Global Green Policy Insights

Your environmental tax and regulation update

1 April 2012

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- EU debates carbon market intervention
- Chile adopts new National Energy Strategy
The past few months have seen some interesting developments in international green policy. In South Africa’s 2012 budget review, the Government confirmed that it will introduce the country’s much anticipated carbon tax from 2013. In other parts of the world, a series of national climate strategies have been unveiled, as Governments set out their plans to transition to low carbon economies and look to secure their energy futures. In this edition of Global Green Policy Insights, we feature the strategies of Chile, Scotland and the United Arab Emirates.

Meanwhile, a global trend has gained momentum which has seen cuts to renewable energy subsidy schemes spread across Europe, and other regions throughout the world. Renewable energy sectors in the Czech Republic, Greece, Germany, Spain and the United Kingdom are among those facing the cuts. In the United States, however, measures to incentivise clean energy technology innovation and deployment featured heavily in the Administration’s proposed budget for 2013.

In the background, climate bills in South Korea and Mexico remain on their paths to legislative approval, whilst China continues preparations for its emissions trading pilots next year; California releases regulations in advance of the launch of its cap-and-trade scheme, and Australia gears up for the introduction of its carbon price on 1 July.

Over the coming months, Brazil will continue its preparations for hosting the Rio+20 United Nations (UN) Conference on Sustainable Development in June. Heads of state and negotiators from governments from around the globe, business leaders and representatives of civil society and the world’s press will gather in Rio with the aim to secure renewed political commitment to sustainable development. PwC will be on the ground in Rio and will be hosting two client events, providing media and client briefings on the implications of the conference, and helping to ensure that the private sector voice is heard at the summit. If you are thinking about how your organisation can get involved in this important global event, please do contact us.

Best wishes

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Europe, Middle East and Africa

European Union

‘Coalition of the unwilling’ agrees countermeasures against EU aviation law

Representatives from more than 25 countries met in Moscow in late February to agree on action against the inclusion of all airlines in the European Union’s (EU) Emissions Trading Scheme (ETS). The laws, which took effect on 1 January this year, mean that all airlines flying in and out of Europe are now covered by the bloc’s ETS, and will be required to surrender allowances to cover carbon emitted in 2012 on those routes.

The February meeting of the so-called “coalition of the unwilling”, comes two months after a European Court of Justice decision that the EU laws do not violate international law. The decision was handed down in a case against the EU, brought about by the Air Transport Association of America and two of its member airlines.

The outcome of the meeting in Moscow was a set of countermeasures that countries can adopt in an effort to postpone or avoid the scheme. The measures include barring airlines from participating in the scheme, lodging formal complaints with the UN International Civil Aviation Organisation (ICAO), abandoning talks with European carriers on new routes and imposing reciprocal levies on EU airlines. In the weeks following the meeting, reports emerged that the Chinese Government would be refusing to approve a number of orders by Chinese airlines for aircraft from European-owned, Airbus.

Prior to the meeting, the Chinese Government had already banned its airline from joining the EU ETS, and prohibited them from raising ticket prices to cover the costs of the scheme.

What this means for you

Jeroen Kruijd, Principal Manager, PwC Netherlands – “Politicians are building up uncertainty for the airlines in what can be described as a good old bar fight. Until the global ICAO scheme is there, the EU seems to have no alternative other than to enforce the law. Most airlines are therefore preparing to cover their compliance obligations for at least the years to come, but could perhaps do more in terms of developing regional equivalent measures as a stepping stone.”
Europe, Middle East and Africa

**EU Committee approves plans to withhold carbon permits from market**

In late February, the European Parliament’s Industry, Research and Energy committee backed amendments to a proposed Energy Efficiency Directive which “may include withholding of the necessary amount of allowances” in the third phase of the ETS, between 2013 and 2020. The amendments had already received a majority vote at the European Parliament’s cross-party environment committee late last year.

The move to introduce these amendments comes as the European Commission faces growing pressure to intervene in the EU ETS in an attempt to prop up carbon prices and restore confidence in the market.

The European Commission and European Parliament and Council are due to begin negotiations on the proposed amendments to the Energy Efficiency Directive this month, with a view to going to a full plenary vote in Parliament by June.

**Bump in the road for EU 2050 Low Carbon Roadmap**

The European Council met in March to debate the EU’s 2050 Low Carbon Roadmap which sets out the bloc’s path to reaching its emissions reduction goals by 2050. The roadmap, which is not legally-binding, proposes emissions reduction milestones every ten years through to 2050. 26 of the 27 ministers making up the Council agreed on the long-term strategy, however Poland vetoed the plans to impose any immediate targets.

The roadmap is centred on the 2050 target of reducing domestic emissions by 80 to 95% compared to 1990 levels, which has previously been agreed by European Heads of State and governments.

**What this means for you**

Jonathan Grant, Director of Carbon Markets, PwC UK – “The set aside proposal being discussed by governments, the EU Parliament and the Commission could give a significant boost to the carbon price, if a substantial volume of carbon allowances are permanently withdrawn from the market. This will raise the cost of compliance for industrial installations and power stations across Europe. It would also set a precedent for government intervention in the EU Emissions Trading Scheme and so carbon traders have been unsettled by the horse-trading in Brussels.”

**What this means for you**

Jonathan Grant, Director of Carbon Markets, PwC UK – “It is essential that governments set interim targets to give more credibility to their long term climate change goals set out in the Low Carbon Roadmap. However, these targets will only send a clear investment signal to business if they are backed by substantial policies and incentives.”
**Europe, Middle East and Africa**

**Draft law puts farming and forestry emissions on EU radar**

EU governments may be required to apply standardised accounting rules to monitor and report on changes in land-use in agricultural and forestry sectors which affect greenhouse gas emissions, according to a draft law published by the European Commission. The draft law would also require all member states to develop plans around how they propose to reduce emissions in these sectors.

More than three-quarters of EU landmass is reportedly made up of agricultural land and forests, which represents huge stores of carbon. Despite this, land-use and forestry are two of the last major sectors to have standardised, mandatory carbon accounting rules imposed on them. It has also long been debated whether land use, land use change and forestry (LULUCF) should fall under the remit of the bloc's ETS.

At last year’s UN Framework Convention on Climate Change (UNFCC) summit in Durban, agreement was reached on the development of revised accounting rules for these sectors.

The draft law requires approval from the European Parliament and Council and, if approved, could later see LULUCF becoming part of the EU’s formal emissions reduction commitments.

**Croatia**

*Croatia in EU ETS from 2013*

Croatia will be required to participate in the EU ETS from 1 January next year, six months prior to becoming an EU member state on 1 July.

Croatia will be the 31st country to partake in the EU ETS which, in addition to the 27 EU member states, includes Iceland, Lichtenstein and Norway. The country will join the ETS as it enters its third phase, from 2013 to 2020.

In preparation for joining the ETS, the Croatian Government has identified those installations that will be covered by the scheme from 1 January. They will be required to surrender permits and offsets by April 2014, in line with other participants in the scheme.

The country’s airlines will be covered by the ETS from 1 January 2014.

Croatia’s current emissions reduction target is 5% below 1990 levels by 2020. Upon accession to the EU, this target will be adjusted to align with the EU’s emissions mitigation efforts.

**Czech Republic**

*Czech Republic proposes cuts to renewable subsidies*

The Czech energy regulator has revealed plans to bring to an end almost all subsidies for renewable energy generation in the country. Only small scale solar power installations and biogas plants are expected to be saved from the cuts, if the proposal receives Government approval.

The regulator claims that the subsidies to date have seen some renewable energy operators become wealthy, which has come at the expense of the majority who have been faced with the threat of growing energy costs. Increasing energy prices have also created fears for the competitiveness of Czech businesses in the international market.

The country’s incentive schemes for renewables are said to have cost the Czech Government billions of dollars since their introduction. By 2020, the total cost to the Government is forecast to reach CZK 900 billion ($US48 billion), according to the Energy Regulatory Office.

If approved, the subsidy cuts are not expected to become effective before 2014, and would only apply to new installations.

According to the Government’s National Renewable Energy Action Plan, the Czech Republic is committed to achieve 13.5% of gross final consumption of energy from renewable sources by 2020. The proposal to cut incentives for renewable energy has generated some concern as to whether this target is still achievable. The Energy Regulatory Office, however, is comfortable that it will be met by the end of this year, as targets such as those for solar have already been achieved.
Germany

German solar industry feels the heat as further cuts loom

The German Government has announced further cuts to the country's solar subsidy scheme, drawing heavy criticism in the world's largest solar industry. The proposed changes include a one-off cut of up to 32% as of 1 April, followed by more frequent reviews for scheduled reductions to the subsidy level. Germany's solar subsidy scheme is based on a degression system, whereby the level of support is dependent on the total installations in the prior period.

The Government has so announced plans to cap the amount of solar energy output that would be eligible for the subsidies.

At the time of writing, the proposals were due to be debated in the lower house of Parliament. If passed, the cuts will become effective for roof-mounted units on 30 June, while ground-mounted plants would have until 30 September to complete projects.

Thousands from the solar industry have turned out in Berlin to protest against the cuts.

Greece

Greece slashes solar subsidies while Project Helios bill enters Parliament

The Greek Government has announced cuts to its solar subsidy scheme, claiming the current rates are no longer affordable and that the country has sufficient units online to meet the country's renewable energy targets. Solar installations in Greece nearly tripled from 2010 to 2011, from 198MW to 580MW.

As of 1 February, new solar installations producing over 100KW are seeing a 12.5% cut in the level of support provided. The feed-in-tariff subsidy level will continue to fall, at six monthly intervals, until August 2014, when the total cut will amount to 22%.

Meanwhile, draft legislation for Greece's plan to increase production of electricity from renewable sources, as well as transmission to Central Europe, is currently before Parliament for ratification. Under the plan, known as Project Helios, production of solar electricity will increase to 10GW and state revenue generated from the increase will repay part of Greek sovereign debt.

The draft bill also provides for a 10% increase in the price of electricity produced from solar installations, on the condition that 80% of associated equipment costs are generated in Member States or European Economic Area countries. This new incentive will only apply to future licenses awarded.

Earlier this year, the Government introduced a €2 charge on each megawatt of electricity generated by lignite, a brown coal that produces more than half the country's energy needs.
Ireland

**REDD credits introduced into Ireland’s tax law**

Ireland’s Government has included in its most recent Finance Bill provisions that allow for REDD credits to be treated as assets when managed through tax efficient Special Purpose Companies, known as Section 110 companies. Other types of carbon credits, such as European Union Allowances (EUAs) and offsets generated through Clean Development Mechanism (CDM) projects, are already treated as assets in Ireland’s tax law.

REDD, which stands for Reducing Emissions from Deforestation and Degradation, is a carbon market mechanism designed to reduce emissions from deforestation and forest degradation in developing countries. Deforestation accounts for a significant portion of global carbon emissions – more than transport and aviation combined.

The move to classify REDD credits as assets in Ireland’s tax legislation is one of a number of tax incentives introduced by Irish policymakers in an effort to encourage companies operating in the green sector to set up in Ireland. A range of other measures are also currently being discussed with the Irish Authorities.

In 2010, Ireland unveiled its headline climate change policy when it introduced a carbon tax on kerosene, marked gas oil, liquid petroleum gas, fuel oil, and natural gas. Late last year the carbon tax rate was increased from €15 to €20 per tonne, and is expected to rise to €30 by 2014.

**What this means for you**

Ronan MacNicolais, Partner, PwC Ireland – “Irish policymakers are at the forefront of developing initiatives to promote Ireland as a centre for Green Based activities. As a result, we have already seen a number of companies operating in the green sector, considering Ireland as a good location in which to do business and setting up operations.”

Kenya

**Kenya to introduce Climate Change Authority**

According to reports by Nairobi Star newspaper, a Bill that proposes to establish a Climate Change Authority is currently before the country’s Parliamentary legal department. To date, responsibility for Kenya’s climate change agenda has resided with the National Environment Management Authority.

The purpose of the Bill is to centralise management, coordination and financing of policies in the country to mitigate and adapt to climate change. The Climate Change Authority will be responsible for advising governments on climate change issues.

The Bill also proposes penalties for those found to break the laws, which include fines and imprisonment.

Spain

**Spain: Global leader in renewable energy suspends subsidies**

Spain’s Government has announced that it will temporarily cut subsidies for renewable energy production.

The suspension to the subsidies for wind, solar, co-generation and waste incineration technologies, will apply to any new installations, effective immediately. Projects that have not yet been built but had already been registered under the Registro de Preasignación, will be protected from the cuts. The Government has not indicated if or when the suspension will be lifted.

Renewable energy contributed one third of Spain’s total power in 2011, with wind becoming the country’s largest single source of energy, according to Spanish grid operators REE.

Just days after the announcement, the Government confirmed that it would retain its controversial subsidies for coal-fired electricity generation.
**Europe, Middle East and Africa**

**South Africa**

**Carbon tax for South Africa from 2013**

The South African Government unveiled in its 2012 budget review plans to introduce its much anticipated carbon tax in the 2013/14 fiscal year. An initial consultation paper on the carbon tax was released in 2010, and a second consultation paper will be made available for comment during 2012.

According to the budget review, the tax will apply to carbon dioxide equivalents emissions, and is proposed to be introduced at a rate of R120 ($US16) per tonne, increasing annually by 10% during the first phase of the scheme which extends from 2013 to 2019. The use of offsets will be allowed up to a maximum of 10%. This proposal reflects a compromise when compared to the initial consultation paper which suggested a rate of at least R75 ($US10) per tonne on all emissions, increasing to approximately R200 ($US26) per tonne. PwC estimates that the revised proposal will add approximately 5c/Kwh to the price of electricity in the first year.

The proposal also provides additional relief of up to 10% for trade-exposed sectors and relief for process emissions of between 10% and 40% in certain sectors.

In addition to the carbon tax, the 2012 budget review proposes an increase of 1c/kWh to the electricity levy on electricity generated from non-renewable sources. While revenues from the proposed carbon tax will not be earmarked, revenues from the increase in electricity levy will apparently be directed towards energy-efficiency initiatives.

A review of the taxation of transport fuels was also announced to determine the equitable treatment of all transport fuels based on their different environmental characteristics and energy content.

**What this means for you**

Kyle Mandy, Partner, PwC South Africa – “The speed with which the South African Government is moving towards the implementation of a carbon tax has caught business by surprise. There was considerable resistance from business to the first consultation paper on a carbon tax and it was hoped the Government would either postpone its introduction until global agreement was reached on emissions reductions, or substantially reduce the scope of any carbon tax in the first phase to exclude certain industry sectors from the tax, most notably the electricity sector. Business will have another opportunity to engage with government when the second consultation document is issued and will need to take advantage thereof to ensure that its concerns are addressed.”
Europe, Middle East and Africa

Ukraine

Ukraine trading ban lifted

Ukraine’s suspension from trading Kyoto carbon units, Emission Reduction Units (ERUs), has been lifted. The ban was imposed last year after the country was found to have breached Kyoto Protocol rules in a prior period, with regard to insufficient disclosures of their national emissions inventories.

The decision to lift the suspension was made by the Compliance Committee of the United Nations Framework Convention on Climate Change (UNFCCC) in Germany in March.

United Arab Emirates

Dubai announces partnership to develop emissions abatement strategy

In late February, the Dubai Supreme Council of Energy (DSCE) and Dubai Carbon Centre of Excellence (DCCE) signed a memorandum of understanding, which represents a significant step in the Emirate’s efforts towards developing a low carbon economy. The initiative forms part of the Dubai Integrated Energy Strategy 2030, which was unveiled in 2011, and sets out ambitions to reduce energy consumption in Dubai by 30% by 2030.

The partnership will conduct research on greenhouse gas emissions in Dubai and develop a strategy for emissions abatement. Frameworks are proposed to be developed in conjunction with affected industries, and the partnership is also expected to provide recommendations for developing a future emissions trading scheme. A detailed inventory of Dubai’s greenhouse gas emissions is proposed, and this will be developed in accordance with the requirements of the International Panel on Climate Change and the UN Framework Convention on Climate Change (UNFCCC), according to the announcement.

The Vice Chairman of DSCE views the partnership as an “opportunity to encourage low-carbon industries and attract foreign investment”.

United Kingdom

UK Government announces second-round of solar subsidy cuts
The UK Government has released its full review of the country’s solar feed-in tariff scheme, which includes further cuts to the program.

This second round of proposed cuts, follows a move by the Department of Energy and Climate Change (DECC) late last year, to more than halve the existing feed-in-tariff rate for new solar installations, from 43.3p to 21p per kWh. The latest plans, which were announced in February and are currently open for consultation, would introduce an automatic degression mechanism, which could see subsidies dropping to 13.6p by July. A further 5% drop by October, followed by 10% cuts every six months thereafter, is also proposed. The degression system means that level of support provided under the scheme will become dependent on the total installations of the prior period. This is designed to better align financial support for new installations with the decreasing cost of technologies.

Under the latest proposals, installations will also be subject to pre-determined energy performance levels before becoming eligible for the subsidies. It was originally proposed that this threshold be level C and above, however DECC appears to have acted on feedback and now proposes to also include level D Energy Performance Certificate (EPC) installations.

In the background, DECC continued its legal battle against solar industry representatives, appealing to the Supreme Court after the High Court found its approach to the first round of feed-in-tariff cuts to be “legally flawed”. DECC had set the consultation period for the cuts to extend beyond the date on which the cuts would become effective. The Supreme Court, however, has rejected DECC’s appeal, which means the drop in feed-in-tariff rate from 43.3p/kWh to 21p/kWh became effective from 4 March, not 12 December last year as originally planned.

Scotland outlines plans to achieve 100% renewable energy target
Scotland has unveiled its draft Electricity Generation Policy Statement (EGPS), which sets out how the Government plans to achieve its ambitious target to generate the equivalent of 100% of gross electricity consumption from renewable sources by 2020.

The policy statement calls for a future energy mix that delivers “a secure source of electricity supply, at an affordable cost to consumers, which can be largely decarbonised by 2030, and which achieves the greatest possible economic benefit and competitive advantage for Scotland including opportunities for community ownership and community benefits”. The policy also includes targets for energy consumption to be lowered by 12%, and for 11% of heat demand and 10% of transport fuels to be generated from renewable sources, all by 2020.

The comprehensive paper also considers energy efficiency measures and international grid connections, as well as the role of other technologies in delivering the country’s objectives for a “balanced electricity mix”. Carbon capture and storage (CCS) is expected to play a major role, with the policy proposing that a minimum of 2.5GW of thermal generation will be fitted with the technology, and a commercial scale CCS plant be in demonstration phase in Scotland by 2020. Full retrofit of CCS technology across conventional power stations would proceed during the following decade. According the report, nuclear energy will be phased-out, with no new nuclear plants being built.

The policy statement also proposes to introduce Emissions Performance Standards (EPS) for power generation in Scotland, separate from the EPS which has been proposed under the UK Government’s Electricity Market Reform.
Northern Ireland introduces plastic bag levy

Northern Ireland has announced that it will introduce a 5p levy to single-use carrier bags from April next year. The rate is considered a discounted rate to allow consumers to transition into the scheme and get used to bringing their own shopping bags. The rate will double to 10p from 2014.

The Republic of Ireland introduced a plastic bag levy in 2002, which is currently charged at 22c (18p), and Wales introduced a similar levy in October last year.

Evidence has shown that the levy is a simple and cost-effective way to limit the damaging effect of plastic bag consumption on the environment.

UK Budget: a green snapshot

A series of measures to encourage investment in a sustainable, low carbon future were announced in the UK Government’s 2012 budget, which was unveiled on 21 March. In his budget address, the Chancellor confirmed that “renewable energy will play a crucial part in Britain’s energy mix,” but emphasised that “environmentally sustainable has to be fiscally sustainable too.”

The Government’s Carbon Price Floor, which was announced as part of the 2011 budget, will be introduced from 1 April 2013, starting at a rate of approximately £16 per tonne of carbon emissions. The price floor, which is effectively a tax on fossil fuels used to generate electricity, will increase to £30 per tonne by 2020. The carbon price support rate for 2014/15, the indicative rate for which was first published in the 2011 budget, has now increased 31% and been set at £9.55 per tonne of carbon dioxide.

Subject to State aid approval, fossil fuels used to generate heat in good quality Combined Heat and Power (CHP) plants will not be liable to the support rates imposed by the Carbon Price Floor. CHP plants, however, will become subject to the Climate Change Levy (CCL) once the CHP exemption is removed from April next year, although any CHP levy exemption certificate acquired before that date can be allocated until the end of March 2018. Climate Change Agreements (CCAs), which commit energy-intensive companies to improving energy efficiency or reducing carbon emissions, thereby making them eligible to obtain CCL discounts, will be extended to 2023, and the CCL discount for CCA participants will be increased to 90% from next April.

Simplification of the Government’s Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, which the Chancellor described as “cumbersome” will also be a focus, and if the CRC cannot be simplified, the Chancellor indicated that it may be replaced with an alternative environmental tax.

To encourage business use of low carbon cars, the Government will extend the 100% first year capital allowance deduction for these vehicles to March 2015, and will reduce the eligibility threshold, in terms of vehicles’ emissions, from April next year. Air Passenger Duty will increase from April this year, and will be extended to cover flights taken aboard business jets a year later. Landfill Tax will increase by £8 per tonne to £72 per tonne from next April, while the planned increase in the Aggregates Levy rate from £2.00 to £2.10 per tonne will be postponed, also becoming effective from April next year.

What this means for you?

Jonathan Grant, Director, PwC United Kingdom – “The dramatic fall in carbon prices since May last year has no doubt led to the Government’s decision to increase the carbon price support rate under the Carbon Price Floor. EU Allowances reached record lows at the beginning of this year, so the support rate or tax applied in the UK needs to go up to achieve the floor. However, setting the tax rate two years in advance, relative to a volatile commodity is fraught with challenges. There is also the risk that the support rate will be punitive, should carbon credit prices return to historical averages.”
Brazil launches Climate Fund

The Brazilian Government has announced that it could provide up to R$1 billion Reais ($US588 million) to its domestic Climate Fund by 2014. The Fund is designed to provide low-cost financing for private and state investments in climate change and greenhouse gas mitigation and adaptation, and is “one of the main instruments in Brazilian climate change policy”, according to Brazil’s Environment Minister.

Investments that are expected to be eligible under the scheme include projects in efficient transportation, energy efficiency improvements in machinery and equipment, renewable energy and waste management.

The interest rate for the loans is expected to start at 2.5%, with repayment periods of up to 25 years. The country’s oil industry, including revenues from oil taxes, will be providing much of the fund’s capital.

Brazil, which will host the Rio+20 UN Conference on Sustainable Development in June this year, is committed to reducing its greenhouse emissions by 36.1% to 38.9% by 2020, compared to 1990 levels.

Canada: BC reviews North America’s only carbon tax

Canadian province, British Columbia, has announced that it is conducting a review of its carbon tax, four years after it was introduced in 2008. The carbon tax is North America’s first and only carbon tax.

The review, which was announced as part of the province’s 2012 budget, will take place through 2012 and will be open to public submissions. A decision on the tax is expected to be announced in the 2013 Budget.

The 2012 budget for British Columbia did not contain details of any future increases to the tax, with the last scheduled rise being to $CAD30 per tonne of carbon on 1 July this year.

It is widely speculated that the review represents the beginning of the end for the tax, however the Premier of the province says he “wouldn’t make that leap” and denies this claim.

The move to review the carbon tax comes just months after Canada formally withdrew from the Kyoto Protocol late last year.
Chile

Chile: Non-conventional renewable energies a priority as country adopts new National Energy Strategy

The Chilean Government has launched its new National Energy Strategy for 2012 to 2030, which sets out the Government’s commitment to energy efficiency and highlights the importance of reduced energy consumption in achieving sustainable growth.

The Strategy prioritises the role of non-conventional renewable energies (NCRE) in the Chilean energy system, and emphasizes the need to increase NCRE participation in the grid from 3%, as it stands today, to 20% by 2020.

Other focal points of the Strategy include strengthening the design and efficiency of Chile’s transmission systems, addressing various market and distribution difficulties, and promoting the development of international interconnections to establish regional electric integration. The Strategy supports large-scale hydroelectricity projects by proposing an increase of the participation of traditional hydro from today’s 34% to 48%.

Earlier this year the Senate approved the 20/20 Law which makes legally-binding the above targets to increase grid participation of NCRE to 20% by 2020, making it one of the most important principles of the Chilean Government, establishing bidding mechanisms and involving major public resources. The 20/20 Law replaces previous NCRE Law, which included a target to achieve 10% NCRE participation by 2024.

The Chamber of Deputies also approved the Net Metering Law, which proposes to allow households and small entrepreneurs to install small-scale energy generation units to generate electricity for either personal use, or to supply the grid. If approved by the Senate, this new initiative could be implemented by the end of this year.

What this means for you

Mathieu Bruno Vallart, Partner, PwC Chile – “Development towards Chile’s ideal potential for NCREs has been slow due to a lack of real incentives for investment and barriers that complicate the entrance of new players to the energy market. This new strategy promises to rid the energy sector of many of the barriers faced by investors, provides a more participative transmission system and favours NCRE investment through a bidding system of energy blocks. The strategy also makes the Government’s support of large scale hydro projects explicit, bringing clarity to Chile’s future energy matrix. The strategy hints at a tributary mechanism to regulate CO2 emissions, an issue that could impact investment in traditional thermoelectric projects in favour of NCREs.”
United States

**President Obama’s 2013 Budget outlines renewable energy priorities for the US**

On 13 February, the Obama Administration released its proposed budget for the 2013 fiscal year, which included a number of proposals intended to spur innovation and deployment of clean energy technologies. It also calls for a 29% increase in spending by the Department of Energy for renewable energy and energy efficiency programs and for the creation of a National Infrastructure Bank.

Key measures contained in the proposed budget include extending the wind tax credit, converting the treasury grant program into a refundable tax credit, replacing the existing deduction for energy efficient commercial buildings with a tax credit and providing additional funding for the advanced energy manufacturing tax credit programme.

President Obama has proposed a one-year extension of the production tax credit for wind energy facilities and the option to elect an investment tax credit for such facilities through 2013. His budget also would replace the Treasury cash grant program with a fully refundable tax credit bearing similar qualification requirements. The budget proposes to convert the current deduction for energy efficient commercial buildings into a tax credit, as part of an overall goal to make commercial buildings 20% more energy efficient by 2020.

The President has also proposed an additional $US5 billion in funding over two years for its advanced energy manufacturing tax credit program that was created under the American Recovery and Reinvestment Act.

In addition to the above, proposals have been put forward for a one-year extension of the 100% bonus depreciation, permanent extension and enhancement of the research and experimentation tax credit, expansion to the range of technologies eligible for tax credits for advanced technologies vehicles, and a tax credit of up to $US40,000 for medium- and heavy-duty alternative fuel commercial vehicles.

Although the intermediate-term outlook for such legislation is unclear, the Administration continues to emphasize renewable energy and take executive measures, through federal procurement and a recent “tax equity investor” summit, to encourage development of renewable energy projects.

What this means for you

Matt Haskins, Principal, PwC United States – “Extension of the wind energy credit has been a key priority for developers of wind projects and would give them time to plan longer-lived construction projects. Likewise, the Treasury grant and advanced energy manufacturing tax credit programmes attracted many applicants, thus their continuation in an administratively simpler form would be welcomed. We would expect keen interest in these programmes if the proposed extension and refunding go through.”
California releases trading guidelines in preparation for cap-and-trade

The California Public Utilities Commission (CPUC) has released its trading guidelines for investor-owned utilities (IOUs) in preparation for the state’s carbon trading scheme which is set to commence next year. In its first year, the state’s carbon market is expected to cover around 350 companies, representing over 600 installations.

These trading guidelines, which regulate the trade of California Carbon Allowances (CCAs) for IOUs, are reportedly stricter than those regulating other participating installations, as investor-owned utilities will receive all allowances free.

One of the key features of the guidelines is that IOUs can only purchase offsets where the seller assumes the risk of invalidation, in an effort to protect ratepayers. Offsets can be deemed invalid if they fail to meet measurement or verification requirements. During the early stages of the cap-and-trade programme, IOUs will not be allowed to procure options, swaps or other carbon derivatives.

The trading guidelines are still to be approved before IOUs can begin trading allowances.

California’s cap-and-trade programme is a critical element of the Government’s commitment to reducing the state’s greenhouse gases to 1990 levels by 2020, a target which was legislated in 2006 by then Governor, Arnold Schwarzenegger.
Australia

**Australia reveals details of country’s top emitters as carbon price draws nearer**

The Australian Government has revealed emissions details of the country’s largest emitting companies, as it prepares to impose on them a carbon price from 1 July. The list, which was published under the National Greenhouse and Energy Reporting (NGER) Act, includes the names and quantity of carbon dioxide directly emitted during the 2011 fiscal year of 430 companies. Australia’s carbon price legislation will apply to facilities around the country that generate more than 25,000 tonnes of carbon dioxide equivalent from sources covered by the Clean Energy Act 2011.

The Australian carbon price will be fixed for the first three years at $AUD23 per tonne ($US24), adjusted in real terms by 2.5% per annum. From 1 July 2015 the price will become flexible as it moves to a market-based emissions trading scheme. According to a Government consultation paper released in February, on the design of a legislative instrument for auctioning carbon units under the trading scheme, the first “vintage” of carbon units will be auctioned during the 2014 fiscal year. Details of caps on emissions for the first five years of trading within the flexible price period will be set in the 2014 Budget.

During the first three years of the scheme, companies covered by the carbon price legislation will be eligible to offset up to 5% of their total emissions using Australian Carbon Credit Units (ACCUs) generated through the Carbon Farming Initiative (CFI) programme. Under the programme, farmers and land holders can earn carbon credits by reducing emissions or storing carbon on their land, which can then be sold on to companies required to surrender permits under the carbon price legislation.

Eligibility to earn credits under the CFI is based on a set of criteria. Last month, “savanna fire management” became eligible to earn ACCUs under the CFI programme. This latest activity, which covers controlled savanna burning in the tropical north of Australia, joins tree planting, capture and combustion of landfill gas emissions, and destruction of methane from manure in piggeries, as the only four approved “methodologies” to be eligible to earn ACCUs under the CFI programme.
### Asia-Pacific

#### China

**Draft legislation for climate action in China**

According to Point Carbon News, the Chinese Academy of Social Sciences (CASS) has developed draft climate change legislation having being commissioned to do so last year by the country’s economic regulator, National Development and Reform Commission (NDRC). The draft legislation, which has been seen by Point Carbon, reportedly contains provisions that would give authority to NDRC to develop rules for a future emissions trading scheme.

The draft legislation, which is reportedly one of a number of drafts being developed by a series of think tanks, comes as seven provinces and cities prepare to pilot emissions trading schemes next year. Each province and city will be responsible for setting carbon emissions caps and developing administration bodies, trading platforms and registries and, according to recent reports by Point Carbon, also for setting restrictions on the use of offsets in the schemes.

According to Point Carbon, credits from unregistered Clean Development Mechanism (CDM) projects may be eligible to use in the pilot trading schemes. Citing government and private sector sources, the report suggests that up to 2,000 unregistered projects could generate low-cost Chinese Certified Emissions Reduction (CCER) units which can be used to offset the emissions of participants in the scheme. Forestry projects are also reportedly being considered as a source for low-cost carbon offsets for use in the pilot schemes.

China is introducing the pilot trading schemes in an effort to help achieve the goals set out in its twelfth five year plan. The plan commits China to reduce total carbon intensity by 17%, and energy consumption by 16%, compared to 2010 levels by 2015.

#### Vietnam

**World Bank approves the Vietnam Climate Change Development Policy Operation**

The World Bank and Vietnam’s Government have approved the first of three operations designed to help Vietnam to address the impacts of climate change.

The Vietnam Climate Change Development Policy Operation is designed to assist the Government of Vietnam to develop and adopt adaptation and mitigation policies and strengthen institutional capacity to promote climate resilient and lower carbon intensity development. It is also aimed at increasing the Government’s preparedness to engage in international climate partnerships.

Under the operation, Vietnam will receive a US$70 million loan from the International Development Association, the World Bank’s concessional lending resource for low income countries.

Vietnam is one of the most vulnerable countries to the impacts of climate change, particularly the risks of flooding, storms and rising sea-levels.
Countries band together in global fight to combat non-carbon pollutants

A new global initiative, called the Climate and Clean Air Coalition to Reduce Short-Lived Climate Pollutants, was announced in February by US Secretary of State, Hilary Clinton. The initiative is aimed at cutting pollutants other than carbon dioxide, namely methane, soot and hydrofluorocarbons, which, according to researchers, account for up to one third of global warming.

At the launch of the coalition, Clinton explained how the programme will “mobilize resources, assemble political support, help countries develop and implement a national action plan, raise public awareness, and reach out to other countries, companies, NGOs and foundations” in a coordinated effort to reduce emissions of these short-lived pollutants.

Six countries – the US, Canada, Sweden, Mexico, Ghana and Bangladesh – presently make up the coalition, and the US and Canada have so far contributed $US12 million and $US3 million, respectively, to the programme, which will be administered by the UN Environment Program.

Shipping: No consensus on global approach to emissions reduction

The International Maritime Organisation (IMO), a specialised agency of the UN, has adopted a set of guidelines to support regulations that will be imposed on the international shipping sector from 1 January next year. The regulations, which were agreed last year, are designed to improve energy efficiency and reduce greenhouse gas emissions in the sector, which currently accounts for close to 3% of global greenhouse gas emissions.

The international shipping sector has come under increasing scrutiny over its efforts to develop a coordinated approach to address climate change. The EU has threatened to include the sector in its ETS, saying the sector’s own efforts to curb emissions, including those contained in the IMO’s energy efficiency regulations, do not go far enough.

At a recent IMO meeting, there was extensive discussion around what market-based measures could be implemented to reduce emissions in the sector. Among the options up for discussion was a carbon levy on all ships (or just on those that do not meet the new energy efficiency standards), an emissions trading system, and a scheme based on individual ships’ design or operational efficiency. No consensus, however, could be reached at the meeting on how to move forward. Discussions are expected to resume at the IMO’s next meeting in October.

Earlier this year, the European Commission released a consultation paper outlining four options to reduce emissions in the sector. While the paper recognises that reduction of emissions should be addressed through the IMO, it puts forward suggestions including a compensation fund, an emissions trading system, a fuel or carbon tax and a mandatory emissions reduction target per ship. The paper is currently open to consultation.

It has previously been suggested that a global shipping tax could provide a source of finance for the UN’s Green Climate Fund. Developed nations have pledged to mobilise $US100 billion a year by 2020 to assist poorer nations to reduce greenhouse gas emissions and adapt to the impacts of climate change, and a substantial amount of this is expected to be channelled through the Green Climate Fund.