Climate Policy News

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EU Emission Trading Scheme

UK wants deeper ETS reform cancelling surplus permits

The Department of Energy and Climate Change of the United Kingdom government on Wednesday (July, 16) published a report setting out the **UK vision for the EU ETS in fourth phase** starting in 2021. The document was disclosed following an informal meeting of EU environment Ministers in Milan, Italy, and it highlighted the need for a substantial and comprehensive reform of the EU ETS, calling for "**cancellation of an ambitious volume of allowances to reduce the current surplus** and help restore the balance between supply and demand". The UK welcomed the **EU Commission's proposal issued in January for a Market Stability Reserve** (MSR), but said "it does not correct the problem of oversupply in the EU ETS, and as such is **insufficient to put the System on the right track once and for all**". The EU Commission's proposal for fixing the EU ETS is currently under discussion among EU 28 Members. It involves introducing the MSR, a tool to regulate market supply, starting from 2021. In the past weeks Germany proposed to **bring the introduction of the MSR forward to 2017** and move the **900 million allowances delayed from auctions under the short-term back-loading plan directly into the reserve**, rather than reintroducing them into the market starting from 2019, as the current regulation provides for.

News from the World

Australia's Liberal government dismisses carbon tax

Australia's Senate on Thursday (July, 17) voted 39-32 to **repeal the country's carbon tax introduced by Labor government in 2011**, planned to pass into a cap-and-trade system from 2015. The vote marked **a victory for Liberal Prime Minister Tony Abbott,** who made abolition of the carbon pricing mechanism a major issue during his election campaign in 2013, Reuters reported. The "Carbon tax repeal" bill removes the obligation on about 350 companies to pay **A$24.15 for each ton of CO2** they emit with effect from 1 July 2014, Australia's Clean Energy Regulator explains on its website. The new bill also paves the way for implementation of the **Direct Action Plan**, the alternative policy proposed by Australian government "to efficiently and effectively source low cost emissions reductions". It consists of the Carbon Farming Initiative, allowing farmers and land managers to earn carbon credits by storing carbon or reducing GHG emissions on the land, and then sold those credits to people and businesses wishing to offset their emissions, and of a A$2.55 billion Emissions Reduction Fund (ERF) to provide incentives for abatement activities. Under the Cancún Agreements adopted in 2010 at the UNFCCC annual Conference of the Parties (COP16), Australia has **committed unconditionally to reducing its overall emissions by 5 per cent by 2020**, **compared with 2000 levels**. Thursday's abolition of the tax raised **criticism, and doubts on whether Australia will be able to meet its targets**. "By repealing the carbon pricing mechanism, it is entirely unclear how this may now be achieved," associate director with Australian carbon advisory firm Reputex Bret Harper told Reuters. EU Climate Action Commissioner Connie Hedegaard expressed "regrets" in an official statement published on Thursday. "The EU is convinced that pricing carbon is not only the most cost-effective way to reduce emissions, but also the tool to make the economic paradigm shift the world needs", Hedegaard said, adding that "with today's repeal of the Carbon Pricing Mechanism, the **discussions to link the Australian system and Europe's carbon market** will evidently be discontinued".

US and Japan power companies plan CCS system to boost oil production

The American NRG Energy and Japan's JX Nippon power utilities on Tuesday (July, 15) announced they have teamed up to build a first-of-its-kind system **to capture CO_2 emissions from an existing coal-fired power plant** located in Fort Bend County, Texas. According to NRG's release, the Petra Nova Carbon Capture Project is expected to capture around **1.6 million tons of CO_2 annually**, to be compressed and **piped through an 82-mile long pipeline to an aging oilfield, boosting oil production** at the field from around 500 barrels per day to approximately 15,000 barrels per day. The planned technology is named **Enhanced Oil Recovery (EOR)**. The project will be operational by the end of 2016, NRG said, and it will **cost approximately $1 billion**, of which $167 million in grants from the US Department of Energy's Clean Coal Power Initiative and $250 million in loans provided by the Japan Bank for International Cooperation and Mizuho Bank.

The Carbon Market

A bullish EU energy market pushed prices for European carbon allowances to a 4-month high during the week, before retreating on profit-taking. EU gas and coal prices jumped on Thursday after a Malaysian Airlines passenger jet crashed over eastern Ukraine, and traders envisaged further deteriorations of the Russia-Ukraine crisis. The EUA Dec-14 closed on Friday at €6.02 up 4.51 percent from previous Friday's finish. In the UN-backed CDM market the front-year CERs ended flat at €0.15.

SOURCES TO THIS ISSUE

Reuters Point Carbon, UK Dep. of Energy and Climate Change, Italian Presidency of EU Council, Australia Clean Energy Regulator, Australian Government website, NRG Energy Press Release

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