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Global Green Policy Insights

Your environmental tax and regulation update

June 2014

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John Preston
Global Tax Policy Leader

Welcome to the June 2014 edition of Global Green Policy Insights, your bimonthly update on the latest developments in environmental taxes, regulations and other green policies around the world.

Support programmes for renewables are of less importance these days. The European Commission is adjusting State aid rules to recognise that the cost of renewable energy is decreasing and penetration increasing, so the need for support is waning. Poland is planning to phase out its existing support scheme with a move to a cap and trade model while Romania and the UK have announced the intention to focus support on energy-intensive industries.

There's an interesting comparison in proposed strategies between China's intention to collect emissions information as a precursor to a countrywide emissions trading scheme while enforcing penalties against high polluters and Australia's reverse auction proposal in which it will buy-back the lowest cost abatements from those committed to change.

An ongoing need has been identified for a strategy that recognises the importance of coal to certain territories, albeit using advanced coal technologies. Japan has particular reasons to revert to coal from a more nuclear focus, but coal also remains a core energy component for the US and Poland with corresponding adjustments needed to meet climate change targets.

There's a summary in this edition too of the latest reports from the IPCC on climate change. If you'd like more on this and on other developments as they happen, take a look at our sustainability and climate change blog.

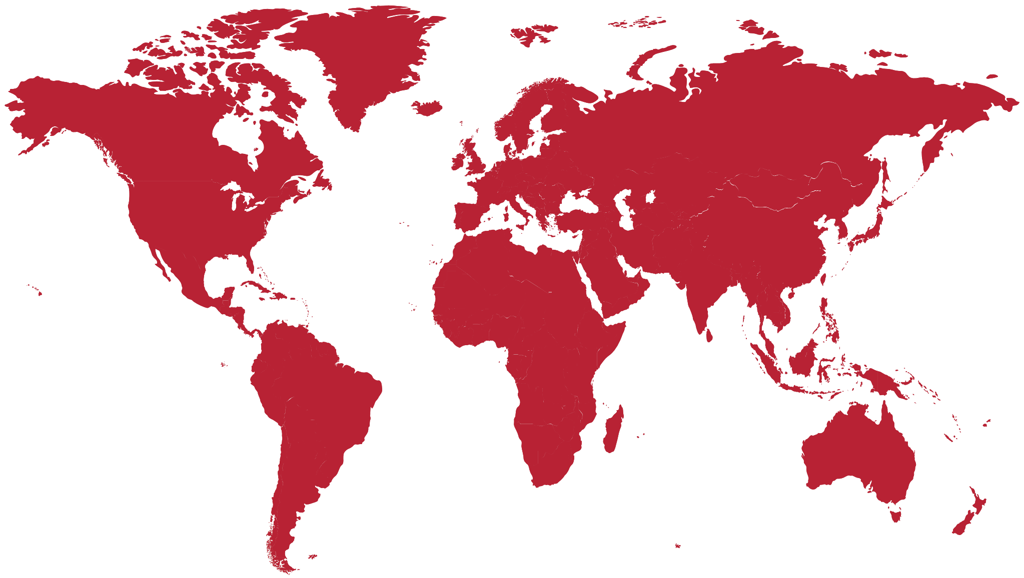
We hope you find this issue of Global Green Policy Insights a useful round-up of the latest green policy developments from around the world and, as always, would encourage you to provide us with your feedback.

Best wishes

John Preston
Global Tax Policy Leader
T: +44 (0)20 7804 2645
E: john.preston@uk.pwc.com

In this issue

- Abu Dhabi Ascent sees progress toward deliverables for the coming Climate Summit
- UN inaugurates 'the Decade of Sustainable Energy for All (2014-24)' initiative
- IPCC releases a report on the impacts, risks and opportunities associated with climate change



Europe, Middle East and Africa

EU

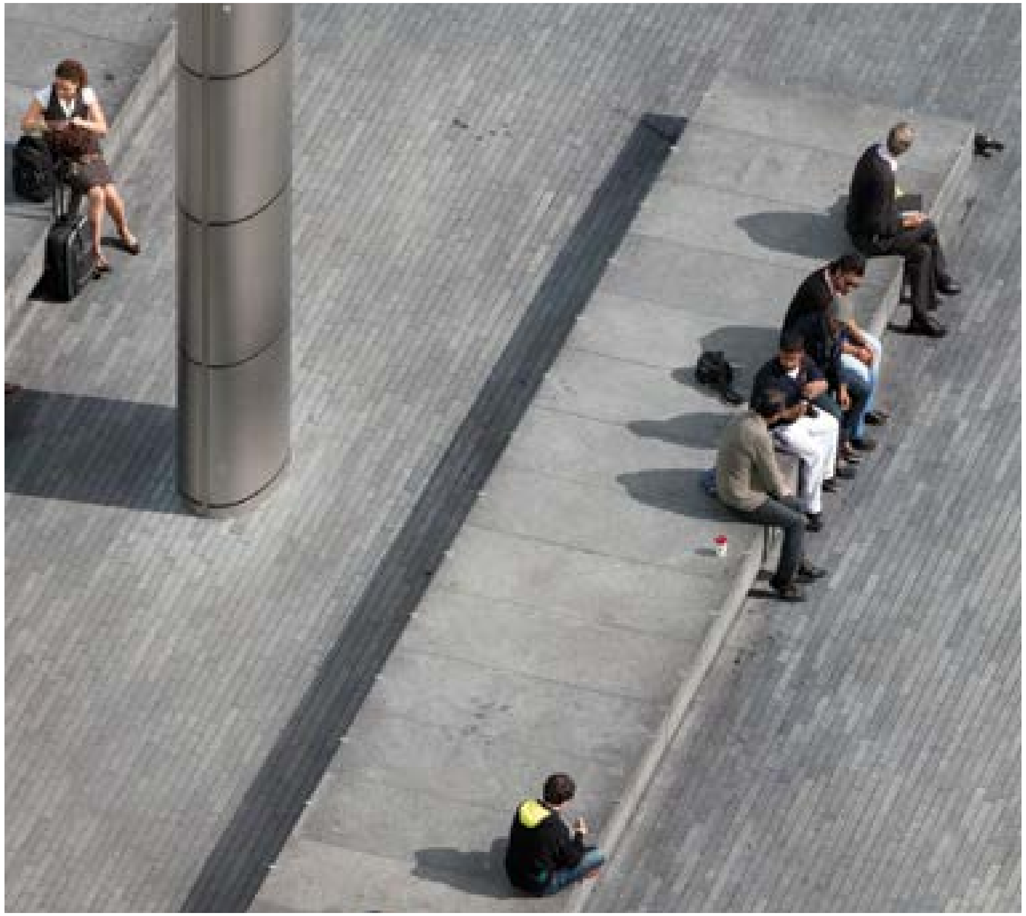
EU extends ETS exemption for non-EU flights up to the end of 2016

A proposal extending the temporary exemption from the EU emissions trading scheme (ETS) offered to non-EU airlines until the beginning of 2017 was approved by the European Parliament during a plenary session in the first week of April. Intra-EU flights are still required to fully comply with the legislation on aviation emissions. Under the new rules Member States also need to submit a report on how they've spent revenue generated from emission allowance auctions. Member States are expected to use the revenue to fund climate change efforts and research on low-emission air-transport.

Laws requiring all airlines flying to and from the EU to comply with the EU ETS came into force on 1 January 2012.

With the aim of allowing the International Civil Aviation Organisation (ICAO), the UN body responsible for international aviation, more time to reach a global solution to reduce greenhouse gas emissions from the aviation sector, in November 2012 the commission decided to "stop the clock" on the enforcement of these laws. The temporary exemption only applies to flights between EU airports and "third countries".

During its 38th triennial assembly last year, the ICAO agreed to come up with a market-based solution to cut greenhouse gas emissions from the aviation sector by the next assembly in 2016. The proposed measures would come into force from 2020. If the ICAO fails to adopt a global agreement in the upcoming assembly, the EU plans to withdraw the exemptions at the end of 2016 and enforce the emissions trading scheme in full. The legislation now awaits the approval of the Council of Ministers.



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Europe, Middle East and Africa

EU

EU unveils new State aid guidelines

New State aid rules for environmental protection and energy projects were published by the European Commission in the first half of April. The new guidelines will determine the approval of all new subsidy schemes over the period from July 2014 up to the end of 2020. The rules will only affect new support schemes, leaving existing programs unaffected.

Early this year, as noted in our GGPI February 2014 issue, the Commission launched a consultation on revised guidelines for assessing public support for environmental and energy projects as part of a broader initiative to update the State aid rules. With the cost of renewable energy decreasing and penetration increasing, there is a need for a shift to State aid measures so they're better suited for integrating renewables into the market, a Commission press release confirms. Existing guidelines, which came into force in 2008, expire at the end of 2014.

Under the new rules Member States are required to launch pilot bidding systems for a part of new capacity during 2015 and 2016 and to make it a default process for State aid by 2017. The guidelines allow deviations based on individual circumstances.
The maximum duration for new support schemes is 10 years. Ends Europe highlights the need for Member States also to introduce market friendly State aid measures such as certificate schemes or market premiums by 2016.

Feed-in tariffs can still be used to support wind farms with less than 3MW capacity and other source based installations with capacity smaller than 500kW. The revised rules allow State aid without bidding for small wind farms with a maximum capacity of 6MW and other technology based facilities with capacity less than 1MW.
If Member States are unable to ensure supply security with improved energy efficiency and power interconnections, they can introduce capacity mechanisms, particularly for gas capacity, according to the Ends report.

The new guidelines have drawn criticism from various renewable energy organisations.

Europe, Middle East and Africa

EU

EU revises environmental impact assessment (EIA) directive

Changes in the environmental impact assessment (EIA) directive were published in the European Union's official journal in April. The European Parliament and Council reached an agreement late last year to amend the directive for the fourth time since it came into force in 1985. Member States are required to transpose the revised rules into national legislation by 16 May 2017.

The revised legislation standardises the screening process for determining which projects require EIA across the bloc. While an environmental impact assessment is necessary for all Annex I projects (having significant effects on the environment, e.g. long-distance railway lines, motorways and express roads, airports with a long runways), it is not the case with Annex II projects (other railways, roads waste disposal installations, waste water treatment plants).

To guide developers on information to be provided for screening, a new Annex IIA has been included in the revised version to list the required information on the characteristics of the project, its potential impact on the environment and the measures envisaged in order to avoid and reduce significant effects. Authorities are required to provide screening opinions within 90 days.

According to Ends Europe, in a previous communication clarifying 'cumulative impact' the Commission had advised Member States to set reference terms for every assessment, but the new legislation leaves to national authorities the decision on whether or not the scoping process should be made compulsory. A scoping opinion may be requested by developers. As per the report, the cumulative impact includes "other approved and/or existing projects".

The amended directive calls for environmental impact assessment by "competent experts", rather than "accredited and technically competent experts" as proposed, the report adds.

Other additions in the directive include non-compliance penalties, inclusion of topics like climate change, natural resources and biodiversity under environmental impact assessment, and monitoring of projects post-development.

Existing rules will apply to projects where an EIA report has already been submitted and those in the process of screening or scoping by 16 May 2017.

Europe, Middle East and Africa

EU

EU defines emission reduction regulations for new passenger cars

The European Council has adopted a regulation setting out rules that passenger car manufacturers need to follow to meet the carbon dioxide emission reduction target set for 2020. Following the European Parliament's vote at its plenary session in late February, the regulation was formally adopted in early March.

The EU has set a legally binding target of 130 grams of carbon dioxide per kilometre (CO2/km) by 2015 and 95g CO2/km by 2020 for new cars. The newly adopted legislation offers one year phase-in period. This means that car manufacturers need to ensure that 95% of new cars sold comply with the 95g CO2/km limit in 2020 and 100% comply post-2020.

The targets represent an average level of emissions across the EU, but manufacturers will have individual annual targets based on the average weight of their new cars registered in the EU that year.

It is the fleet average that is regulated, so manufacturers will still be able to manufacture vehicles with emissions exceeding their specified target, so long as these emissions are offset by other vehicles in the fleet. Under the new regulation car manufacturers can also obtain incentives (super-credits) for the development of new technologies and production of cars emitting less than 50g CO2/km, which would contribute significantly towards meeting the fleet average. The super credits will be offered for three years over 2020-22 and the limit for their use is set at 7.5g of CO2/km.

The regulation will be reviewed by the Commission by the end of 2015 to set post-2020 targets. According to the Commission's official website, road transport accounts for about one-fifth of the bloc's total carbon dioxide emissions. Between 1990 and 2010, road transport emissions increased by almost 23% and the growth would have been even bigger without the economic downturn. Currently transport is the only major sector in the EU where emissions are still on the rise.

Germany

Germany to revise Renewable Energy Act

The German cabinet approved proposed changes in the country's renewable energy law on 8 April. With the revised legislation the government hopes to curb the rising electricity costs resulting from the nation's shift towards green energy and away from fossil fuels and nuclear power without hindering the expansion of renewable energy. The act now awaits the approval of the parliament.

The proposed act cuts the feed-in tariffs for renewables based electricity to 12 cents per kilowatt hour (kWh) from 2015, which includes 19.4 cents/kWh for offshore wind, 14 cents/kWh for biomass, around 10.5 cents/kWh for photovoltaic energy and 8.9 cents/kWh for onshore wind. It also calls for an increase in the share of renewables in the electricity mix: 40-45% by 2025 and 55-60% by 2035. The new capacity cap for offshore wind is 6.5 gigawatts (GW) by 2020 and 15GW by 2030.

Further the draft act sets a gross annual capacity threshold of 2.5GW for onshore wind, 2.5GW for solar energy and 100 megawatts (MW) for bioenergy.

The new law would require all renewable energy producers with capacity of more than 500kW to market their power directly from 1 August 2014. Installations with capacity of more 250kW will have to do the same from 1 January 2016 and those with 100kW capacity from 1 January 2017.

For further details on the proposed law please also see our GGPI April 2014 edition.

Europe, Middle East and Africa

Germany

Germany to incentive electric vehicles

The German Federal Minister of Transport, Alexander Dobrindt (CSU), intends to incentivise the use of electric vehicles, so that there will be 1 million electric cars on German streets by 2020. He is currently developing key strategies to support this approach.

These strategies may include, for example, encouraging the purchase of electric cars through KfW bank loans. The involvement of the KfW bank in this promotion process is also supported by SPD politicians.

Other cornerstones of the strategies are likely to include the special right to use restricted parking areas and bus lanes, as well as standardised charging stations.

Ireland

Ireland publishes the final draft of climate change law

Ireland unveiled the final draft of new climate legislation in April, which was accompanied by a separate release outlining Ireland's National Policy Position in relation to climate action and low-carbon development. Both releases emphasise Ireland's ongoing commitment to meeting its binding international emissions targets set out by the European Union and the United Nations between now and 2050.

The final draft of the legislation requires the Minister to prepare two key climate change documents at least every 5 years - a National Low Carbon Roadmap focusing on a national vision for the transition to a low-carbon economy, and a National Climate Change Adaptation Framework focusing on strategic policy to drive change at sectoral and local levels. These documents will be guided by the long-term goal of reducing carbon dioxide emissions by 80% by 2050. Previous drafts of the legislation required these documents to be published every 7 years.

The final draft has expanded the role of a newly established 'National Expert Advisory Body on Climate Change', which will advise the government on the preparation of the Roadmaps and Adaptation Frameworks every 5 years, and on other matters relating to Ireland's compliance with obligations under EU law or international agreements. The role of this expert panel has been expended to include climate adaptation recommendations.

Despite these positive developments since previous drafts of the legislation, and despite a clear statement on Ireland's commitment to international targets, the final draft of the legislation has received some criticism as it does not contain specific reduction targets for Ireland for the key dates of 2030 and 2050. The government argues that with the legal obligation to meet international targets in place, additional national-level emission reduction targets are unnecessary.

Finally, it is worth noting that special treatment will be given to the agriculture sector.

Agriculture continues to be a key sector for Ireland as it continues to recover from recent economic and banking crises, and expected policy changes at EU level provide significant opportunities for growth in the sector. The government has stated that it is involved in extensive political engagement within the EU, in relation to the challenges faced by Ireland in trying to reduce emissions from the agriculture sector, which is so large relative to the overall economy in Ireland. The government are keen to prioritise a policy of carbon neutrality, whereby carbon sinks (forests, boglands etc) can be taken into consideration when considering the overall impact of Irelands agriculture sector on the environment.

What this means for you

Ronan MacNioclais – PwC Ireland

"The government's focus appears to be on creating a policy framework which encourages good behaviour. There are no onerous requirements on businesses at this stage."

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Europe, Middle East and Africa

Norway

Norway plans major structural changes in its sovereign wealth fund

According to reports, in the first week of April Norwegian Finance Minister, Siv Jensen, proposed an increase in the green stock investments made by the nation's USD $860bn oil fund, apparently the largest sovereign wealth fund in the world. The government plans to add to the fund's environmental technology portfolio, increasing the target from NOK 20bn-30bn to NOK 30bn-50bn. Potential divestment of coal, oil and gas investments worth close to USD $80bn is also being considered.

While addressing the planned reforms, the Minister emphasised the need to assess the risk posed by climate change to future returns from the fund. The structural changes also include revised ethical guidelines and a review of its activities in emerging markets. The fund may be required to report investments in renewables and emerging markets separately to improve transparency.

Responding to criticism from green groups, the minister added that the fund "is not a tool to boost government investments in emerging markets or renewables".

Changes in the ethical framework of the fund include the merger of the Council of Ethics, responsible for proposing company exclusions, with the Norges Bank Investment Management. According to reports, this will prevent speculation on the use of the fund for political purposes and give it the power to engage and influence the behaviour of firms.

As the proposal is yet to be passed by the parliament, further changes may be expected.

Poland

Poland to overhaul its renewable energy support system

A proposal on new long-term renewable subsidies, which has been under development for the last two years, was given a green light by the Polish government in the first half of April. The new legislation aims to curb energy costs while helping the coal-dependent nation meet its EU climate targets. The proposal requires approval of the parliament and the president to be passed as law.

The intention to modify the renewable energy support scheme was announced by Poland's Ministry of Economy in September last year. Currently Poland issues green certificates to support renewable energy. The recently approved draft law introduces a bidding system for new renewable capacity development with a guaranteed minimum selling price for up to 15 years. Under the proposed legislation, every year a per MWh price cap will also be set. Owners of existing renewable energy installations can either continue with the current subsidies or opt to participate in the auctions.

Under the new legislation for 2015-20, separate auctions will be held for renewable energy installations of 1MW or smaller capacity. The government aims to source at least 25% of the country's overall green energy from small facilities and has earmarked around Euros €143m (approx. USD $199m) for the same, according to Ends Europe. Information regarding the timetable and the capacity to be auctioned will be released on 30 November every year and the Energy Regulatory Office will organise the auctions. Biomass installations of 50MW or more capacity, selected facilities co-firing coal with biomass (so called non-dedicated co-firing units) and hydropower stations of 5MW or more capacity are not eligible to take part in the auctions. Rules on self-produced renewable energy use have also been simplified by replacing the need to obtain permission with a special registry sign-up.

Poland, which currently relies on coal for 90% of its electricity, is bound to a national renewable energy target of 15% of total consumption by 2020.

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Poland

Poland unveils new energy strategy up to 2020

A resolution on 'Strategy for Energy Security and Environment' submitted by the Minister of Economy was adopted by Poland's Council of Ministers in late April. The policy identifies key reforms and necessary steps for cleaner energy and to safeguard the security of energy supply up to 2020.

The key objectives of the strategy include sustainable management of the environment through measures like water management, preservation of biodiversity and effective management of mineral resources.

The policy strives to ensure secure and competitive energy supply through measures such as better use of domestic energy resources, improved energy efficiency and modernisation of power industry including development of nuclear power. According to government estimates, modernisation of the power sector will cut CO_2 emissions by 0.4% annually.

The policy document also calls for measures to improve the environment through reduction in air pollution, particularly lead, cadmium and particulate matter (PM), cuts in industrial sector water use and better waste management. The measures are expected to cut PM pollution by 1.8%, sulphur dioxide by 4.1% and nitrogen oxide by 1.3% annually.

The government will also work towards carbon capture and storage solutions and gasification of coal, which is expected to remain the nation's main source of energy. According to the official press release, the document is one of the government's nine integrated development strategies. It sets the strategic framework for the development and implementation of programs on adaptation to climate change, conservation of natural resources and environment, safety and energy efficiency.

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Romania

Romania consults on renewables support scheme exemptions for energy-intensive firms

Public consultation on a measure exempting certain energy-intensive companies from the renewable energy support scheme was launched by the Romanian government in April. According to a statement published by the country's Ministry of Economy, criteria such as the implementation of energy efficiency measures, employment figures and partnerships with educational institutions for training and attracting qualified staff will form the basis for providing exemptions from the purchase of green certificates. Romania's energy-intensive industry, which accounts for 20% of gross final energy consumption, generated 760,000 direct and 1,500,000 indirect jobs in 2012.

Under the proposed legislation, companies with electro intensity of 5%-10% may be exempted from up to 40% of the renewables support cost they would have otherwise incurred, firms with electro intensity of 10%-20% can expect up to 60% exemption and those with electro intensity greater than 20% may get exemption up to 85%. The draft proposes cuts in the existing green certificate quota in order to provide exemptions for the industry without putting the pressure on households to purchase more. The scheme, which is yet to be approved by the Council of Ministers, will have a life of 10 years.

As mentioned in earlier issues of the newsletter, Romania's green certificates programme came into effect in 2011 to support the generation of renewable energy. Under the programme, producers of renewable energy receive a set number of green certificates for every MWh of energy generated. Green certificates can be sold to electricity suppliers, who are required to purchase an increasing number of green certificates each year.

The green certificates scheme covers energy generated from eligible renewables installations commissioned up to the end of 2016.

In a bid to curb rising electricity prices, last year Romania passed a decree cutting incentives available to green energy producers. Citing local news agency Mediafax, Romanian Insider reported that under the decree producers of solar and hydro power from existing installations would be required to wait until March 2017 to receive their balance of green certificates and for wind farms the receipt of balance had been postponed to 2018. The decree also reduced the number of green certificates per MWh for new installations from six to two for solar power generation, from three to one for small hydro power stations and from two to one for wind farms.

Romania aims to source 24% of total domestic electricity output from renewables by 2020.

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Slovakia

Slovakia unveils new climate adaptation strategy

According to an official press release, the government of Slovakia approved the climate adaptation strategy submitted by Environment Minister Peter Ziga in March.

The strategy aims to "identify and implement preventive and adaptation measures to minimise the economic and social costs in the future". According to the report, the strategy was developed alongside the Partnership Agreement 2014-20, a strategic document detailing the use of capital from the five main European Structural and Investment Funds.

Slovakia has been allocated €15.2bn for the current programming period, of which €3.156bn is to be invested in environmental activities.

Over the period from 1881 to 2010, Slovakia's annual average air temperature has increased by approximately 1.7 degree centigrade. A decrease in relative humidity, receding snow cover and declining soil moisture have also been observed.

The country witnessed extreme weather changes with dry spells in 2003, 2007, 2011 and 2012, and extremely wet weather in 2010. With an increase in temperature and the melting of snow, the frequency of winter floods is expected to increase. These events together seem to have triggered government action on climate change.

Kick-starting the efforts, the government approved an operational programme to support the environment in April. The key objectives of the programme include promoting efficient and sustainable use of natural resources, ensuring environmental protection, enabling active adaptation to climate change and promoting an energy-efficient low-carbon economy. The programme will run under the supervision of the Ministry of Environment.

According to the press release, the key objectives of the operational programme have been divided into two separate groups and each will be funded from different sources.

Activities aimed at sustainable use of natural resources to support environmental infrastructure, prevention and adaptation will be financed by the Cohesion Fund, while the European Regional Development Fund will support risk management, emergency management and energy-efficient, low-carbon economy promotion efforts.

The newly introduced strategy combines measures aimed at cutting greenhouse gas emissions with efforts to reduce the vulnerability of humans and ecosystems to climate change and enable their adaptation. It particularly focuses on water management, proposing measures for sustainable management of wetlands and forests, wetland restoration and revitalisation of peatland to retain water in the country. The Environment Minister also highlighted decreasing drinking water supply and floods as the biggest threats facing the nation. The strategy proposes an early warning system for extreme climate events and increased preparedness in dealing with the consequences of potential climate change related disasters.

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South Africa

South Africa proposes a new carbon offset scheme

South Africa issued a discussion paper on 29 April in relation to the carbon offset scheme to form a part of the proposed carbon tax. According to the government press release, the proposal put forth by the National Treasury aims to help businesses lessen their carbon tax liability and promote investments in greenhouse gas reduction efforts.

The Carbon Offsets Paper is part of a broader list of measures aimed at addressing climate change issues.

In the last week of February Finance Minister Pravin Gordhan, in his budget speech, proposed that the carbon tax be introduced in 2016.

The South African government originally planned to introduce the levy in 2015, but decided to delay the launch by a year to allow for the design of the tax to be aligned with other proposed mitigation instruments, notably the desired emission-reduction outcomes, and ensure adequate time for consultation on draft legislation.

The draft policy paper on carbon tax proposes a basic tax-free threshold of 60% below which initially the levy will not be payable. Components include a factor formula to tweak the base threshold to incentivise voluntary greenhouse gas reduction measures taken by firms, additional free allowances for sectors with limited reduction potential and additional graduated relief for emissions intensive industries apart from carbon offsets to help companies lower their liability. The draft proposes a maximum tax-free threshold of 90%.

The proposed carbon offset policy lists a number of requirements that need to be fulfilled to claim tradable emissions reduction credit for a project under a specific standard.

According to the press release, "the principles of additionality, real and permanence will be used to ensure the credibility of carbon offset projects –

- additionality meaning GHG emissions reductions are additional, if they would not have occurred under a 'business-as-usual' scenario;
- permanence meaning GHG emissions are permanent and unlikely to be reversed; and
- real meaning GHG emission offsets originate within tangible physical projects with proof that they have occurred or will occur at a specific point in time".

South Africa proposes to recognise four different carbon offset standards. These are the Clean Development Mechanism (CDM), Verified Carbon Standard (VCS), Gold Standard (GS) and Climate, Community and Biodiversity Standard (CCBS). Given certain criteria, offset projects under any of these standards may be considered for eligibility.

According to the report, the government will initially focus on CDM projects.

To prevent double counting, the offset scheme will not consider projects benefiting from other government incentives. The exclusions include initiatives focusing on energy efficiency, cogeneration and fuel switching in firm's operations that are covered by the carbon tax; energy saving projects under the Energy Efficiency Tax Incentive and clean energy projects under the Renewable Energy Independent Power Producer Programme (REIPPP).

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Offset projects registered or implemented prior to the launch of the carbon tax may qualify within a certain timeframe, if they meet particular conditions. The proposed offset scheme only allows South Africa based credits.

South Africa aims to cut greenhouse gas emissions relative to business-as-usual levels by 34% by 2020 and 42% by 2025 as part of a global agreement.

What this means for you

Kyle Mandy – PwC South Africa

"The proposed carbon offset scheme is broadly welcomed by business and should go some way to alleviating the burden of the carbon tax for those emissions covered by the tax. Although the potential market for carbon offsets is relatively small and demand is expected to come from a relatively small number of large emitters, studies indicate that the potential supply of credits should be sufficient to meet demand, making the offset scheme feasible."

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Europe, Middle East and Africa

UK

UK unveils new solar strategy

Britain's Minister of State for Energy and Climate Change, Greg Barker, launched a new Solar Strategy at SunSolar Energy in Birmingham in the first week of April. The strategy aims to turn government owned buildings including car parks, supermarkets and factories into solar power stations. According to the minister, "we have put ourselves among the world leaders on solar and this ambitious strategy will place us right at the cutting edge". Apart from the environmental benefits, the strategy will help the government create new jobs and, generate clean, reliable and affordable energy.

The new plan shifts the focus from large solar farms to the nation's approximately 250,000 hectares of south facing commercial rooftops, which offer cost effective and efficient energy generation opportunities for both domestic and business consumers. More than half a million buildings in the UK already have solar PV installations with the total installed capacity set to exceed 4GWp in 2014.

The task of implementing the solar strategy across the government estate is led by the Cabinet Office Minister Francis Maude and his team. The administration hopes that other consumers will follow the example. As a part of the initiative, the Department of Education will take measures to improve energy efficiency and promote PV deployment across the country's 22,000 schools to bring down their annual energy spend, which currently stands at £500m (USD$847.56m).

As reported in earlier issues of this newsletter, last year the Department of Energy and Climate Change (DECC) published a solar photovoltaic (PV) roadmap setting out the government's vision for the future of solar PV ahead of the publication of a full Solar PV Strategy. The UK Solar PV Strategy Part 1: Roadmap to a Brighter Future set out the measures taken to date and the steps required to achieve certainty for solar PV businesses, investors and households.

The newly launched full Strategy document explores the actions required to be taken to maximise the sustainable, affordable deployment of solar PV in the UK.

What this means for you

Ronan O'Regan – PwC UK

"Solar has been the success story of the renewable sector over the past few years with investment going from almost zero in 2010 to £5.7bn by 2013 and a further £4.7bn due over the next two years. The recent announcement by DECC highlights how susceptible the sector is to policy change but is consistent with governments move to improve the energy reliance of their own property portfolio."

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Europe, Middle East and Africa

UK

UK acts in favour of energy-intensive industries

A fixed carbon floor price of £18 (USD$30.51) per tonne of carbon dioxide over the period from 2015 to 2020 was announced by UK Finance Minister George Osborne in mid-March while unveiling the annual Budget. The carbon tax freeze is aimed at curbing the rising electricity costs affecting energy-intensive industries.

The announcement comes as a big relief for industries like cement manufacture and steel, where energy may account for up to 40% of the costs. The price floor was introduced in April 2013 with the aim of encouraging the move away from fossil fuels, promoting low carbon investments and boosting the cost per tonne of carbon emissions to at least £30/£35 (USD$50.85/USD$59.33) by 2020. The freeze means that the tax will remain at 2015 levels of £18 (USD$30.51) per tonne of carbon dioxide till the end of the decade.

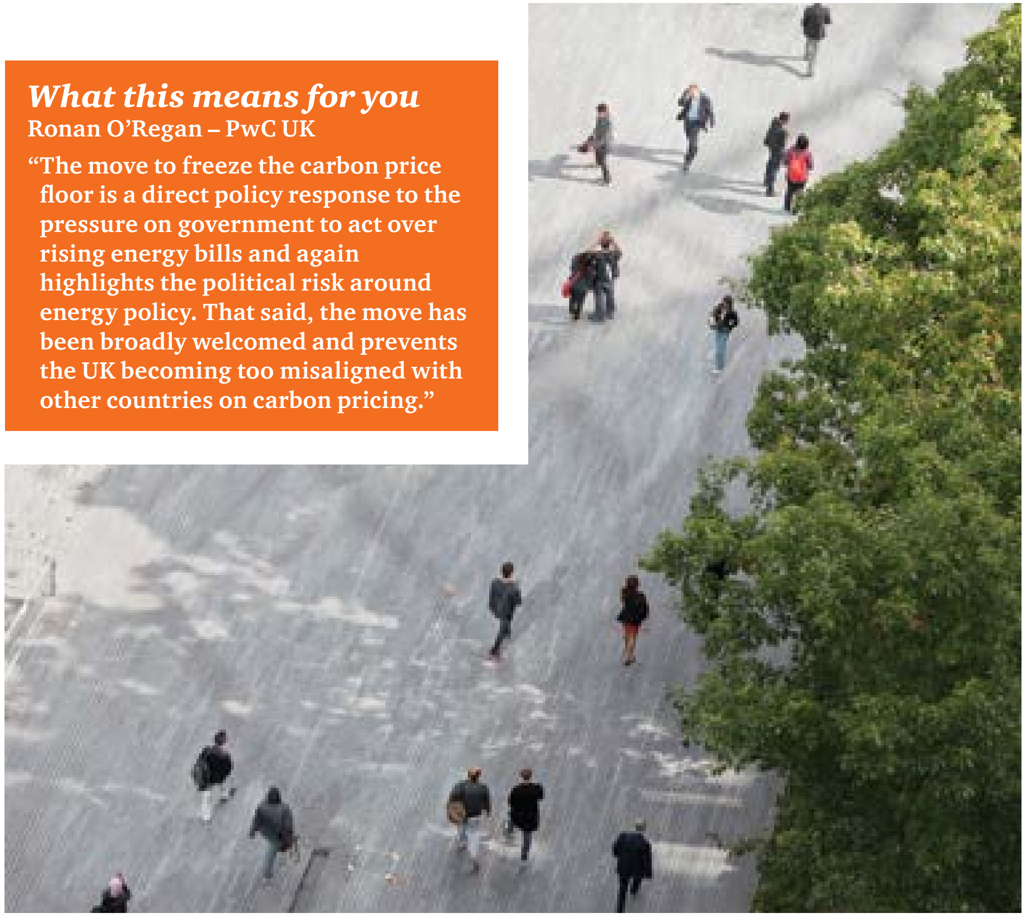
The new budget also offers energy-intensive industries compensation for the impact of renewable power support schemes on their energy costs. If approved by the European Union as an acceptable State aid measure, the compensation scheme is expected to add £300m (USD$508.57m) to the government's expenses over 2016-17, reports Ends Europe. Industries employing combined heat and power technology will also be offered tax relief. The existing compensation scheme, which covers energy-intensive industries most impacted by the carbon floor price and the EU ETS, has been extended up to 2019-20.

In accordance with the Climate Change Act, the UK Government is legally bound to reduce emissions compared to its 1990 levels by 35% and 50% by 2022 and 2025 respectively.

What this means for you

Ronan O'Regan – PwC UK

"The move to freeze the carbon price floor is a direct policy response to the pressure on government to act over rising energy bills and again highlights the political risk around energy policy. That said, the move has been broadly welcomed and prevents the UK becoming too misaligned with other countries on carbon pricing."



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Americas

US

US announces a new strategy to reduce methane emissions

A new plan to cut methane emissions was announced by the White House in the last week of March. According to the official statement, the new strategy includes measures to reduce methane emissions through "cost-effective voluntary actions and common-sense standards".

Methane reportedly accounts for 9% of the total greenhouse gas emissions in the US. The statement adds that in spite of an increase in methane producing activities, methane pollution has come down by 11% since 1990. But in the absence of reduction measures, it is expected to shoot up to a level equivalent to 620m tonnes of carbon dioxide by 2030.

The new strategy targets oil and gas production, coal mining, agriculture and landfill, which are some of the major sources of methane emissions. Under the plan, the Environmental Protection Agency will conduct an assessment of sources most likely to emit methane and other pollutants from the oil and gas sector.

The agency will also propose revised standards for new landfill sites and launch a public consultation on the need to update standards for existing landfill sites.

The Bureau of Land Management (BLM) under the Department of the Interior will collect public input this summer on a system to capture and sell or dispose of waste methane from mines located on lands leased by the central government. The BLM is also expected to propose revised standards for reduced flaring and venting from oil and gas production on federal lands later this year. The White House adds that the Environment Protection Agency, the Department of Energy and the Department of Agriculture will together launch a "Biogas Roadmap" featuring voluntary measures to fast-track the adoption of methane digesters and other affordable technologies to cut emission from the nation's dairy sector by 25% by 2020.

The strategy is a part of the Climate Action Plan announced by President Obama on 25 June last year. The plan aims to cut greenhouse gas emissions in the US, prepare the country for the effects of climate change, and demonstrate leadership in international talks to mitigate and adapt to global climate change. The US aims to cut carbon emissions by 17% compared to 2005 levels by 2020.


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Asia-Pacific

Australia

Australia releases Emissions Reduction Fund white paper

The Australian Government published an Emission Reduction Fund white paper on 24 April. According to an official press release, the white paper offers a simple, practical and cost-effective alternative to the existing carbon tax for reducing greenhouse gas emissions. The Government proposed late last year in a Green Paper the introduction of an Emissions Reduction Fund using a reverse auction process to buy back the lowest-cost abatements. The buy-back model, which is similar to the United Nations Clean Development Mechanism, focuses on activities that reduce emissions.

The final design of the A$2.55bn Emissions Reduction Fund, which forms the linchpin of the current government's climate change efforts, has been set out in the White Paper. Inputs from businesses and the community have been taken into consideration while developing the paper.

The design is reportedly based on three principles namely:

- lowest-cost emissions reductions (which entails identification and purchase of emission reductions at the most affordable cost),
- genuine emissions reductions (which means purchase of reductions that are real and supplementary to business as usual), and
- streamlined administration (which calls for ease of participation).

The white paper also sets out the major decisions taken following the release of the Green Paper including the replacement of existing Domestic Offsets Integrity Committee under the Carbon Farming Initiative with an Emissions Reduction Assurance Committee and standard arrangements for aggregating emissions reductions in a project aggregator.

According to the White Paper, a cap equalling their highest annual historical emissions level in the 2009-10 to 2013-14 period will be set for firms covered under the 2010 emissions reporting scheme. The government plans to introduce a safeguard mechanism to ensure that emitters do not exceed set caps. It will apply from 1 July 2015 and will not enforce any additional reporting obligations on businesses. The safeguarding mechanism will cover around 130 businesses that have individual facilities that emit up to 100,000 tonnes of carbon dioxide or more per year.

The government has made a commitment of A$1.55bn divided into A$300m (USD$281.52), A$500m (USD$469.15) and A$750m (USD$703.72) instalments over three years to the Emissions Reduction Fund. The projects will be funded by purchasing their emissions cuts for a period of 5 years. Auctions will be held every quarter starting from the second half of 2014 to ensure regular participation opportunities. The Clean Energy Regulator will publish the schedule for auctions 12 months in advance.

After each auction, the regulator will also publish information on the weighted average price awarded to successful projects. Australia aims to cut greenhouse gas emissions by 5% relative to 2000 levels by the end of the decade.

What this means for you

John Tomac – PwC Australia

"Business will want to review the risks and opportunities presented by the ERF and implement processes to address these. This can include: identifying eligible emission reduction projects in their business (either at an activity level or a facility level) for registration with the Clean Energy Regulator and participation in the auction process; and understanding the implications of the safeguarding mechanism for their business. They'll also want to continue to monitor the negotiations to repeal the Clean Energy Act 2012, and while continuing to comply with these existing obligations, prepare plans to adjust the pricing of goods and services in the case that this Act is repealed."

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Asia-Pacific

China

China takes measures to clean-up its cities

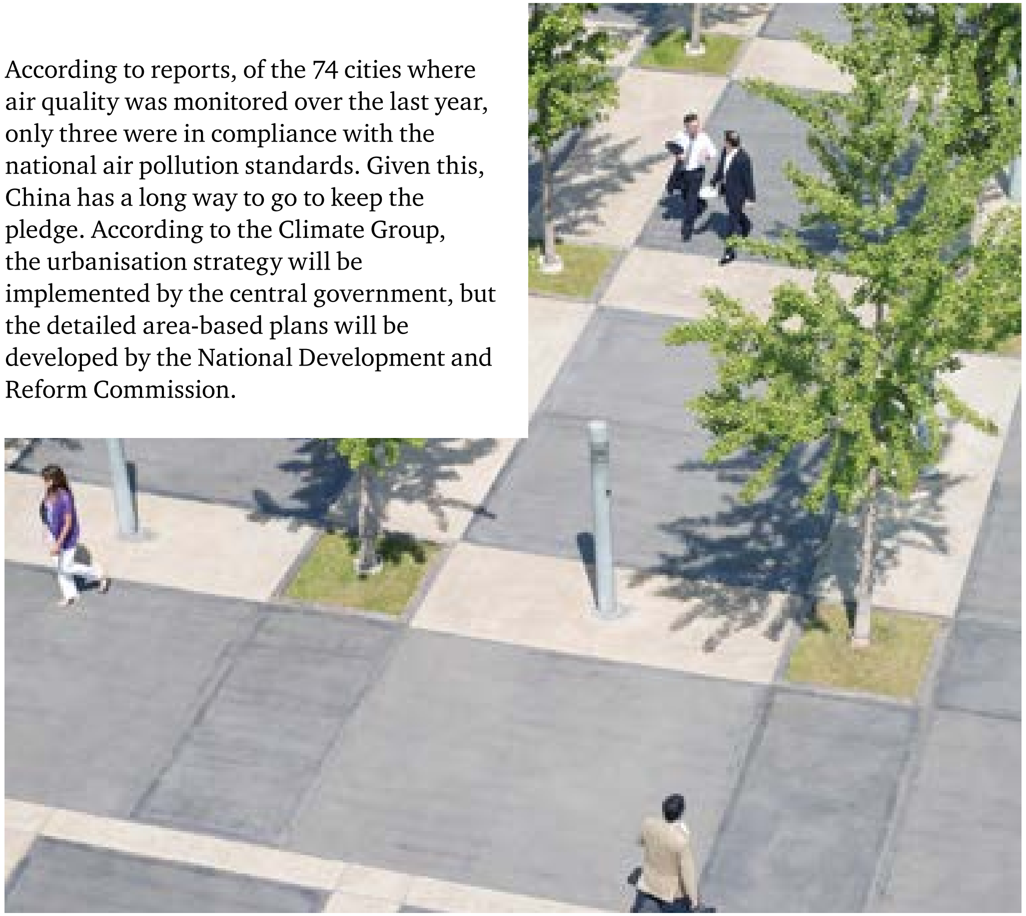
According to a State Council plan published in mid-March, China has pledged to provide good living standards for the 60% of the nation's population expected to be residing in the cities by the end of the decade. The massive migration has escalated issues such as the scarcity of water and pollution in the cities. With the urban population growing at a rapid pace, China needs to take steps to provide facilities that match that urbanisation.

The plan states, "we will improve and promote green, sustainable and low carbon development in the urbanisation process, enforcing the strictest measures on ecological and environmental systems". It reportedly includes a long list of policies such as a ban on highly polluting vehicles, a check on emission-intensive industries and increased use of renewable energy.

It also calls for a tiered pricing system to control the increasing consumption of limited natural resources such as water, natural gas and electricity, and trading systems for emissions, water and energy saving certificates, according to Point Carbon.

Particular priority areas listed in the plan, as cited by the Climate Group, include : launch of a new emissions permit system, better implementation of environmental legislation, industrial transformation aimed at higher energy efficiency and reduced pollution, increased low carbon efforts among businesses, promotion of clean energy vehicles, introduction of a plan to control pollution from high-emission industries, fast-track development of energy systems for the distribution of renewable source based electricity, promotion of green building materials and an action plan to ensure the enforcement of green building standards.

According to reports, of the 74 cities where air quality was monitored over the last year, only three were in compliance with the national air pollution standards. Given this, China has a long way to go to keep the pledge. According to the Climate Group, the urbanisation strategy will be implemented by the central government, but the detailed area-based plans will be developed by the National Development and Reform Commission.



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Asia-Pacific

China

China makes emissions reporting mandatory for emission-intensive firms

All companies that reported emissions exceeding 13,000 tonnes of carbon dioxide in 2010 will be required to report their future estimated annual emissions according to an announcement made by China's National Development and Reform Commission (NDRC) in the second half of March. The reporting requirement covers all six major greenhouse gases namely: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6).

The announcement was made by China's top planning agency in connection with the government's plan of establishing a countrywide emissions permit trading system. Quoting from the NDRC's statement Reuters added, "the reporting is to tighten the control over major emitters, provide statistics for capping greenhouse gas emissions and launch a carbon trading scheme".

The lack of accurate emissions data is a major barrier in the development of a national carbon market as the government cannot set effective emission caps without knowing about a facility's existing emission levels.

The agency has not announced a date for the implementation of reporting requirements.

Carbon trading schemes form a major part of the government's strategy to clean up the environment. By 2020 China aims to cut emissions by 40%-45% per unit of gross domestic product (GDP) relative to 2005 levels.

Asia-Pacific

China

China reinforces environmental protection law against polluters

China has beefed up its environmental protection legislation with tougher rules to penalise polluters. The amendments, which were passed by the Standing Committee of National People's Congress in the second half of April, are a result of numerous discussions between the government, state-owned enterprises and scholars over the last two years. The move reportedly marks the most extensive revisions in the environmental protection law in the last quarter of a century. The amended legislation will come into force from 1 January 2015.

The new rules set environmental protection as a "basic policy" and the topmost priority for the government. The Ministry of Environmental Protection can, under the revised law, take strict disciplinary action including consecutive daily fines, confiscation of assets, detention for up to 15 days and a shut-down of facilities.

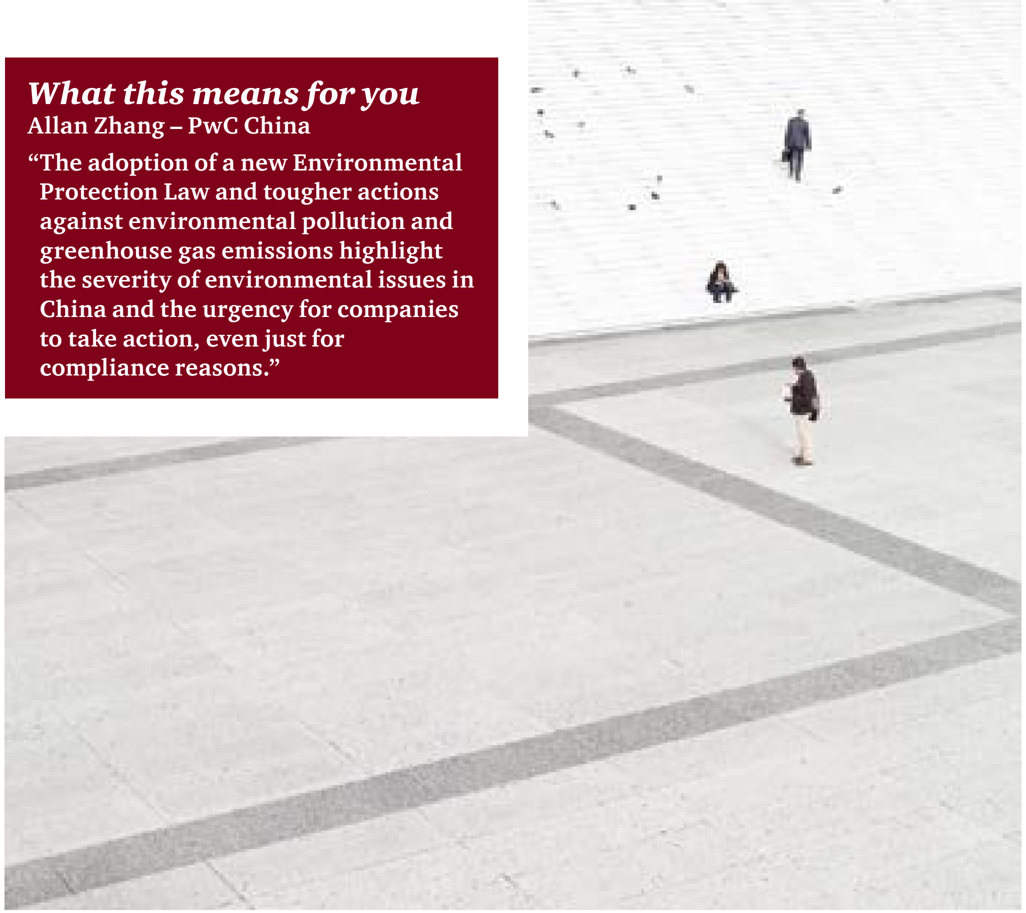
The amended legislation includes a new chapter titled "Environmental Transparency and Public Participation", which calls for the disclosure of environmental information including the publication of a blacklist of major polluters. The amendments also introduce options to make environment-related appeals. While in most cases the right to file lawsuits against polluters is limited to the government-affiliated All-China Environmental Federation, in some cases legal action may be initiated through other organisations that are registered with the department of civil affairs and have been operational for a minimum of five years.

Indiscriminate industrial expansion has led to heavy air, water and soil pollution in China. Following a public outcry triggered by record high levels of pollution in several parts of the country in the first quarter of 2013, the government has taken several measures to curb emissions. The latest legislative amendments support the nation's war on pollution.

What this means for you

Allan Zhang – PwC China

"The adoption of a new Environmental Protection Law and tougher actions against environmental pollution and greenhouse gas emissions highlight the severity of environmental issues in China and the urgency for companies to take action, even just for compliance reasons."



Asia-Pacific

Japan

Japan takes measures to diversify its renewable energy

In the second half of March Japan's Ministry of Economy, Trade and Industry (METI) published revised purchase prices under the feed-in tariff scheme for renewable energy. In line with the recommendations made by the Procurement Price Calculation Committee, the METI has introduced new offshore and onshore wind categories with a higher price for offshore wind power, while reducing the tariff for electricity from solar plants.

For the current fiscal year starting from April 2014, the prices excluding tax have been set at 32 yen/kWh (USD $0.31/kWh) for solar power generated for commercial use of 10 kWh or more, 37 yen/kWh for solar power generated for household use (10 kWh or less), 36 yen /kWh for offshore wind, 22 yen/kWh for onshore wind (20 kWh or more) and, 14-34 yen/kWh for small and medium scale hydro power depending on the size and use of existing waterways.

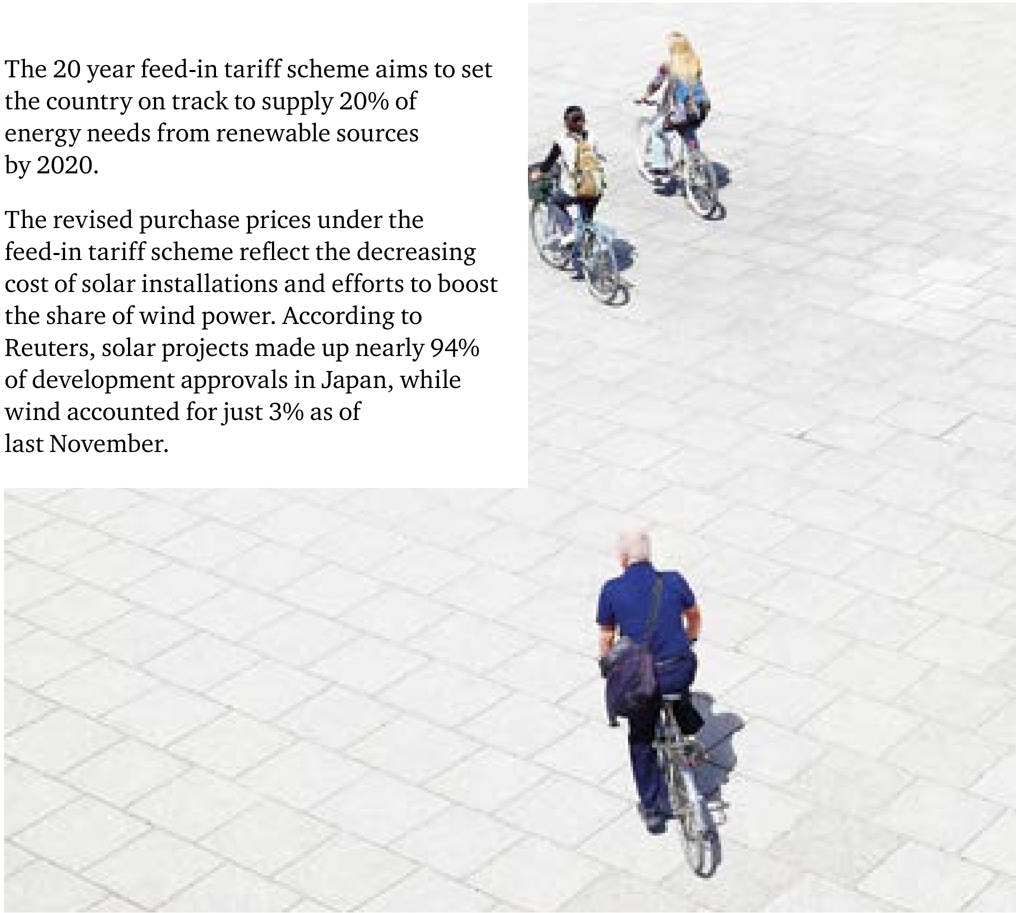
The price for biomass power is set at 13-39 yen/kWh and that for geothermal power at 26-40 yen/kWh.

Based on the revised purchase prices, the surcharge rate for financial year 2014 has been calculated to be 0.75 yen/kWh. This means that average households consuming around 300 kWh per month will have to pay a monthly surcharge of 225 yen (USD $2.20), which is nearly double the previous average of 120 yen per month.

In the wake of the Fukushima disaster in March 2011, the Japanese Government promised to undertake a comprehensive review of the country's energy policy, which had included plans to generate a major share of its energy supply from nuclear. The government also passed legislation for a new feed-in tariff scheme designed to encourage solar, wind and other renewable technologies, which came into effect in July 2012 and required utility companies to purchase part of their energy from renewable sources.

The 20 year feed-in tariff scheme aims to set the country on track to supply 20% of energy needs from renewable sources by 2020.

The revised purchase prices under the feed-in tariff scheme reflect the decreasing cost of solar installations and efforts to boost the share of wind power. According to Reuters, solar projects made up nearly 94% of development approvals in Japan, while wind accounted for just 3% as of last November.



Asia-Pacific

Japan

Japan unveils new energy policy

On 11 April the Japanese cabinet approved a new energy plan, which on one hand highlights coal and nuclear as important long-term sources of energy, while on the other promotes renewables. The policy marks a clear volte-face from the existing strategy, which set out plans to eliminate the country's dependency on nuclear power by 2030.

Japan's current energy strategy, which was created under the former administration of the Democratic Party of Japan and adopted in September 2012, contained measures imposing a 40 year limit on the life of nuclear power plants, and prevented the construction of any new plants or the expansion of existing ones. It only allowed reactors deemed to be safe by a nuclear regulatory commission to be put back into operation in the short term. Under the new plan Japan's 48 viable atomic reactors, which are undergoing safety check, may resume operations, reports the Daily Telegraph.

According to Bloomberg, before the Fukushima disaster fossil fuels accounted for 62% of electricity production in Japan, while nuclear contributed about 30%, but after the tragedy utilities have fallen back on economical thermal power sources, which accounted for 90% of the country's electricity in 2012. The government is backing the development and export of advanced coal technology. Japan's new energy policy follows the trend observed across the EU and the US, where rising electricity costs are forcing government to cut renewable support and revert to fossil fuels.

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Global

UN

Abu Dhabi Ascent sees progress toward deliverables for the coming Climate Summit

The Abu Dhabi Ascent took place in May and 1,000 people, including 100 government ministers, gathered to prepare for the Climate Summit to be hosted by UN Secretary General Ban Ki-moon in September.

"The Abu Dhabi Ascent has brought many key actors from across sectors to look at concrete deliverables for the Climate Summit," said Helen Clark, Administrator of the UN Development Programme, who summarised progress made during the two-day Ascent. "The path to the top is beginning to emerge from the mist. We can now see many steps which need to be taken individually and collectively to achieve a successful Climate Summit on 23 September."

The ideas and initiatives have been coalescing around nine action areas that include promoting energy efficiency and the use of renewables, reducing short-lived climate pollutants, reducing deforestation, climate-friendly agriculture, climate action in cities, promoting low-carbon transportation, improved resilience through adaptation and disaster risk reduction, and financing for climate action.

Speaking at the end of the event, Ban Ki-moon urged delegates to build political momentum in their own countries, ahead of his Summit and the UN's annual conference in Peru later this year. "Too many are sitting on the fence, waiting for others to lead," he said emphasising that actions should be built on concrete deliverables, "I need you to build the new alliances that will move climate action from the marketplace of ideas to the commercial marketplace … Change is in the air. I challenge you to be part of that change – to be at the head of the race. Any government or major business that doesn't have a climate strategy is in trouble."

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Global

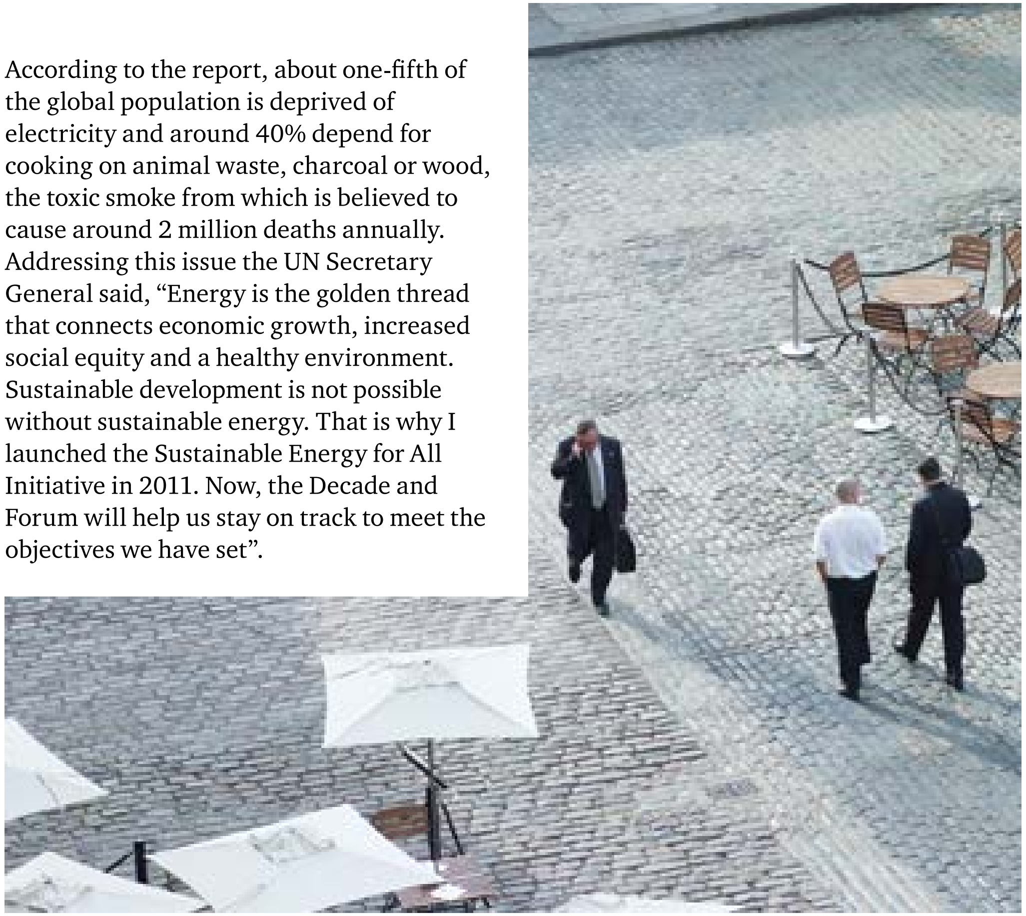
UN

UN inaugurates 'the Decade of Sustainable Energy for All (2014-24)' initiative

A decade-long initiative on promoting sustainable energy was launched by the United Nations at the Bloomberg New Energy Finance Summit in New York on 9 April. The UN press release states that the initiative entitled Decade of Sustainable Energy for All (2014-24) has three key objectives: "ensuring universal access to modern energy services, doubling the global rate of improvement in energy efficiency and sharing renewable energy globally". In spite of a 14% fall in investments, mainly because of policy uncertainty and the decreasing cost of solar PV systems, the share of renewable energy in the global electricity mix continued to rise over 2013, according to a United Nations Environment Programme (UNEP) report.

The UN Secretary General's Special Representative on the initiative, Kandeh Yumkella, announced that the first annual forum under the Sustainable Energy for All initiative will be held over 4-6 June in New York in partnership with the World Bank and others. The forum, which will bring together leaders from governments, the private sector and international organisations, will provide a platform to assess the progress made with regards to sustainable energy, will showcase advances, will make new commitments and will initiate further action. The forum will also discuss energy issues in the post-2015 development agenda and drive sustainability debate in the lead up to the UN climate change summit in September. In his address Mr Yumkella highlighted the importance of the private sector in achieving the sustainability objectives and requested their support.

According to the report, about one-fifth of the global population is deprived of electricity and around 40% depend for cooking on animal waste, charcoal or wood, the toxic smoke from which is believed to cause around 2 million deaths annually. Addressing this issue the UN Secretary General said, "Energy is the golden thread that connects economic growth, increased social equity and a healthy environment. Sustainable development is not possible without sustainable energy. That is why I launched the Sustainable Energy for All Initiative in 2011. Now, the Decade and Forum will help us stay on track to meet the objectives we have set".



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Global

UN

IPCC releases a report on the impacts, risks and opportunities associated with climate change

The Intergovernmental Panel on Climate Change (IPCC) published a further report on climate science on 31 March.

That means that in the last six months, the Intergovernmental Panel on Climate Change (IPCC) released the three instrumental reports on climate science that it has been tasked to deliver. These reports represent the last consensus from the scientific community and will inform the policy direction of governments on climate change.

In the first two reports, the IPCC's report dispelled the idea that climate change is only a long term concern and pointed strongly at the human influence. It highlighted that observed impacts are widespread and consequential on all continents and across all oceans.

In its third Working Group report, the IPCC identifies eight key risks across sectors and regions and five reasons for concern.

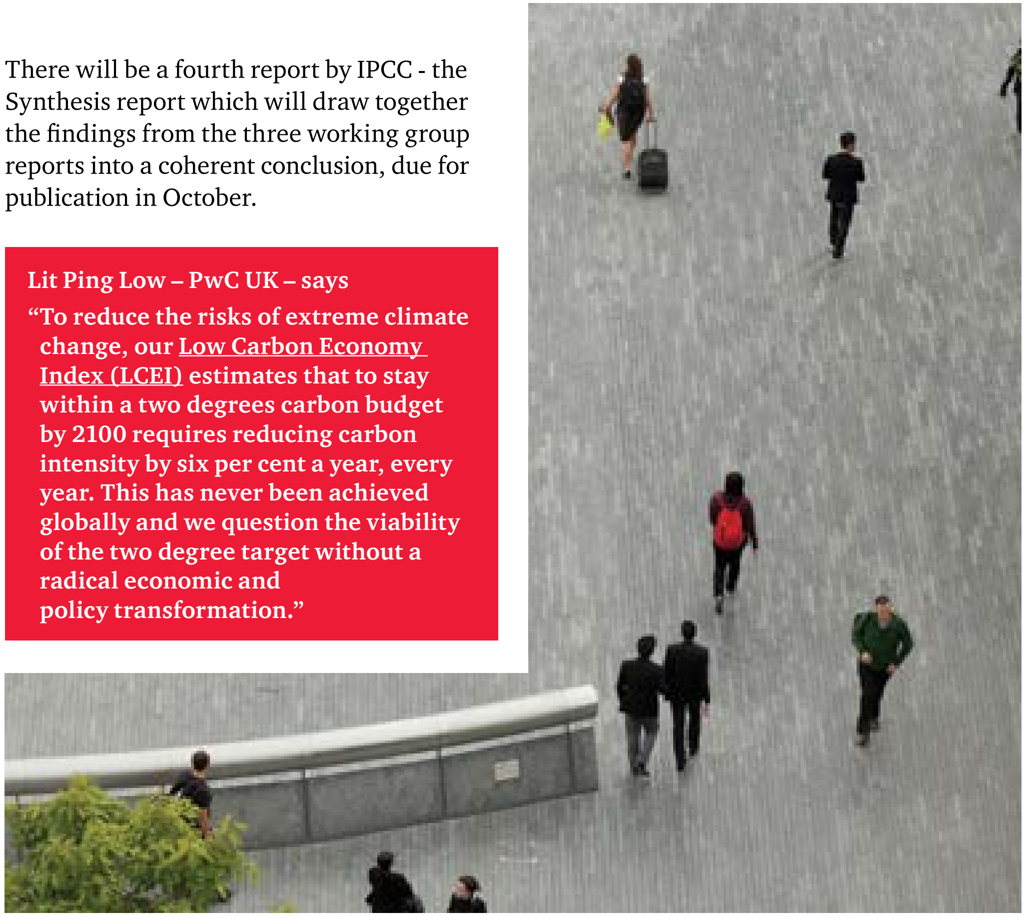
Those most at risk include the small island developing states, the low lying megacities and rural communities in Asia, and the agriculture-driven economies in some of the least developed countries in Africa in particular. In general, the poorest countries and poorest sections of all societies – i.e. those with least capacity to adapt – are likely to be hit the hardest. Globally, IPCC suggests that (based on imperfect estimates and models) global losses in GDP could be around 0.2% - 2% under warming of two degrees Celsius, and greater warming could lead to exponentially higher impacts.

According to the Co-Chair of Working Group II Chris Field, "Understanding that climate change is a challenge in managing risk opens a wide range of opportunities for integrating adaptation with economic and social development and with initiatives to limit future warming. We definitely face challenges, but understanding those challenges and tackling them creatively can make climate-change adaptation an important way to help build a more vibrant world in the near-term and beyond."

There will be a fourth report by IPCC - the Synthesis report which will draw together the findings from the three working group reports into a coherent conclusion, due for publication in October.

Lit Ping Low – PwC UK – says

"To reduce the risks of extreme climate change, our Low Carbon Economy Index (LCEI) estimates that to stay within a two degrees carbon budget by 2100 requires reducing carbon intensity by six per cent a year, every year. This has never been achieved globally and we question the viability of the two degree target without a radical economic and policy transformation."



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Contact us

For your global contact and more information on PwC's sustainability and climate change services, please contact globalgreenpolicyinsights@uk.pwc.com

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