about oversupply was compounded as the European Investment Bank started selling some of the first 200 million Phase III EU Allowances for the NER300 programme which will fund clean energy projects across Europe.

On 20 December, the European Parliament met for the first of several Parliamentary votes on the role and powers of the European Commission to intervene in the depressed carbon market. The European Parliament’s cross-party environment committee delivered a majority vote in favour of changes to a proposed energy efficiency directive which would empower the European Commission to intervene in market. The proposed changes would include measures to withdraw 1.4 billion permits in the third phase of the ETS, between 2013 and 2020.

The consensus by the European Parliament triggered an immediate response in the market. Carbon prices experienced a short-lived spike, after reaching a record low just one week before.

The European Parliament’s Industry, Research and Energy committee will vote on the amendments on 28 February, and a full parliamentary vote is expected in April. It would, however, still be some time before changes to the energy efficiency directive could be legislated, and action taken. This would include agreement by all EU national governments.
Europe, Middle East and Africa

Denmark

*Danish government sets ambitious green targets as it takes the reins of EU presidency*

As Denmark prepared to take over the EU presidency from January this year, the Government unveiled its “Our Future Energy” plan which outlines the country’s plans to stimulate green growth.

The plan calls for half of the country’s electricity to be sourced from wind turbines by 2020, and the phasing-out of coal-fired power plants by 2030. By 2035, all of the country’s heat and power would be generated by renewable sources and by 2050, the country’s entire energy supply, including that of industry and transportation, would be from renewable sources.

The “Our Future Energy” plan also sets out the Government’s target to reduce greenhouse gas emissions by 35% compared to 1990 levels by 2020.

Weeks after unveiling the plan, the Danish Government announced ‘a green Europe’ as one of its top four priorities for the term of its EU presidency, alongside ‘a responsible Europe’, ‘a dynamic Europe’ and ‘a safe Europe’.

From January this year, most of the country’s green taxes on energy have increased, and a motor vehicle tax and tax on the deposit of hazardous waste are now in force.

Eastern Europe

*Lithuania banned from trading Kyoto carbon units*

Lithuania has been suspended from trading Kyoto carbon units (Assigned Amount Units (AAUs) and Emission Reduction Units (ERUs)) under the Joint Implementation (JI) Track 1 process, after being found to have breached Kyoto Protocol rules in 2008. The decisions were handed down by the Compliance Committee of the United Nations Framework Convention on Climate Change (UNFCCC) at a meeting in Bonn in December.
Hungary sells new Kyoto units, RMUs
Hungary is reported to have sold the first of a new category of Kyoto carbon units, Removal Units (RMUs), according to Reuters. RMUs are generated through land use, land-use change and forestry (LULUCF) activities including reforestation.

In October, Hungary indicated that close to 3.9 million RMUs were up for sale, however details of the first or subsequent transactions have not been disclosed.

RMUs join the league of other Kyoto carbon units, Assigned Amount Units (AAUs), Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs). One unit under each of these categories is equivalent to one tonne of carbon dioxide.

Wind power on the rise in Romania
Last year, the European Commission finally approved Romania’s Green Certificates renewable energy support scheme, following concerns around its compliance with EU State-Aid rules. The scheme grants producers of renewable energy one Green Certificate (GC) for every MWh they generate, which can then be sold to electricity suppliers who are required to purchase an increasing number of GCs each year. The scheme covers energy generated from wind, hydro, biomass, landfill gas, sewage plant treatment gas and solar, and applies to renewables capacity that is commissioned up to the end of 2016. As an added bonus for wind producers, through to 2017, they will receive two GCs for every MWh produced.

The incentive scheme seems to be working. In 2011, the total capacity of Romania’s wind farms exceeded 1,000MW, according to reports by Bucharest newspaper, Ziarul Financiar. This is a significant increase from the 14MW total installed wind capacity just two years prior.

The Government’s official plans are to have 3,000MW of wind capacity installed by 2015 and 5,000MW by 2020. These targets are in line with the EU mandatory national renewable energy target for Romania to achieve 38% of gross domestic electricity consumption from renewables by 2020.

What this means for you
Martin Scott, Director, PwC Czech Republic – “The Romanian consumer has been hit by some very rigorous austerity measures since the start of the economic downturn. The recent backlash regarding the Czech photovoltaic feed-in tariff highlights the fine balance required between encouraging investment into renewables and the embattled consumer’s ability and willingness to absorb the costs in the form of higher energy bills.”
Greece

**Greece: Coal-generated power faces megawatt charge**

The Greek Government has announced that it will impose a €2 charge on each megawatt of electricity generated by lignite, a brown coal that produces more than half the country’s energy needs, according to a report by Reuters. There was no indication of whether this charge would be passed on by the state-controlled utility, PPC, to its customers. The charge came into effect on 1 January.

The Government is also adding a “special renewables charge” to consumers’ electricity bills, and cutting guaranteed feed-in-tariffs in some sectors of renewable energy production.

Ireland

**Ireland confirms hike in carbon tax rate**

As part of the 2012 Budget delivered to Parliament on 6 December, Ireland’s Finance Minister confirmed a rise in the country’s carbon tax rate from €15 to €20 per tonne. A 2% increase in the country’s VAT rate to 23%, which was also announced in the budget, means the per tonne cost of carbon rises even higher.

The carbon tax increase became effective on petrol and diesel from midnight after the budget announcement, and will be extended to cover kerosene, marked gas oil, liquid petroleum gas, fuel oil and natural gas from May this year. The carbon tax will not apply to solid fuels.

The €5 increase in carbon tax rate alone is expected to generate an additional €108 million in revenue this year.

Ireland’s carbon tax was introduced as part of the 2010 Budget at a rate of €15 per tonne, and is expected to rise to €30 by 2014.

**What this means for you**

Ronan MacNicolaí, Partner, PwC Ireland – “Our Government has chosen to focus raising additional tax revenues by increasing indirect taxes in 2012. Increasing our rates of VAT and Carbon Tax has allowed our rates of Corporation Tax and Income Tax to remain unchanged, which act as important foundations for investment in the Irish economy.”
Namibia

Namibia introduces its National Policy for Climate Change

Late last year, Namibia’s Minister of Environment and Tourism introduced the country’s National Policy for Climate Change and associated Strategy and Action Plan.

The policy provides a framework and legal basis for how Namibia can mitigate and adapt to the impacts of climate change. In addition to providing legal and regulatory tools, the policy highlights the importance of technology transfer, training and mobilisation of financial resources, in achieving the country’s climate change objectives. In particular, the Minister emphasised the need for capacity building and importance of educating the communities that the policy is designed to most support.

As a country with “unlimited sunshine”, the policy also calls on Namibia to harness its potential for wholesale production of solar power.

South Africa

South Africa awaits second consultation on carbon tax

Just over a year ago, South Africa’s National Treasury released its consultation document on a proposed carbon tax, and a second consultation paper is reportedly on its way.

Based on the initial consultation paper, the Government intends to impose a direct tax on the emissions of South Africa’s top emitters. National Treasury suggested that a rate of R75 ($US10) per tonne of carbon dioxide, increasing to approximately R200 ($US26) per tonne, would be “both feasible and appropriate to achieve the desired behavioural changes and emission reduction targets”.

It is unclear whether the National Treasury’s Budget announcement in February will reveal further details on the tax. Although it was announced in the 2011 Budget that the design features of the tax and a schedule for its introduction would be announced in the 2012 Budget, there has been considerable lobbying by interest groups and the second consultation paper has been delayed a number of times.

Late last year the Government released its National Climate Change Response policy white paper which outlined the country’s mitigation and adaptation objectives, and called for the use of a range of economic instruments, including the appropriate pricing of carbon, to respond to the impacts of climate change. The Government, also last year, announced plans to introduce mandatory caps on the emissions of South Africa’s top emitters.

**What this means for you**

Jayne Mammatt, Associate Director, PwC South Africa – “Many sectors of the economy and society are still very concerned about the effect of such a tax on economic growth and social development of South Africa, and while some believe it is 110% necessary and a ‘fait accompli’, others will be strongly arguing against it as the second consultation paper is released.”
Europe, Middle East and Africa

Switzerland

**Switzerland introduces legally binding targets**

Switzerland’s Parliament has passed legislation which allows the Government to strengthen and, for the first time, make legally-binding, its emissions reduction targets. The new law formalises the Government’s targets to reduce emissions by 20% from 1990 levels by 2020, in line with the EU’s targets, increasing to a conditional target of 40% with “international agreements”.

The 20% target requires only domestic measures to be used to achieve the emission reductions, whereas the 40% would permit the use of global offsets which are already accessible to EU member states.

In 2008, Switzerland introduced a voluntary domestic emissions trading scheme that prices the carbon emissions of around 400 firms, as well as a carbon tax. In broad terms, companies that participate in the emissions trading scheme, which means they have voluntarily committed to legally-binding emission reduction targets, are exempt from the carbon tax.

United Kingdom

**UK Solar subsidy cuts challenged in court**

A legal battle has emerged following the Government’s decision in October to slash feed-in-tariffs for domestic and small-scale solar installations in the UK. The cuts, which halve the 43.3p/kWh feed-in-tariff, were to affect installations that started operating on or after 12 December last year. Consultation on these changes, however, was open through to 23 December.

Friends of the Earth and two solar companies, took the UK’s Department of Energy and Climate Change (DECC) to court over its sudden decision to cut the feed-in-tariffs. The High Court found in favour of the solar industry representatives, citing DECC’s approach to cutting the feed-in-tariffs as “legally flawed”. DECC then applied to the Court of Appeal in a quest to overturn the High Court’s decisions, however the Court’s three judges upheld the High Court’s original decision.
DECC stands by its argument that the cuts to the feed-in-tariffs are necessary due to the fact that the dedicated budget can no longer support the high level of subsidy, as there was a much larger than expected uptake of the scheme. DECC also argues the cuts are appropriate due to the plummeting costs of solar. DECC is reportedly now considering its legal options, which includes lodging a second appeal to the Supreme Court.

The Government is expected to release its full review of the feed-in tariff scheme, and plans for additional future cuts, later this month.

Prior to the Court of Appeal’s decision, DECC confirmed that the feed-in-tariff rate would not drop below the lowered rate of 21p/kWh for installations that start operating between 13 December and 31 March, that are less than 4kW capacity. Prior to this the Government had not provided any confirmation on if, or when, the feed-in-tariff rate might drop further.

Now that DECC has lost its appeal against the High Court’s decision, the feed-in-tariffs cuts will likely apply only to installations that start operating on or after 3 March this year.

The Green Investment Bank is designed to provide financing solutions to encourage and accelerate private sector investment in green projects in the UK. Support for the UK’s Green Deal programme, which allows households and businesses to invest in energy efficient improvements without facing the upfront costs, was also listed among the Bank’s initial priorities.

Wind and waste energy projects can expect to receive the first lot of funding under the UK Government’s Green Investment Bank initiative, according to an announcement by the Business Secretary late last year. The Green Investment Bank is expected to be operational this year but will not have full borrowing powers until 2015.

According to the announcement last year, the first priority sectors for investment through to 2016 include: offshore wind, commercial and industrial waste processing and recycling, energy from waste and non-domestic energy efficiency. Support for the UK’s Green Deal programme, which allows households and businesses to invest in energy efficient improvements without facing the upfront costs, was also listed among the Bank’s initial priorities.

The Government has committed to funding the Bank with £3 billion for the period to 2015, however it will require a significant amount of private sector funding to achieve the Government’s objectives to accelerate the transition to a low carbon economy. The Green Investment Bank is expected to be operational this year but will not have full borrowing powers until 2015.

The Green Investment Bank is still subject to EU State-Aid approval which is expected to be received in 2013, from which time it can exist as a stand-alone institution.
**Americas**

**Brazil**

*Environmental exchange scheme for Rio de Janeiro*

Brazil’s second most populous state looks set to launch an environmental exchange market as early as this year. The market, to be known as Bolsa Verde do Rio de Janeiro (BVRio), will likely see the trade of a wide range of environmental assets, not just carbon credits. Brazilian-born and UK environmental finance entrepreneur, Pedro Moura Costa, is leading the initiative.

It is hoped the market can be launched in advance of the Rio+20 United Nations Conference on Sustainable Development, which the state is hosting in June this year. The Conference marks twenty years since the 1992 United Nations Conference on Environment and Development, where the international treaty, United Nations Framework Convention on Climate Change, was adopted.

**Canada**

*Provinces step up, as Canada withdraws from Kyoto*

Just days after the close of the UN climate change summit in Durban, Canada formally withdrew from the Kyoto Protocol. Under the Protocol, Canada was committed to reducing its emissions by 6% compared to 1990 levels by 2012, a target that was later revised to 17% compared to 2005 levels by 2020. The Government has defended the move, stating that “Kyoto was not effective and was not good for Canada,” however it “will continue to work with [its] international partners on fair, effective and comprehensive ways to address climate change”. A former Canadian MP and law professor is now planning to take the Government to court to overturn its decision on the basis that withdrawing from the Protocol violates national law.

The Government’s decision to withdraw from the Kyoto Protocol has not hampered the ambitions of Canada’s provinces, as they continue to develop regional programmes to address climate change. Provinces, including Quebec, Ontario and British Columbia, look to be developing regional trading schemes with the hope of joining California in a planned US-Canadian cap-and-trade scheme next year, under the Western Climate Initiative (WCI).

Quebec is the most far advanced of the provinces, having now published regulations for its emissions trading market, and allowing companies to buy and sell permits from 1 January this year. After California, Quebec is the second WCI member to confirm that it will participate in the WCI trading scheme from 2013.

While Ontario and British Columbia’s plans are less developed, it is still hoped that they can join the US-Canadian scheme in the next few years.

The WCI aims to reduce greenhouse gas emissions across the member states and provinces, by 15% compared to 2005 levels by 2020. From 2013 the scheme will cover emissions from power plants and large industrial sources, and transportation fuels will be included from 2015.
Mexico

*Mexico’s climate change bill passes the Senate*

Draft climate change legislation cleared Mexico’s Senate in December and is now before the Chamber of Deputies for approval. If passed, the General Law on Climate Change would create a federal climate commission which would be responsible for managing the country’s climate change agenda. The law would also formalise the country’s current emissions reductions targets of 30% against business as usual by 2020 and 50% by 2050.

Other features of the bill include the creation of a climate fund, the development of a National Registry of Emitters as well as associated rules around the disclosure of emissions in certain sectors, which could form the basis for a domestic emissions trading program.

Mexico is one of nine countries that has received $US350,000 of initial funding under the World Bank’s Programme for Readiness (PMR) scheme. PMR is designed to help less-developed countries to implement programmes to cut national emissions.

In January this year, Mexico’s Public Private Partnership bill cleared both houses of Parliament. The new law allows and regulates schemes for private investors to participate in infrastructure and service projects, and is aimed at enhancing investments in social welfare and infrastructure in Mexico. This new law creates private investment opportunities to address the impacts of climate change and resource scarcity, which have previously only been managed by the Government.

During his six years in power, Mexico’s President, Felipe Calderon, who introduced both bills, has worked to ensure that addressing climate change is one of the country’s top political priorities.

What this means for you

Arturo Mendez, Partner, PwC Mexico – “For many years, climate change has been a priority but only individual initiatives from the private and public sectors have emerged, including legislation to reduce national emissions, control the environment and atmosphere, and a few investment tax allowances. We are now in a position to implement new schemes, jointly designed by the private and public sector, to achieve important and necessary improvements in preserving the country’s natural resources.”
United States

US Congress considers extending expired energy incentives

A number of energy-related tax provisions expired at the end of 2011, however, at the time of writing, the Senate Finance Committee was scheduled to hold a hearing in late January on extending many of these provisions, perhaps setting the stage for action during 2012.

One of the key provisions that has expired for new projects is the cash grant program that gave companies an opportunity to seek cash grants from Treasury in lieu of claiming renewable energy investment tax credits. This was only available for projects on which construction began by 31 December last year, however it is unclear whether this deadline might be further extended as part of an overall tax extenders package.

Full 100% bonus depreciation, an important driver for renewable energy projects, also expired in 2011. While a 50% bonus depreciation remains available for 2012, industry participants are hoping for a possible extension of the 100% bonus depreciation in 2012.

The production tax credit for wind energy is set to expire at the end of this year, and wind energy developers are already arguing that an extension is needed to encourage continued development of US wind energy capacity. In his state of the union address on 24 January, President Obama confirmed his support for clean energy development in the United States, and urged Congress to renew tax credits such as the production tax credit for wind energy. The production tax credit provides 2.2 cents/kW hour for electricity produced by wind facilities for sale to third parties in their first ten years of commercial operation.

Among the energy-related provisions that expired in 2011 were the biodiesel and renewable diesel credit, refined coal credit, alternative fuel and alternative fuel mixtures credit, temporary rule for sales or dispositions to implement FERC or state electric restructuring policy for qualified electric utilities, suspension of limitation on percentage depletion for oil and gas from marginal wells, ethanol, energy-efficient appliances credit, energy-efficient home credit, and alternative vehicle refueling property credits.
Regulations on mercury emissions published while more US EPA decisions delayed

The United States Environmental Protection Agency (EPA) continues to pursue regulatory projects on reporting and mitigating greenhouse gas emissions.

In December, the EPA published its first-ever standards to regulate mercury and other toxic emissions from coal and oil-fired power plants. The standards are likely to affect the country’s oldest plants, as most modern plants would already be compliant.

The EPA has again come under scrutiny after it delayed, for a third time, a final decision to restrict carbon dioxide from coal power plants. Ongoing consultation with stakeholders on the draft set of rules and strong opposition from industry is said to have caused the delay. At the time of writing, a decision was expected in late January.

Last year also saw delays in the finalisation of greenhouse gas emission standards for oil refineries, and the retraction of draft standards, which had proposed to restrict smog-forming chemicals from the country’s power plants. A new timeframe for the decision on the oil refineries standards has not been made public, and it is expected that the smog-forming standards will not resurface until 2013.

In a move towards increased transparency, the EPA launched in January a new, public database that provides details of the emissions of the country’s biggest emitting plants.

What this means for you

Matt Haskins, Principal, PwC United States – “Companies will need to keep an eye on the EPA in 2012, since the most significant short-term changes in energy policy are likely to arise though the regulatory process rather than new legislation.”
Carbon Farming Initiative launched as Australia prepares for carbon scheme

A month after the Australian Parliament passed legislation to introduce a carbon price on the country’s five hundred biggest emitters, the Government launched its Carbon Farming Initiative (CFI) programme. The programme allows farmers and land holders to earn carbon credits by reducing emissions or storing carbon on their land. Credits earned would be available to sell to companies covered by the carbon price legislation, as the agricultural sector itself is not covered by the national carbon pricing scheme. Use of CFI credits is capped at 5% of a company’s emissions until 2015, when the carbon pricing scheme moves to a trading system.

According to the Department of Climate Change and Energy Efficiency’s website, a number of criteria must be met in order for farmers and land owners to be eligible to participate in the voluntary CFI programme. There is a growing list of approved project-types, referred to as methodologies, and project applications are approved on this basis.

A week after the programme’s launch, tree planting became the third formally approved methodology. So far, capture and combustion of landfill gas emissions, and destruction of methane from manure in piggeries have also received approval.

Australia’s carbon pricing scheme commences on 1 July this year. Under the Clean Energy Future package passed by Parliament last year, companies that emit more than 25,000 tonnes of carbon pollution will become liable to buy permits for each tonne of carbon emitted.
China to introduce carbon tax, trading scheme...or both?

On 5 January, state-run Chinese media reported that a carbon tax may be on the cards from 2015. The report cited the deputy head of the Ministry of Finance’s research institute for fiscal science.

The direct tax on greenhouse gas emissions would be introduced at a rate of 10 yuan ($US1.59) per tonne, increasing over time, and would apply to the country’s biggest consumers of coal, crude oil and natural gas.

A representative from Financial Science Research Institute, a think tank associated with the Ministry of Finance, came out the following week denying reports of the carbon tax, according to Reuters. No further details of a potential carbon tax have since been released.

The suggestion of a carbon tax has raised questions over whether such a tax would replace, or be complementary to, a proposed national trading scheme which is set to be piloted in seven provinces and states next year. Under the World Bank’s Programme for Readiness (PMR) scheme, China has received preparation funding for technical assistance with its pilot programmes, according to the PMR website.

In preparation for the pilots, China’s climate policy authority, National Development and Reform Commission (NDRC), has ordered the states and provinces to set carbon emissions caps. According to Reuters, they have also been instructed to develop the necessary administration bodies, trading platforms and registries, and submit plans to the country’s cabinet. The largest emitting province, of the seven being piloted, has already had its plans approved.

Late last year, China introduced a National Resource Tax on sales of crude oil and natural gas, rare earth ores and coking coal. Reports were also made by another state-run media source that the Government was planning to introduce an environmental protection tax by 2015, however, again, no further details have emerged.

Under its twelfth five year plan, China has committed to reducing total carbon intensity by 17% and energy consumption by 16% compared to 2010 levels.

China proposes tighter air quality index from 2016

In response to mounting public criticism around the current air pollution monitoring standard, China has developed revised Environmental Air Quality Standards. The new index standard, which proposes to measure PM 2.5 (particulate matter less than 2.5 microns) and ozone density, could be implemented nationally by 2016.

This month, the country’s capital took the lead, as the Government of Beijing started releasing real-time PM 2.5 data. These particles are said to be the most dangerous pollution particles in the air.
Asia-Pacific

Hong Kong

Pay-as-you-throw: Hong Kong introduces tax on garbage

Hong Kong has revealed its plans to introduce a tax on garbage, in a move to tackle the city’s growing waste problem. Under the system, residents would be charged a tax based on the quantity of garbage they dispose. Countries including Taiwan, South Korea, Japan and New Zealand have similar programmes in place.

According to a 2010 report by the Organisation for Economic Development (OECD), Hong Kong was found to be the world's largest producer of waste. On a per capita basis, the report shows that, on average, each year Hong Kong residents dispose of more than twice the amount of waste than in Japan and South Korea.

Details of the proposed “trash-metering” scheme have not been finalised, and a three-month public consultation phase will soon commence.

Japan

Japan proposes new bilateral carbon offset scheme

Japan has proposed the introduction of a bilateral carbon offset scheme which it claims will help developing countries to reduce emissions and Japanese industries to improve competitiveness. Under the scheme, Japanese companies would undertake projects in developing countries to cut emissions, and in doing so earn itself carbon credits which could be sold or offset against its own activities in Japan. The scheme is similar in principle to the Kyoto Protocol Carbon Development Mechanism, however is thought to be more flexible in terms of the projects that would be eligible for the carbon credits.

Ambitions for the development of the scheme, which was hoped to be introduced as early as 2013, were dampened when Japan’s Government announced as part of its 2012 budget a 30% reduction in the programme's budget, according to a Reuters report.
Historically, Japan has been a big buyer of carbon credits to meet its carbon reduction obligations under the first commitment period of the Kyoto Protocol, which expires this year. Japan, like a number of other developed countries, has not signed up to the second commitment period which raises questions as to whether the demand for carbon credits would be high enough to encourage Japanese firms to participate in the scheme.

Development of the bilateral offset mechanism, if introduced, should help Japan to meet its ambitious emissions reduction target which was set by former Prime Minister, Yukio Hatoyama, just days before taking office in September 2009. The challenge to reduce emissions by 25% from 1990 levels by 2020, however, has been left to Hatoyama’s successors, after the Prime Minister stayed in power for just eight months. The nuclear disaster in Fukushima last year has hindered efforts of the Government to achieve the ambitious targets.

In another move to help the country meet its emission reduction targets, the Government announced last year, the introduction of a new “anti-global warming measure tax” which will come into effect in October this year. According to Reuters, the move is intended to ultimately increase existing taxes on imported fossil fuels by 50%. However, due to the current economic climate and strong opposition by industry, this 50% increase will occur gradually over the period to 2016. Japan’s new tax is expected to raise around 240 billion yen ($US3.1 billion) per year.

**Japan extends tax breaks for green cars through to 2015**

Japan’s Government confirmed in December its plans to revive a subsidy scheme for the purchase of environmentally-friendly cars, which was set to expire next March. Under the scheme, electric vehicles are exempt from tax, and low-emission cars attract a lower tax rate than other cars.

According to Jiji Press English News Service, the subsidy will be approximately 100,000 yen ($US1,300) per vehicle. The Government is said to be directing a total of 300 billion yen ($US3.9 billion) to prop-up the scheme, which is extended to last until 2015.

**South Korea**

**South Korea: Carbon trading bill endorsed with bipartisan support**

Following lengthy debate and negotiations between the Government and business communities, South Korea’s controversial emission trading bill was endorsed by the Parliament Bill Review Committee on 30 December. The bill was endorsed with bipartisan support, which provides an encouraging outlook for the passage of the bill through Parliament.

The exposure draft of the bill proposes a start date for the trading scheme of 1 January 2015. If passed within the current parliamentary session, which ends February 2012, the bill will supersede the Government’s Target Management Scheme (TMS) from 2015, and will apply to South Korea’s largest emitters. Details of the bill, such as the scope of the carbon leakage industries and quantum of free permits for each industry, will be decided by the subordinate legislation which is expected to be tabled by the Government later this year.

The business community has expressed considerable concern over the financial implications of the emission trading bill, and argue that the start date of the scheme should be delayed beyond 2015.

The emissions trading scheme and TMS are two of the initiatives the South Korean Government has introduced in an effort to achieve its voluntary greenhouse gas emissions target of 30% reductions by 2020 compared to 2007 levels.

**What this means for you**

Changmin Yoo, Director, PwC Korea – “If this bill is passed in the current parliamentary session, it will remove the uncertainty around a carbon price in Korea, therefore the country’s large emitters will be able to appropriately respond and prepare. However decisions around carbon leakage assessment and potential implications on Korean industries’ competitiveness will become the contentious issue for the next six months.”
Vietnam introduces new environmental tax

Effective 1 January this year, five categories of products are now subject to Vietnam’s new environmental tax. The affected product groups include petroleum, coal, hydro chlorofluorocarbon liquid, plastic bags and chemical pesticides. Each of the product groups attracts a different environmental tax rate.

Most petroleum products, however, were already subject to a fuel surcharge which have been replaced with the environmental tax, and levied at the same rate.

The tax is expected to affect consumers, producers and importers.
What Durban delivered

For two weeks in December, governments from around the world gathered in Durban, South Africa for the annual UN climate change summit. Negotiations centred on the future of the Kyoto Protocol and the ongoing challenges in low carbon financing. While expectations for the summit were low, some progress was made, with a number of key decision texts being launched.

Arguably the most notable development was the launch of a new process, the Durban Platform for Enhanced Action. This was delivered in the early hours of Sunday morning, two days after the scheduled end-date of the summit. Struggles over the wording of the text had brought the summit close to collapse in preceding days.

The Durban Platform for Enhanced Action commits all countries “to develop a protocol, another legal instrument or an agreed outcome with legal force under the United Nations Framework Convention on Climate Change applicable to all Parties”. Crucially, the Durban Platform refers to ‘all Parties’ rather than making the distinction between developed and developing countries. This is perhaps the biggest shift from the decisions taken in Bali in 2007 and in Rio in 1992. Work on the Durban Platform is to commence this year, and be completed no later than 2015. The new protocol, legal instrument or legally binding outcome, would come into effect from 2020.

Key decision texts on the Kyoto Protocol and Green Climate Fund also resulted from the summit.

A second commitment period under the Kyoto Protocol was agreed to commence on 1 January 2013, ending in either 2017 or 2020. Targets are not yet all clearly defined, and those that are are heavily caveated on actions by others. The legal form of the commitments also remains ambiguous. Among the targets pledged, the only significant increases in reduction targets under the Kyoto Protocol have been made by the EU, Norway, Switzerland and Ukraine. The intentions of Canada, Japan and Russia not to participate in a second commitment period were noted in text, and just days after the conclusion of the summit, Canada formally withdrew altogether.

The summit also saw agreement of the broad design of the Green Climate Fund and a commitment to “operationalise the Fund in an expedited manner”. The Green Climate Fund is a $US100bn per year fund to assist poorer nations to reduce greenhouse gas emissions and adapt to the impacts of climate change. Unfortunately, there was no concrete agreement on the exact source of the funds. There had been suggestions that a global shipping tax could contribute to the Fund, however this is said to have been scrapped.

Of the 19 COP decision texts and 17 Kyoto Protocol (CMP) decision texts resulting from the summit, other key developments included agreement over rules for carbon capture and storage projects in the Clean Development Mechanism (CDM), and progress on the Cancun Agreements including on REDD+, adaptation, technology transfer and capacity building.

What this means for you?

Jonathan Grant, Director, PwC United Kingdom – “Durban was more of a victory for the UN process, than for the global climate. Looking at the targets and the money pledged, there is no more ambition than what we saw in Cancun or even Copenhagen. But in spite of the economic situation, there is no loss of momentum in governments developing and implementing policies to tackle climate change. Business will continue to face a complex regulatory landscape of green incentives and penalties for emissions.”
Contact us

For your global contact and more information on PwC's sustainability and climate change services, please contact Anna Pattison.

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