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EUROPEAN NEWSLETTER ON ENVIRONMENTAL FISCAL REFORM

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!!! Eighth Global Conference on Environmental Taxation !!!
Munich, 18-20 October 2007

The Eighth Global Conference on Environmental Taxation is part of an annual series of international conferences focussing on environmental fiscal reform. The conference provides a forum for legal scholars, economists, political scientists, conservationists, representatives of the private sector and non-governmental organisations to exchange the latest research on the use of environmental taxes and other market-based instruments, as well as other economic instruments such as tax relief and subsidies, to advance environmental policy objectives.

This year's conference will focus on the positive effects of environmental taxation and environmental fiscal reform. The focus will not only be on their ecological benefits, as these are already well-documented, but rather on less well-publicised aspects of EFR, such as the stimulation of innovation, development of new technologies and job creation. More see chapter 2 and http://www.worldecotax.org/

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Quotation of the month:An inconvenient tax

"For the last fourteen years, I have advocated the elimination of all payroll taxes – including those for social security and unemployment compensation – and the replacement of that revenue in the form of pollution taxes – principally on CO_2. The overall level of taxation would remain exactly the same. It would be, in other words, a revenue neutral tax swap. But, instead of discouraging businesses from hiring more employees, it would discourage business from producing more pollution.

Global warming pollution, indeed all pollution, is now described by economists as an 'externality.' This absurd label means, in essence: we don't to keep track of this stuff so let's pretend it doesn't exist."

Former US Vice President Al Gore at New York University, 18th September 2006.

1. EDITORIAL

Dear Readers and Friends of GBG,

From EU to G8 summit, climate protection has become a top issue on the international agenda. The debates on the G8 summit in Heiligendamm this June were strongly focussed on environmental issues like reducing carbon emissions and finding new solutions to tackle climate change. These discussions resulted in calls for more and more market-based instruments. After a pretty long period of stagnation, something is happening in all parties. When it comes to emission trading, we have already witnessed a quite important development: At our annual conference in Berlin on "The Price of a Stable Climate and the Future of Emission Trading" – organised with the Heinrich-Böll Foundation and with the cooperation of Deutsche Bank Research – politicians from all parties of the Bundestag agreed to auction at least some proportion of emission trading certificates! Who would have thought this would have been possible just months ago?

While the wind of change keeps blowing, GBG is working hard organising the "8th Global Conference on Environmental Taxation" from 18-20 October 2007 in Munich, Germany.

With its attractive program and prominent speakers from all over the world, including many speakers from developing and emerging economies, and representatives of international organisations such as the EEA, EEB, OECD, UNEP, and UNESCAP, and the German Federal Ministries for Environment and for Economic Cooperation and Development, our conference will be a real highlight of autumn 2007.

If you haven't registered already, you should do so soon. Take a look at section two for more details.

Further information can be found on our website: http://www.worldecotax.org/

Aside from this, we have seen other positive developments elsewhere. New eco taxes in Ireland and the Czech Republic, as well as new discussions on eco taxes in Finland and concrete proposals in the Netherlands are of course a signs of success for both GBG and the environment. Further afield, proposals for tax on polluting products are being prepared by the Environment Ministry in India and the South African government is promoting a discussion on market-based instruments for environmental policy, while trading vs. taxes debates are becoming increasingly prominent in the US media – and in New York, congestion charging is being mooted.

As the news agency Reuters reported after a high-level conference in Brussels, "Eco taxes are on the up". We are doing our best to keep the ball rolling…

Jacqueline Cottrell, Jakob Rinkewitz

New Green Budget Germany report: "market-based instruments for the environment"

[Christian Meyer, GBG] Green Budget Germany has published a new report on "Ecotaxes and Emissions Trading in Germany and Europe". The report was commissioned by the GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit – German Technical Cooperation) and written as part of the German-Chinese environmental dialogue. It provides an overview of current market based instruments such as environmental taxation and emission trading. The document is now available on our website under the following link:

http://www.foes.de/en/downloads/study/Study_Market_Based_Instruments24.pdf

2. GLOBAL CONFERENCE ON ENVIRONMENTAL TAXATION

Innovation, Technology and Employment – Impacts of Environmental Fiscal Reforms and other Market-Based Instruments

Munich, 18-20 October 2007

Register now to secure your early bird discount!!

Program now online:
http://www.worldecotax.org/downloads/info/GCET-08_Program.pdf

The **Global Conference on Environmental Taxation (GCET)** provides an interdisciplinary forum for the exchange of ideas, information and research findings about the use of environmental taxes and other economic instruments across international boundaries. At the conference, leading scholars in the fields of law, economics, accounting, fiscal policy, political science and scientific disciplines come together to discuss ongoing developments relating to the potential of using economic instruments to combat the global environmental challenges of the 21st century. Selected papers from each conference are published by the Oxford University Press in an annual, peer-reviewed volume, *Critical Issues in Environmental Taxation*.

The 2007 conference will focus on the proven positive impacts of environmental fiscal reform (EFR) and other market-based instruments. The primary focus will be on less well-publicised aspects of EFR, such as the stimulation of innovation, the development of new technologies, and job creation. Understanding these positive effects – and communicating them – has a vital role to play in the implementation of EFR in the future to support a smooth transition to a sustainable economy.

Keynotes and plenary speakers include Professor Klaus Töpfer, former Executive Director of UNEP and former German Environment Minister; Professor Jacqueline McGlade, Executive Director of the EEB; Rae Kwon Chung, Director of Ecology and Sustainable Development, UNESCAP; Professor Ernst Ulrich von Weizsäcker, and many more.

The conference is being organised by Green Budget Germany, together with academic partners Professors Wolfgang Wiegard and Wolfgang Buchholz from the Faculty of Business, Economics and Information Systems, University of Regensburg. A special workshop on Environmental Fiscal Reform in Developing, Emerging, and Transition Economies is being co-hosted by the Federal Ministry for Economic Cooperation and Development (BMZ) and the German Technical Cooperation (GTZ). The conference will take place under the patronage of Munich's Lord Mayor Christian Ude, who is hosting a cocktail reception in Munich's medieval old town hall. Other sponsors and partners include the Federal Ministry for Environment, Conservation and Nuclear Safety, the Federal Environment Agency, the GTZ and the Federal Ministry for Economic Cooperation and Development, the City of Munich, the Stadtwerke München, the EEA, the EEB, the *Deutsche Bahn* (German Rail), the Austrian Environment Ministry, ENDS Europe Daily, the Deutsche Bank, Macquarie Law School, Vermont Law School, the BEE (German Renewable Energy Association), Greenpeace Energy, Unternehmensgrün, HIPP, ZMM Zeitmanager München, Management Angels, Rotary International Nyphmenburg, the OECD, and the Ethikbank.

If you or your organisation are interested in becoming a conference sponsor or partner, please contact Green Budget Germany at:
mailto:foes@foes.de or make an online donation:
http://www.foes.de/de/spenden.html

Conference flyer online:
http://www.worldecotax.org/downloads/info/GCET-08_Brochure.pdf

The conference website provides detailed information on all aspects of the conference:
http://www.worldecotax.org/home.html

Sincere thanks to all our sponsors and partners

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ENDS Europe REPORT

3. ECOLOGICAL TAX REFORM

EU: Commission launches debate on further use of market-based instruments

[European Comission press release, March 28th 2007] Right after the successful Spring European Council that set very ambitious goals in the area of energy and climate change, the European Commission adopted a Green Paper on the use of market-based instruments for environment and energy-related policy purposes. Since market-based instruments have proven to be a cost-effective means of achieving policy goals, the paper aims to stimulate a broad public debate on how taxes, tradable emissions rights and other market-based instruments can be used more widely and effectively for environmental and energy policy purposes at Community and national level. This Green Paper is a joint project by Commissioners Dimas and Kovács, in association with Commissioners Barrot and Piebalgs.

Environment Commissioner Stavros Dimas said: "Market-based instruments such as emissions trading, environmental taxes and targeted subsidies harness the power of market forces to protect the environment. This more flexible and cost-effective approach has proved its value but it is still underutilised. In launching this Green Paper our goal is to promote the use of market-based instruments whenever they are appropriate to the circumstances so that Europe's environment is protected most effectively."

László Kovács, the Commissioner responsible for Taxation and Customs Union said: "Fiscal policies will have an important role to play in the delivery of the ambitious objectives endorsed by the last European Council." He added: "Taxation should in the first place discourage what is undesirable rewarding at the same time all sorts of positive behaviour, being it energy savings or environment-friendly activities. Tax revenues can then be used to favour economy-friendly activities, such as innovation or jobs."

The Green Paper covers a wide range of areas where market-based instruments (mainly taxes, emissions trading rights) can be further promoted, in particular in energy use, transport's impact on the environment and in other specific areas of environmental policy such as sustainable management of water, waste management, protection of biodiversity and reduction of air pollution.

In particular it focuses on possible ways forward to make the Energy Taxation Directive more directly supportive of the Community's energy and environmental objectives.

The Green Paper also suggests the creation of a new forum that could encourage and facilitate exchanges of experience and best practice between Member States on the use of market-based instruments and co-ordination of national approaches as well as national experiences with Environmental Tax Reforms.

The Green Paper concludes that there should be an increased use of market-based instruments to achieve environmental and other policy objectives, both at Community and national levels. The Commission is inviting reactions to the Green Paper from other EU institutions, Member States, all stakeholders and the public. It will decide on appropriate follow-up in the light of the responses received.

In particular, the Commission intends to take the reactions on the Green Paper for the upcoming review of the Energy Taxation Directive.

More intensive use of market-based instruments is advocated in the Sixth Environmental Action Programme (6EAP) and in the EU Sustainable Development Strategy. By influencing prices (through taxation or incentives), or setting absolute quantities (emission trading), or quantities per unit of output, market-based instruments implicitly acknowledge that firms differ from each other and therefore provide flexibility that can substantially reduce the costs of achieving given policy objectives.

At EU level, several market-based instruments with an environmental or energy motivation have already been introduced, including the EU Emissions Trading Scheme for greenhouse gas emissions, the Energy Taxation Directive and, in the field of transport, the Eurovignette Directive. Moreover Member States also use market-based instruments for environmental purposes at national level to a greater or lesser degree.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/430

Further information on the green paper as well as its technical annex can be found at:

http://ec.europa.eu/taxation_customs/index_en.htm
http://ec.europa.eu/environment/index_en.htm

The paper on market based instruments can be on the following website:

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/430
EEB:
http://www.eeb.org/press/280307_environmental_fiscal_instruments_paper_too_timid.html

Brussels Tax Forum

[Euractiv.com, June 22nd 2007] On 28th March 2007 the European Commission presented ideas for "green taxes" to save energy and cut greenhouse-gas emissions. It says an ecological tax reform which could increase the bloc's competitiveness by shifting the burden away from labour taxes.

EU heads of state and government, meeting in Brussels on 8-9 March 2007, committed to reducing European CO_2 emissions by 20 percent by 2020 compared with 1990 levels – a bold promise, when one considers that Europe is already struggling to meet its current target, under the Kyoto Protocol, of cutting these emissions by 8 percent by 2012.

Currently, the EU's principal tool to reduce emissions is its carbon trading scheme, but the EU will have to find new ways to discourage pollution if it is to reach its ambitious goal. Taxation could provide an answer as it can be used to move producers and consumers away from non-environmentally friendly goods.

Already, Europe has set minimum fuel tax rates that are considerably higher than in the United States, making fuel at the pump more expensive and inducing car manufacturers in the EU to produce vehicles that are on average 30 percent more fuel- efficient than in the US.

However, many member states, including the UK, Ireland and many of the central and eastern European countries, remain reluctant to give up their sovereignty in the field of taxation – and any move at EU level would require unanimity-backing from all 27 EU nations.

Policymakers, experts and stakeholders came together on 19-20 March 2007 at the Brussels Tax Forum in order to discuss ideas on taxation for sustainable development.

Despite member states' resistance to imposing common taxes at EU level, the Commission and the German Presidency are looking to get all 27 nations on board by convincing them that such a move is essential to the fight against climate change.

The global warming argument has worked in the past. In 2005, the idea of a common European energy policy was practically unheard of. But, by putting the main focus on the need for Europe to take the global lead on climate change – and with a little help from Russia in stressing the need for Europe to secure its energy supplies – the EU acquired a strategy for a new 'common energy policy' in less than two years.

The Commission now hopes it can convince member states to introduce ecological taxation – a move already made by Germany back in 1999 – and it has already made a start, proposing that minimum duties on commercial diesel fuel be raised in order to stop trucks adding to pollution by taking detours to fill up their tanks in the cheapest countries.

Carmakers are also calling for a harmonised EU tax system; based on cars' CO_2 emissions, which they say could tempt consumers to buy greener vehicles, lowering car-fleet average emissions by 5 percent.

Tax Commissioner László Kovács said that taxes had the capacity to steer the bloc's 500 million consumers toward a more efficient use of resources, while at the same time recycling the revenues back into the economy.

He added that there is a real scope for action in this field: "The tax that the public is most inclined to pay is environmental taxes, because they do understand that what is at stake is the future of mankind…Even governments are inclined to give preference to taxing pollution and consumption because to lower the tax on labour would certainly result in a higher level of competitiveness."

German Finance Minister Peer Steinbruck said: "The Commission needs to look at tax issues over the whole of the EU," adding that work on harmonising energy taxes across the EU should be accelerated. "We think it's possible to create jobs and protect the environment," he said.

"The political stage and citizens…are more and more confronted to the consequences of the changing climate and of environmental pollution. So, I think the understanding and the willingness to pay for it increased. And in the meantime, a lot of our industries made the experience that to offer highly technology-oriented projects and procedures is a factor of higher competitiveness," he said.

"Market-based instruments are the most direct and simplest way to make the polluter pay," Environment Commissioner Stavros Dimas

said, adding "There is a logic for action at EU level."

Jacqueline McGlade, executive director of the European Environment Agency (EEA) said: "Ecological Tax Reform can help us to realign a European economy that is still characterised by an insufficient use of labour resources and an excessive use of natural resources."

Business has cautioned that higher taxes could damage the European economy's ability to compete on the global market.

The following links refer to the official programme and press articles:

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/318&format=HTML&aged=0&language=en&guiLanguage=en

http://ec.europa.eu/commission_barroso/kovacs/taxforum/introduction_en.htm

http://www.euractiv.com/en/climate-change/eu-seeks-fight-climate-change-taxes/article-162583

http://www.reuters.com/article/environmentNews/idUSL1958084220070319?sp=true

Carbon-energy taxation contributed to economic growth

[National Environmental Research Institute, University of Aarhus, Mikael Skou Andersen, 19th March 2007] When taxes are introduced on energy and CO_2 emissions, and the income is used to reduce other taxes, a positive effect is achieved both for the environment and for the economy. Economists from Cambridge Econometrics have, in an EU research project coordinated by the National Environmental Research Institute, University of Aarhus, shown that the 'double dividend' theory can no longer be rejected in practice. In five EU countries, CO_2 and energy taxation over the last 17 years has made a small but positive contribution to economic growth of up to 0.5 per cent, at the same time as CO_2 emissions have been reduced.

Taxes on energy and CO_2 emissions from fossil fuels can be an effective tool in addressing the climate problem, and without negative effects for a country's competitiveness – that is so long as the taxes do not simply go into the public purse, but are used to reduce other distortionary taxes and charges. This is the conclusion of the largest to date international study of the effects of CO_2 and energy taxation in European economies. The results of the study are being presented at a workshop for specialists following the Sustainable Taxation conference in the EU Commission's headquarters in Brussels , 19-20 March.

EUR 25 billion a year

The theory that a 'double dividend', meaning a positive effect both for the environment and for the economy, can arise from environmental taxation was put forward by the late professor in environmental economics, David Pearce, London, in 1990. 17 years ago, Finland was the first country to introduce taxes on CO_2. Later, Sweden, Denmark, Holland, Germany and UK followed suit with tax reforms that shifted taxation from labour to pollution. Over the years, CO_2 and energy taxes have gradually been raised, so that taxes of more than EUR 25 billion a year have been shifted.

Where economic models are usually used to produce forecasts and projections, in this research project the economists have been able to work with historic data. The research team consists of partners from five countries and is coordinated by the National Environmental Institute (NERI), University of Aarhus. We have spent two years collecting and processing detailed data for energy use, tax payments, energy prices, fuel choice and CO_2 emissions. The large amount of data has been processed in the empirical time-series estimated, disaggregated econometric Energy-Environment-Economy model for Europe (E3ME), developed by Cambridge Econometrics. It is one of the most detailed and realistic in the world when it comes to the analysis of the energy sector and trade between EU Member States. Using advanced econometric techniques, the effects of CO_2 and energy taxation have been separated out from the underlying trends.

Replacing taxation on labour with that on carbon-energy has resulted in economic growth

The analysis shows that, even though the taxes implemented have been relatively modest, they have, in the countries examined, contributed to a reduction in the emissions of greenhouse gases of between 1.5 and 6 per cent, in 2004. In 2012, at which point Kyoto targets should be met, the effect will comprise a contribution to the reduction of up to 7 per cent below the outcome without the tax reform. From an economic perspective, the tax reform has on the whole produced a modest but significant, positive effect on economic growth. There are sectors which lose under the reform, but there are also others which gain, and overall there has been an economic advantage for five of the six countries studied. In UK the reform has been

neutral, but here the scale of the tax rates levied has been modest and it is also the most recent environmental tax reform. The positive contribution to economic growth arises because carbon-energy taxation leads to more efficient use of energy while at the same time wage costs are lowered. It also leads to improved competitiveness for energy-efficient businesses and for the development of new products which also can be exported. Taxation of petrol shifts demand to other products and products of a more domestic nature.

The analyses point, moreover, to a difference in outcomes according to whether it is the energy price which is increased or the energy tax. First and foremost this is due to the fact that the revenue from a tax remains in the public purse and can be used to lower other taxes. Furthermore domestic taxes do not affect the prices of imported raw materials and intermediate goods. This is an important result for the discussion amongst policy makers on how use of taxes as an instrument in climate policy can be combined without adverse effects on competitiveness. The effect of green tax reform (ETR) on economic growth. The effect is measured as the difference between the baseline and the reference case. Slovenia has not introduced green tax reform, but has adjusted energy taxes in the industrial sector according to CO_2-content. Source: Cambridge Econometrics.

Special arrangements are not emphasised

Simply obtaining an overview of the actual tax rates and the many exemptions for energy-intensive industries has presented a difficult task. Countries do not make a point of emphasising the special arrangements which are to be found. Also energy prices normally differ for large users in relation to those for small companies. With a database which contains sector-specific energy prices and taxes, we have created an improved basis for future analyses. The Energy Tax Directive will be reviewed in 2007. Not least in light of expected climate changes and the EU's ambition, as expressed at the March 2007 Summit, to reduce the emissions of greenhouse gases by 20-30 per cent by 2020, greater attention is expected to be focused on energy taxation.

The research is part of an EU research project under the 'Scientific Support to Policies' initiative of the EU's 6th Framework.

http://www.dmu.dk/International/News/CO2tax.htm
www.dmu.dk/COMETR

Switzerland to introduce CO_2 tax

[pointcarbon.com, July 2nd 2007] Switzerland will introduce a carbon dioxide tax on heating and process fuels and a domestic emissions trading scheme from 2008 in a bid to meet its international obligations to cut greenhouse gas emissions, the government announced last week. Under the Kyoto Protocol, Switzerland is obliged to cut greenhouse gas emissions 8 per cent under 1990 levels from 2008 through 2012, but emissions are currently around 1990 levels.

The government will apply the tax to all imported heating and process fuels and will be levied at the rate of 8.00 per tonne from 2008. The tax will double in 2009 if emissions from heating fuel are above 90 per cent of 1990 levels, and will rise to 24.00 per tonne in 2010 if emissions are above 86.5 per cent of 1990 levels.

The revenue will be reallocated to the public and the economy, focusing on domestic emissions reduction measures, such as energy efficiency programmes, which should bring about technological adaptation and stimulate innovation, the government said.

The tax will be the basis of a domestic cap-and-trade scheme, which, according to a government official will also be implemented in 2008. According to the Swiss CO_2 law, companies can accept binding reduction targets in a domestic trading scheme instead of paying the tax. The government said it has already agreed with about 600 companies on emissions caps for the 2008-2012 period. The scheme will cover 4-5 million tonnes of carbon dioxide, about 10-15 per cent of Switzerland's total emissions. The sectors included in the Swiss system will be similar to those in the EU ETS, although the share of electricity production will be limited, as hydro and nuclear energy dominate in Switzerland's energy mix.

The allocation of certificates will be free of charge. In case of non-compliance, companies will have to pay the CO_2 tax retroactively for each tonne of CO_2 emitted. Companies will have also the possibility to use JI or CDM credits for compliance reasons but the amount will be limited to 8 per cent of the company's reduction obligation. Switzerland aims at linking its national system with the EU ETS. An official with the ministry of environment told Point Carbon that there are informal talks on a technical level with the European commission, but official negotiations haven't

yet started. The timing of the linking remains open, he added.

For more information: In 2005 Green Budget Germany, in cooperation with WWF and Greenpeace Switzerland, made a study about the potential of a Swiss CO_2 tax:
http://www.foes.de/de/schweizstudie2005.php

Canada: Steep carbon tax could actually stimulate economy: report

[Mike De Souza, CanWest News Service, June 20th 2007] It was denounced by Environment Minister John Baird as "the mother of all taxes," but a new report for the federal government says a $50-per-tonne carbon tax to reduce greenhouse gas pollution would do little harm to the Canadian economy.

The study – titled "Cost Curves for Greenhouse Gas Emission Reduction in Canada: The Kyoto Period and Beyond" – was submitted to the government in January. Green party Leader Elizabeth May said it proves the Conservatives knew the top experts were urging them to accept her proposal of a $50-per-tonne carbon tax as the most effective tool to fight global warming.
http://www.canada.com/nationalpost/financialpost/story.html?id=249e5ba3-d6e8-4784-8e79-bd29f83dbfe8&k=84335

Canada: Majority supports green tax

[Mike De Souza, CanWest News Service, April 2nd 2007] More than three-quarters of Canadians believe the country's environmental regulations are too weak, and nearly 60 per cent would support a green tax on consumer and industrial products to crack down on pollution, a new government study has concluded.

The statistics, from an Environment Canada poll, come as the minority Conservative government faces off with opposition parties over whether to strengthen legislation on air pollution and climate change that was tabled last fall.

The newly released survey of 2,000 Canadians was published in February, and found that 31 per cent of Canadians strongly favoured a new tax, and 27 per cent were somewhat in favour, for a total of 58 per cent.

Overall, 76 per cent of respondents said they believed current environmental regulations weren't strong enough. In specific sectors, 52 per cent were concerned about food product regulations, and 51 per cent were worried about environmental standards for consumer products.

The Conservatives have stood behind their original plan from the fall for mandatory regulations to crack down on industrial pollution. But the opposition parties have argued the plan doesn't require any absolute reductions in emissions for about 15 years, and they've used their majority on a special Commons committee to add tougher targets to the government's legislation, along with new penalties or fines for companies that don't comply.

Environment Minister John Baird has said the opposition measures are part of a Liberal carbon tax proposal that wouldn't work.

"There's no requirement under (Liberal Leader) Stephane Dion's plan for anyone to ever reduce a single megatonne of greenhouse gases," Baird said last week.

"It's not a compliance mechanism that the Liberals voted for and support, and we think it's the wrong way to go. We're going to come forward with some additional measures that will get the job done for Canadians that will strike the right balance and demonstrate real leadership in this country, and Canadians will be able to see that action versus Liberal talk."

But only one in five respondents to the survey, which was conducted in December, said the federal government was doing a good (19 per cent) or excellent (three per cent) job at preventing or controlling pollution. Seventy-four per cent said the government's performance was either fair (39 per cent) or poor (35 per cent). The survey is considered accurate within 2.2 percentage points, 19 times out of 20.

US: Carbon Taxes Versus Carbon Markets

[Ronald Bailey, reason, May 24th 2007] Policymakers and businesses are now trying to figure out the best way to limit the emissions of greenhouse gases, especially carbon dioxide, which is produced by burning fossil fuels such as coal, oil, and natural gas. Why impose limits? Because accumulating scientific evidence indicates that the increased concentration of greenhouse gases in the atmosphere is causing average temperatures to rise globally. This increase could trigger significant disruption of the world's climate by the end of this century. Although there remain serious uncertainties about the magnitude of the human role

in climate change, there is a growing consensus that emissions need to be reduced.

The battle now is over how. The two leading approaches are carbon markets and carbon taxes. Surprisingly, a great many free marketeers favor higher taxes on carbon-emitting fossil fuels over a cap-and-trade carbon market, including former Federal Reserve chairmen Paul Volcker and Alan Greenspan, former chairman of President Bush's Council of Economic Advisers Gregory Mankiw, and former Duke Energy CEO Paul Anderson. A Wall Street Journal Survey in February 2007 found that 54 percent of economists favor a carbon tax over all other approaches.

Earlier this year, ExxonMobil laid out a set of principles for reducing carbon emissions, including maximizing the use of markets, ensuring a uniform and predictable cost of carbon across the economy, minimizing complexity to reduce administrative costs, and providing transparency to companies and consumers. ExxonMobil's vice president for public affairs, Ken Cohen, noted in a conference call with environmental and energy bloggers in January, "Most economists who have looked at this issue would come away saying a carbon tax makes the most sense. It's the most efficient policy. The most sector-neutral. It doesn't favor or disfavor one part of the economy over another." Cohen added, "We do look seriously at carbon tax proposals, but…the devil is in the details."

While carbon taxes are preferred by many policy analysts, proposals for carbon markets dominate Capitol Hill. For example, Senator John McCain, one of the leading Republican candidates for president, said in February that "any responsible climate change measure must have rational, mandatory emission reduction targets and timetables," and it "must utilize a market-based, economy wide 'cap-and-trade' system." McCain is a co-sponsor, with Senator Joe Lieberman, of the Climate Stewardship Act, which would establish a nationwide limit on greenhouse gas emissions and then issue permits to emit greenhouse gases. The McCain-Lieberman bill ambitiously aims to cut greenhouse gas emissions by almost 60 percent below what they would otherwise have been in 2030. Companies that have low emissions could sell their emissions rights to companies that find it expensive to reduce their own emissions.

Business leaders see the policy handwriting on the wall and are rushing to help shape the emerging greenhouse gas (GHG) emissions regulatory scheme to their own best advantage. A government-created market in emissions permits would be particularly responsive to this kind of gamesmanship. In January, the U.S. Climate Action Partnership, consisting of ten big companies with a total market capitalization of $750 billion, including DuPont, Alcoa, General Electric, and BP America, issued a "blueprint for a mandatory economy-wide, market-driven approach to climate protection."

Also in January, the Electric Power Supply Association, the lobby group that represents competitive power suppliers that account for 40 percent of the generating capacity of the U.S., acknowledged that "regulatory and legislative processes are moving forward seriously and with speed." In February, the power-industry lobby group, the Edison Electric Institute, came out in favor of "federal action or legislation to reduce greenhouse gas emissions that...involves all sectors of the economy, and all sources of GHG."

Cap-and-trade schemes for reducing pollutants have a lot going for them. First, many businesses favor them. Second, we already have an American example of a similar market that works. Third, carbon markets are accepted under international treaties and already exist abroad. Fourth, most environmental groups like cap-and-trade systems because they set firm limits on actual emissions. And, fifth, in theory at least, the flexibility of carbon markets enables businesses to figure out the least expensive way to reduce overall emissions. The United States currently maintains a robust cap-and-trade market in sulfur dioxide permits which advocates of a GHG market hold up as a shining example. Sulfur dioxide (SO_2) is emitted by power producers when they burn coal that contains sulfur. Since SO_2 is noxious to breathe and contributes to acid rain, Congress in 1990 enacted legislation requiring emissions from electric utilities to be reduced to 8.95 million tons by 2010 (emissions were 17.5 million tons in 1980). Each year, the Environmental Protection Agency issues permits that allow a smaller and smaller amount of SO_2 emissions.

So far, those emissions are down to about 10.5 million tons annually. According to one estimate by the EPA, by 2010, the annual cost of the reductions to electric utility companies, their customers, and shareholders will be about $3 billion, while the annual benefits – including lower mortality

and fewer hospital admissions from respiratory illnesses; improved visibility; cleaner soil, lakes, and streams; and reduced damage to buildings – will exceed $100 billion. Even if these figures are exaggerated, the SO_2 cap-and-trade system appears to be a major success.

The American SO_2 market served as the model for the European Union's Emissions Trading Scheme (ETS), established two years ago to meet the EU's commitment to reduce GHG emissions under the Kyoto Protocol. Countries set a limit on how much carbon dioxide businesses and participating enterprises will emit and then allocate permits to them. The permits can be bought and sold on an open market. Manufacturers, for example, that can cheaply abate their emissions will have some permits left over. The cheap abaters can then sell their extra permits to other emitters that find it more expensive to reduce emission. In this way, a market in pollution permits finds the cheapest way to cut emissions. "Innovators can invest in technology to produce and sell excess credits," said Jonathan Lash of the World Resources Institute (WRI). "Cap-and-trade creates a market that chooses the best options."

From the point of view of environmental activists, the greatest strength of a carbon market is that it sets an overall specific limit on carbon emissions. As Craig Hanson, deputy director of the People and Ecosystems program at WRI, notes, "What the environment cares about is the amount of emissions and the concentration of greenhouse gases in the atmosphere. Setting limits on emissions is a policy that addresses that problem directly." Matthias Duwe, the director of the Climate Action Network in Europe, explained his group's support for carbon markets by saying, "Environmental effectiveness is what counts. What we want is absolute reductions in emissions. Sending signals to business is secondary."

Despite this enthusiasm, after more than two years of operation, the EU's carbon trading market is not working. The ETS covers the output of about 12,000 big emitters, whose CO_2 amounts to roughly half of the European Union's total emissions. While the EU's 25 governments individually determine the number of permits they will issue, the ETS system directs the handing out of allowances, based on historical emissions, for each factory or other enterprise. Initially, allowances to emit CO_2 traded for around 10 euros per ton. A year later, the price for allowances had risen to 30 euros per ton. At that price the market was being widely hailed a success, as higher prices would be an incentive for companies to work seriously at cutting their emissions. Then, in May 2006, an audit showed that several EU governments had issued permits for 66 million tons more CO_2 than was actually being emitted. Everyone realized that the supply of permits was not scarce, so the price of carbon promptly collapsed to less than 9 euros per ton. By February 2007, an allowance to emit a ton of CO_2 could be had for less than a euro.

The woes of the EU's carbon market are not over. In October 2006, all of the European Union countries forwarded their proposed National Allocation Plans for carbon dioxide emissions to the European Commission. It turns out that all of the countries, except the U.K., allocated permits for emissions that averaged about 15 percent above actual current levels. The EU's environment commissioner, Stavros Dimas, warned: "If member states put more allowances into the market than are needed to cover real emissions, the scheme will become pointless, and it will be difficult to meet our Kyoto targets." In other words, if there is no scarcity of carbon permits, then the permits are worthless, and there is no carbon market.

Many commentators argue that the last two years of turmoil are just the shakeout phase of a carbon market that will soon be robust. But the travails of the ETS highlight the fact that governments have every incentive to cheat. If they issue enough permits, their electricity companies will be able to generate power without adding to their costs—or the costs of their customers. And low energy costs give a nation's businesses a competitive advantage over businesses in other countries.

Is there an objective, scientific way to allocate emissions permits? Not really. The process is inherently political. Chuck Chakravarthy and John Rhoads, energy consultants for Accenture, are blunt in a January article in Public Utilities Fortnightly. "Early winners will be the companies best able to shape regulations," they warn. They urge utility executives to lobby now for emission allocations that will position them "for maximum economic value as compared with competitors."

There's a huge amount of money at stake. At the height of the EU carbon market, for example, the allowances were worth about $50 billion. Under most of the trading schemes proposed on Capitol Hill, the federal government will be handing out a valuable asset – tradable permits – to

firms for free, as is currently done with the successful sulfur emission permits. The U.S. Climate Action Partnership (USCAP) agrees that a significant portion of allowances should be "initially distributed free to capped entities." Last year, William Fang, deputy general counsel and climate director for the Edison Electric Institute, came out strongly for free permits in his congressional testimony.

And who can blame businesses for wanting the federal government to allocate them free permits? A 2003 analysis from the Congressional Budget Office (CBO) estimated that initial allowances could be worth $100 billion annually. Granting allowances will be a substantial financial windfall to many companies. Windfalls from allowance allocations are an issue in Europe. Before the market collapse in April 2006, the consultancy IPA Energy estimated that permits granted to British and German utilities fattened their bottom lines by 1 billion euros and 6 to 8 billion euros respectively.

One way to correct for this be the cap-and-auction method. Auctioning permits is very much like imposing a carbon tax. In this case, the government sets an overall emissions limit and emitters have to buy allowances from the government every year. The chief difference between a cap-and-auction scheme and a carbon tax is that the price of the allowances will vary from year to year. The CBO calculated the income effects of a 15 percent cut in carbon emissions: the average household in the lowest one-fifth of income earners would pay about $560 per year more and households in the highest quintile would pay $1,800 per year; however, $560 represents 3.3 percent of the average income of households in the lowest fifth, while $1,800 is just 1.7 percent of income for households in the top fifth.

If the federal government were to return all of the net auction revenues as an equal lump sum rebate to every household, it would more than fully offset the burden that increased prices would impose on the lower two income quintiles. Their household incomes would rise by $310 and $140 respectively. However, none of the cap-and-trade proposals on Capitol Hill incorporate this kind of comprehensive compensation. Instead, any auction revenues would be dispensed by Congress in the form of R&D energy subsidies.

Like permits, there's a lot of promise – and potential for abuse – in the idea of transnational "offsets." These are arrangements in which, for example, an emitter in a rich country could earn emission permits by installing technology that produces lower levels of GHG for an inefficient emitter in a poor country. Everyone wins, right? Unfortunately, experience shows that such offsets are often phony. For example, The New York Times reported that in one recent offset deal, emitters in Europe paid a Chinese chemical company $500 million to abate its emissions of the potent greenhouse waste gas trifluoromethane, also called HFC-23, which, molecule for molecule, has a warming effect almost 12,000 greater than CO_2. The cost of an incinerator to burn up the gas? Only $5 million. The Chinese company (and government) got a windfall of $495 million, and the European companies gained abundant allowances to emit CO_2, when protecting the atmosphere could have been done a lot more cheaply. Currently, two-thirds of the payments for such international offset projects are going to abate HFC-23.

The other option is to tax all kinds of carbon at the wholesale stage, as far upstream as possible. Utilities and refiners who take raw coal and oil as inputs would pay a tax on these fuels. The extra cost would get passed downstream to all subsequent consumers. Like prices for permits set in carbon markets, carbon taxes would encourage conservation and innovation. Since the tax is levied on how much carbon a fuel contains, it would make fuels like coal less attractive compared with low-carbon fuels like natural gas or even renewable energy like solar and wind power.

Carbon taxes also avoid the baseline quandary that bedevils carbon markets. For example, signatories to the Kyoto Protocol are supposed to cut their emissions of greenhouse gases by 7 percent below what they emitted in 1990. Why? That goal has no relationship to any specific environmental policy objective. In fact, achieving the cuts specified by the Kyoto Protocol goals would reduce projected average global temperatures by only about 0.07 degrees Celsius by 2050. And, as the stalled international negotiations about what to do after the Kyoto Protocol expires in 2012 show, it is very difficult to set new baselines. Also, where should baselines be established for rapidly growing economies like China and India, whose energy use and emissions are expected to more than double by 2030? Under the Kyoto Protocol, the natural baseline is what emissions would be without any restraints. However, calculating or predicting

what a country's emissions will be 20 to 30 years in the future is impossible to do with accuracy.

Under a pollution tax scheme, says William Nordhaus, the Yale economist who has been the leading advocate of this approach, "The natural baseline is a zero-carbon-tax level of emissions, which is a straightforward calculation for old and new countries. Countries' efforts are then judged relative to that baseline."

Another advantage is that the tax could be phased in to poor countries once average incomes reach a certain threshold. For example, carbon taxes might start to kick in when national income reaches $5,000 per capita, slightly higher than China's current level. More generally, having a defined tax rate makes it easy for firms in developed and developing economies alike to predict the future impact of climate policy on their bottom line – something that is considerably harder to do when the government is handing out permits every year. A tax avoids the messy and contentious process of allocating allowances to countries internationally and among companies domestically. Nordhaus says that carbon markets are "much more susceptible to corruption" than are tax schemes. "An emissions-trading system creates valuable tradable assets in the form of tradable emissions permits and allocates these to different countries," writes Nordhaus. "Limiting emissions creates a scarcity where none previously existed and in essence prints money for those in control of the permits."

A carbon tax also offers less opportunity for corruption because it does not create artificial scarcities and monopolies. Of course, governments can engage in chicanery by dispensing tax breaks and subsidies to favored companies and industries. But Nordhaus analogizes carbon allowances to quotas in international trade and carbon taxes to tariffs: overall, it's been a lot easier to manage tariffs than quotas. The main objections to using carbon taxes to limit the emissions of CO_2 are that such taxes have never been used internationally, that they are politically difficult to establish because consumers and businesses dislike taxes, and that they do not establish an actual firm limit on emissions.

Although businesses – especially utilities involved in the SO_2 market – might initially prefer a carbon market, the price stability promised by carbon taxes should eventually win most companies over. Taxpayers can be brought on board if carbon taxes are used, for instance, to reduce their payroll tax burdens. "The great political advantage of carbon taxes is that they raise large revenues which governments can use to reduce other unpopular and more distorting taxes, or finance popular spending programs," says Robert Shapiro, who served as undersecretary of commerce for economic affairs under President Clinton and is now a private consultant. As for establishing precise limits on emissions, taxes can be adjusted over time to achieve whatever limits policymakers decide best balance the costs of climate change with the benefits of economic progress. Nordhaus suggests that the optimal carbon tax trajectory, balancing costs and benefits, would start with a tax of about $17 per ton, rising to $84 in 2050 and $270 in 2100. Economist Paul Portney, former president of the Resources for the Future think tank and now dean of Arizona University's Eller College of Management, proposes starting with a $5-per-ton tax on carbon and raising it by $5 per ton every other year. The first year would raise $9 billion in revenues for the Treasury, rising to $25 billion by 2010 and $75 billion by 2020. A $25-per-ton carbon tax translates into a 5 percent increase in average electricity rates and a boost of about 6 cents per gallon of gasoline.

As the end of the Bush administration approaches, few doubt that the United States will start limiting its greenhouse gas emissions after 2008. But what that will mean for individual companies, the economy as a whole, and ultimately the planet remains to be seen.

http://reason.com/news/show/120381.html

EU: Environmental Taxation Works!

Recently the European Environment Agency published its 2007 report on transport and its GHG emissions 1990-2004. This report clearly shows that Germany's GHG transport emissions have grown by only 5 percent – reflecting the great success of the eco-tax reform of 1999 of course – particularly as the average growth of transport emissions in the EU-15 is up by 25 percent. A reflection of the need to take action to reduce "tank tourism" in Germany's neighbours, Austria's transport GHG emissions increased by 89 percent from 1990 and those of Luxembourg by 156 percent.

http://reports.eea.europa.eu/eea_report_2007_1/en/eea_report_1_2007.pdf

Emission Trading Israel: Committee Report on Green Taxes

Recommendations on fuel and vehicle taxes which will internalize the external cost of air pollution have been formulated by a Green Tax Committee, established by Israel Tax Authority.
http://www.environment.gov.il/bin/en.jsp?enPage=e_Blank-Page&enDisplay=view&enDispWhat=Object&enDispWho=News^l3543&enZone=e_news

South Africa: Govt ponders green taxes

[Yolandi Groenewald, Mail&Guardian Online, 10th June 2007] The government is promoting broader discussion on "market-based instruments" for "incentivising" or "disincentivising" environmental performance, the department of environmental affairs and tourism said this week.

This includes looking at the concept of a "Green Budget" as mooted by Finance Minister Trevor Manuel early during his budget speech. Blessing Manale, spokesperson for the department of environmental affairs and tourism, said government's tools needed to broaden to "what corporates can do voluntarily to minimise their impact on the environment and yet be able to still exceed a financial bottom line". Reports surfaced two weeks ago that the department of minerals and energy was considering introducing a green tax on sports utility vehicles (SUVs). But the department of minerals and energy chief director of clean energy, Sandile Tyatya, told the Mail & Guardian that no green tax was being considered at the moment to end South Africans' love affair with SUVs.

"That initiative has to come from the department of environmental affairs and tourism as a green tax has definite environmental connections," he said. Manale said: "It is also about government departments looking into the sector they regulate and asking what can I do to make an industry in our sector more environmentally responsible and it's about consumers also saying 'we will buy goods and services only from such companies'."

He said the discussion about the green budget would consider increased allocations for environment issues to improve compliance, enforcement and monitoring. The green budget would be able to set user fees, levies and administrative fees. "Fiscal incentives" to improve environmental outcomes also will be looked at in the green budget, Manale said. But green taxes would have to be investigated properly, he said. Manale said no specific taxes – such as taxing the use of SUVs – were under consideration. "Government will have to broadly consider such a tax and other instruments ... which may have both pros and cons on issues like attracting big investments by companies which strongly support corporate environmental responsibility."

He said areas where green taxes could be investigated included energy efficiency, water use, waste disposal, air quality impact, soil usage and the impact on biodiversity. Two weeks ago the department of minerals and energy's director of energy efficiency, Elsa du Toit, told a media briefing her department would approach the treasury to introduce green levies on fuel-guzzling cars. Environmentalists welcomed the idea of a green tax, while economists were less enthusiastic. Du Toit said "market forces" were not having the desired effect and that punitive measures would have to be investigated to get consumers to become more energy efficient. "Experiences worldwide have shown that the only way to enforce changes in behaviour is through punitive measures," she said, adding that she was outraged when she heard the Hummer was coming to South Africa.

But Tyatya said the department was trying to encourage people to become more energy efficient through publicity campaigns in which consumers received tips on what cars to drive and how to increase their mileage. He urged South Africans to switch to smaller cars. Statistics show that large SUVs consume up to twice as much fuel as hatchbacks, with SUVs' energy efficiency at only 25 percent compared with 33 percent for hatchbacks. Carbon dioxide emissions of SUVs approach 9 000kg, compared with 4 500kg for lighter cars. South Africa has one of the worst energy efficiency records in the world. A Worldwide Fund for Nature trade and investor adviser, Peet du Plooy, says South Africa's economy is five to 10 times less carbon-efficient than the United States, United Kingdom or Japan.

But Tyatya believes that South Africa is getting better and that the communication of good practices is working. He said the department of minerals and energy wants to cut consumption patterns by 12 percent before 2015. This includes a 15 percent reduction in energy consumption in the industrial, mining and power generation sectors and a 9 percent decrease in the transport sector. Du Plooy, who welcomes the idea of a green tax, said South Africa's carbon dioxide production doubled between 1980 and 2004.

4. EMISSION TRADING

Press Release by Green Budget Germany and Heinrich-Böll-Stiftung: Auctioning of emission trading certificates

[GBG press release, May 12th 2007] On 11th and 12th May Green Budget Germany and the Heinrich-Böll Foundation, with support of Deutsche Bank Research, held a conference on European emission trading. Economics, politicians and environmental organisations were all agreed in their calls for the reform of the existing emission trading regulations for greater environmental protection.

For the first time, politicians of all parties agreed in principle to auction 10 percent of emission certificates. The aim is to raise the share of certificates auctioned to 100 percent by 2012. Also, the total number of certificates sold to industry will be reduced in order to reach the goals set by the Kyoto Protocol (which demands a reduction of 8 percent of carbon emissions by 2012).

The German consensus will hopefully be perceived as a strong political signal to the European Commission to permit the complete auctioning of all certificates in Europe.

Dr. Anselm Görres, President of Green Budget Germany, reminded the politicians that it was their responsibility to take the required legislative steps. He also said that a new ecological finance and tax reform is necessary and could have positive effects on economic growth, employment and innovation. According to recent studies, the ecological tax reform has so far led to economic growth of 0.5 percent and to the creation of an additional 250,000 jobs in Germany. At the same time, fuel consumption has dropped by 17 percent, thus rendering the German economy more independent from oil imports.

Aviation taxation is another major issue. Delia Villagrasa from the WWF and Sven Harmeling of Germanwatch strongly recommended the introduction of a tax on flight tickets, such as that in place in the UK or France. An alternative proposal by Jörg Haas of the Heinrich-Böll Foundation would be to set up a so-called “Sky-Trust”. The basic idea of this auctioning system is that the industry buys the emission certificates from the population via a public trust.

The complete documentation of the conference and the conference programme are available (unfortunately in German only) on:
http://www.foes.de/de/Veranstaltung2007.php

German parliament seals CO_2 deal, utilities protest

[Reuters, June 22nd 2007] Germany's Upper House of Parliament passed a tough law on carbon emission quotas for industry for 2008 through 2012, drawing criticism from power generating firms which fear extra costs. "The law ensures that Germany meets its climate protection obligations," said environment minister Sigmar Gabriel.

As agreed in a compromise between partners in the coalition government, out of Germany's annual allocation of 453 million tonnes of carbon dioxide (CO_2) emission rights, 40 million tonnes will now have to be sold each year in 2008-2012.

Power generators will no longer be handed the bulk of certificates for their production for free, which utilities E.ON, RWE and Vattenfall Europe have said will hamper planned plant investments and boost prices.

The CO_2 quotas given to the companies in the five-year span was cut by 17 percent compared with original plans for the sector while other industries' quotas were hardly trimmed.

This reflects the political intentions of the quota system to enforce CO_2 savings by limiting pollution rights. The association of German local utilities, VKU, said the decision threatened some of the total 6 billion euros ($8.04 billion) worth of planned investments in power stations local companies had envisaged up to 2012.

“The companies will now have to look at whether the investments are economically feasible under the changed conditions,” said deputy managing director Michael Wuebbels. German power industry association VDEW said its members faced competitive distortion under national legislation when at the same time they had to operate across Europe. Utility Vattenfall Europe said the law would cost it 600 million euros ($803.9 million) a year in additional environmental provisions and RWE said it would have to buy an additional 65-70 million tonnes of CO_2 rights each year.

Environmental organization WWF said in its view the decision did not go far enough as new coal plants were still possible.
http://www.reuters.com/article/environmentNews/idUSL2285341220070622

We would like to draw readers' attention to the following report, commissioned by the EU Commission, which attempts to analyse the reasons for tendency of industry to overestimate the costs they incur as a result of environmental legislation: http://ec.europa.eu/environment/enveco/ex_post/pdf/costs.pdf

States "ready to cede control over EU ETS"

[ENDS Europe DAILY, May 29th 2007] EU member states now think the European commission should lead on setting industrial carbon caps from the third phase of the EU emission trading scheme. The consensus emerged from a meeting of the European climate change programme (ECCP) in Brussels in May.

Currently, governments propose their own caps through national allocation plans, though the commission can overrule them. The disastrous over-allocation of allowances in the scheme's first phase appears to have convinced member states that it would be more efficient if the commission proposed caps, based on transparent criteria.

Sources at the meeting said industry was now providing the biggest opposition to a central cap. Member states have agreed "in principle" to the move, though all except the Netherlands are reserving their position until they can see the methodology that would be used to set it.

The working group is one of several set up under the ECCP to develop long term EU climate policy. Its recommendations will feed into legislative proposals to reform the EU ETS later this year. Despite member state support centralised cap-setting is far from certain to happen, one meeting participant cautioned. Governments still fear losing their autonomy over emission limits and worry that a single methodological template could fail to take account of each state's particular circumstances.

The working group agreed that cap-setting should be distinct from how allowances are distributed. Member states would retain greater control over the latter, though within a stricter framework than now. There is broad support for a single EU-wide new entrant reserve, for example, and pressure for a minimum level of auctioning, in place of a maximum currently. For its part, industry is arguing that knowing what the future allocation rules will be is more important than having longer trading periods.

UK to expand carbon emissions trading

[ENDS Europe DAILY, 23rd May 2007] The British government has given a green light to dramatically expand emissions trading in the UK commercial sector. In an energy white paper, it set out actions to achieve large cuts in carbon emissions and provide long-term energy security. The paper also paves the way for the replacement of Britain's ageing nuclear reactors and for investments in renewables and energy efficiency.

The white paper builds on an energy review published last summer, retaining the main political lines and filling in more details. It reaffirms the government's support for a new generation of nuclear power stations and launches a new public consultation on nuclear power, which has been forced on the government after Greenpeace won a court ruling that a consultation launched by last year's energy review was seriously flawed.

The energy review only hinted at emission trading for large energy users not included in the EU ETS. The white paper is much more specific. A consultation run over the winter has shown that business supports the idea, it says. As many as 5,000 large firms and public sector organisations could take part. Participants would be allowed to buy EU ETS allowances.

In other areas, the paper announced measures to improve homes' energy efficiency including a requirement for new electricity meters to come with real-time displays showing energy use from 2008. It confirmed plans to strengthen and reform the current system for supporting renewable electricity in order to triple renewables such as wind and tidal wave by 2015.

Details of a plan to build the world's first end-to-end carbon capture and storage (CCS) plant are also provided. The 300 megawatts plan is expected to be up and running between 2011-14. Presenting the paper to parliament on May 23rd, industry minister Alistair Darling told MPs it would take time to set up a CCS system in the UK but that Britain was at the forefront of its development.

http://www.dti.gov.uk/energy/whitepaper/page39534.html

WWF criticises EU ETS phase two

[Carbonpositive, June 18th 2007] Environment group WWF has criticised the EU Emissions Trading Scheme for allowing countries too much access to Kyoto carbon credits in the second phase

of the scheme starting next year. This undermines the scheme's aims of cutting back on emission within Europe itself.

WWF says the limits for use of carbon offset credits potentially allow's the EU's big emitters to meet their entire emissions reduction requirement between 2008-12 by paying for cheap reductions in the developing world via Kyoto's Clean Development Mechanism (CDM).

WWF conducted a study of the national allocation plans (NAPs) of nine EU countries including the biggest emitters Germany, Poland, Britain, France and Italy. It concluded that between 88 and 100 per cent of the combined emissions reductions required in their targets could be met with their allowances for CER and JI purchases. While acknowledging the Brussels' tightening of emission allocations to correct the over-allocation which undermined the scheme in phase one, WWF says high carbon credit limits threaten to undermine phase two.

Under the EU ETS, the 27 participating countries are offered a safety valve to help reduce the costs of emissions reduction activity. Instead of their whole target having to come from investment in cutting emissions domestically, a proportion is allowed to be covered by the purchase of Kyoto carbon credits. However, the limits are set as percentages of the overall emissions cap, rather than as a proportion of the emission reduction requirement inherent in that cap.

These limits vary from 5 to 22 per cent across the 20 or so nations with finalised phase two NAPs. Among those countries with higher limits in this range are the nine examined by WWF. These limits are enough to cover the amount by which emissions need to be reduced, should those nations choose to buy credits up to their limit.

"There is a real danger that this will lock the EU in to high carbon investments and soaring emissions for many years to come," Dr Keith Allott, head of WWF UK's Climate Change Programme said. "If the ETS is to fulfil its potential, we must ensure it leads to real carbon emission reductions within Europe. Climate change is an urgent priority, and we can't afford to waste another five years before we get Europe's emissions on a downward path."

http://www.wwf.org.uk/core/index.asp

5. GREEN BUDGET REFORM IN SINGLE COUNTRIES

Will the European Commission be wasting the EU taxpayers' money?

[András Lukács, Clean Air Action Group, August 5th 2007] The European Commission will soon decide about the approval of the EU aid to the new member states for the years 2007-2013. In the case of Hungary a large part of the planned aid (which will be used mainly for the development of human resources) will be very beneficial for the society, and hopefully it will be spent efficiently. However a substantial part of the aid is planned to be used for highly questionable purposes.

The sums to be earmarked for environmental protection would be spent mostly for large investments (first of all for waste and waste water treatment). These investments will themselves have serious effects on the environment, they will stimulate waste generation, and their operation will substantially raise the prices, which will have to be paid by the Hungarian population. On the other hand it seems that much less will be spent on waste minimization, selective waste collection, reduction of toxic substances in solid and liquid waste, as well as for other preventive measures, including public awareness raising. The polluter pays principle will be violated, and at the same time there seems to be no political intention to reduce waste production (e.g. in the field of packaging materials) by using economic instruments

Another considerable part of the aid would be spent on the construction of new roads. This is not only a question of which of these roads would be really necessary for the society. (Although it is already clear that some of the planned new roads will serve mainly urban sprawl and real estate speculation, with all their detrimental consequences.)

The main issue here is that road transport users do not pay the full costs of their activity even today. For example, in Hungary each year heavy trucks cause costs amounting to several billion Euros which are not paid by the operators of these vehicles, but by the whole society. Another example is the illegal accounting of private use of cars as company use which results in a loss of revenues for the Hungarian state budget equalling to about 3 per cent of the GDP. All these costs should be internalised into the prices in accordance with the polluter pays principle and with the principles of market economy, and the construction of new roads should be also financed in this way instead of putting more burden on the EU taxpayers.

At the same time less than one per cent of the total aid would be spent on energy efficiency, although this is one of the most acute problems. For example, in Hungary three times more energy is used to heat one cubic meter in buildings than in the neighbouring Austria. Public transport and railway would also receive much less aid than would be expedient, and moreover, a large part of this aid would be spent very inefficiently – for a 7-kilometer long metro line.

If the presently planned structure of the EU aid would remain, it will enhance processes which are unsustainable socially, economically as well as environmentally. According to our knowledge, the situation is similar concerning other new member states in Central and Eastern Europe. Environmental NGOs have already warned the European Commission and national governments about these problems, however without real results. They know that the European Commission has tried on many occasions to refuse those demands of national governments which consider only the short term interests of certain business circles and which are unsustainably on the long term.

However it seems that now the Commission is ceding too much to the pressure of national governments, even if these demands violate the basic principles and even the legislation of the European Union concerning market economy, environment and sustainability. The environmental NGOs demand that the European Commission adhere to these principles and act according to the legal rules of the EU in all circumstances.

Electronic toll collection to be introduced in Hungary in a strange way

[András Lukács, Clean Air Action Group, August 5th 2007] The advanced solutions of electronic road toll collection are also able to detect and sanction speeding, follow the change of traffic circumstances and help the drivers to find the adequate route. They can be used to assess and collect the congestion charge or the parking fees in cities too. But unfortunately it now seems that the electronic toll collection system (ETC) system which will start on January 1st 2009 will be able to assess and collect the road toll only on about 3000 kilometres of expressways in Hungary. It is very probable that to extend the toll to other roads and to other services like mentioned above will need further millions of Euros and a lot of years.

The Hungarian Parliament gave a permission to the government to buy an electronic toll collection system (ETC). The Ministry of Economy and Transport has the responsibility to call for tender and to choose the vendor. It will be a PPP contract so the vendor will work for five years. However the situation is far from the ideal because the intelligent traffic system (ITS), the user pays the infrastructure principle and climate change are not in the lime-light in the Ministry of Economy and Transport.

The purpose is not to buy an advanced technology and to develop a countrywide ITS with a lot of services together with the ETC. There has been no collaboration between the Ministry of Economy and Transport and the police or the local governments to find the optimal common solution of their problems, including road toll collection, speeding problems, the traffic jams and the use of the revenues. The Ministry makes a continuous effort to restrict the scope of the ETC system to the expressways.

An interesting method was used to avoid wide usability. The Ministry and the government did not follow the logical way in the whole process. It seems now that a restricted tender will be called for the enforcement system at first, with one candidate, a state owned company. This candidate controls now the usage of the present vignette system by a license plate number recognition system. The second step seems to be the call for a tender to choose the vendor and operator of the ETC system. The creation of the general road toll strategy will come last…

The situation is worrying. It is hard to avoid the suspicion of corruption in a process going in an inverse direction and aggravated by a restricted tender where there is no clear road toll policy to define the requirements.

Green Tax Reform in Hungary?

[András Lukács, Clean Air Action Group, August 5th 2007] A new agreement between the two coalition parties in the Hungarian government was signed on 1st July 2007. The agreement states among others that there should be a greening of the tax and subsidy system. In accordance with the agreement an interministerial working group was set up to work out concrete proposals. Beside government officials the only persons invited to the working group were an expert of the Clean Air Action Group and an expert of the Hungarian Employers' Association. The working group already held several meetings.

Sweden: Green car bonus premieres

[The Local, March 29th 2007] The Swedish government is set to launch its new "green car bonus", a scheme designed to encourage car buyers to invest in fuel-efficient vehicles. Environment Minister Andreas Carlgren confirmed that the purchase of an environmentally friendly car will entitle the buyer to a 10,000 kronor ($1,400) payout. The government has set aside 250 million kronor to cover the cost of the programme, which is scheduled to run from April 1st to December 31st 2009.

"We estimate that sales of green cars will increase at a rate of 10 to 15 percent per year," said Carlgren.

The Centre Party minister added that the definition of a green car consisted of more than just vehicles using hybrid technologies.

A normal petrol-driven car can also qualify for a cash bonus if it has a fuel consumption of less than half a litre per ten kilometres. "Compared to other EU countries, Sweden has a fuel-guzzling car pool. Even in Germany it is considerably lower. This is a means of providing a strong push for fuel-efficient cars."The hope is that the momentum created now will keep the wheels moving after 2009," said Carlgren. According to the minister, there is no shortage of cars that meet the requirements.

"More or less all car makers, including Volvo and Saab, have at least one model that meets the criteria for classification as a green car," he said.The bonus scheme is to be administered by the Swedish National Roads Administration (Vägverket).

http://www.thelocal.se/6843/20070329/

India: "Efficient CO_2 pricing could lead to significant emission cuts"

[The Hindu, June 16th 2007] Putting a price on carbon dioxide could lead to less emission of greenhouse gas and help to solve global warming, chairman of the Intergovernmental Panel on Climate Change (IPCC) said.

"An efficient carbon-pricing signal could realize significant mitigation potential in all sectors," said Dr. Rajendra K. Pachauri at an open symposium on energy and environment held in Okinawa of southern Japan. Policies that provide a real or implicit price of carbon could create incentives for producers and consumers to significantly invest in products, technologies and processes of which the greenhouse gas emissions are low, Pachauri said.

The chief of the international organization on assessing global climate change called on governments to introduce such policies which could be economic instruments, government funding and regulation, in an effort to curb global warming.

Of the 12 warmest years from 1860 to 2006, 11 were in the last two decades, Pachauri said, warning that there have been evidences of systemic changes in precipitation, and that more floods and droughts can be expected in future.

It is widely agreed among international scholars that most of the observed increase in global averaged temperatures since the mid-20th century is very likely to be caused by human activities. Between 1970 to 2004, global greenhouse gas emissions have risen by 70 percent, the chairman said, warning of high risk of extinction of some plants and animals, as well as damage to human society.

The IPCC, established by the World Meteorological Organization (WMO) and the United Nations Environment Program (UNEP) in 1988, aims to assess the scientific, technical and socio-economic information relevant to understanding the scientific basis of risk of human-induced climate change, its potential impacts and options for adaptation and mitigation.

http://www.hindu.com/thehindu/holnus/003200706161123.htm

Belgium: EU Committee to debate CO_2 reduction

[just-auto.com, June 26th 2007] The European Parliament Environment Committee will this week debate the draft Davies report on further reducing CO_2 emissions from cars.

The report, drawn up by the British Liberal Democrat MEP Chris Davies, suggests the car industry should have until 2015 to meet a target for the average new car emitting no more than 120 grams of CO_2 per kilometre. The Davies report is a response to the Commission's proposal in February that the European Commission's original target of 120g/km by 2012 should be changed to an average of 130g/km, with the remaining 10g met through other measures.

The European vehicle manufacturers' trade association, ACEA, supports the fact that the Davies report recognises the need for sufficient lead time for the European automotive industry. It has been arguing for some time for an extension of the deadline to 2015. However, ACEA also argues that the targets for CO_2 emission reductions from cars mentioned are "far too stringent".

ACEA also argues that the Davies report only focuses on vehicle technology, disregarding the need for a combination of efforts and measures to achieve better, cost-effective results for the environment, the industry and society as a whole. ACEA has consistently argued for an 'integrated approach' whereby biofuels, infrastructure improvements and eco-driving are taken into account when demanding CO_2 reductions.

The Davies report also recommends changes in the ways cars are advertised, obligatory speed limiters and a ban on cars that emit 100 percent or more than the 120 g/km target. These are measures likely to be supported by environmental groups, but not by the industry.

"Davies' suggestions to ban certain types of cars and limit the speed of cars come close to political symbolism; they do not address the real issues with regard to reducing CO_2 emission from cars," ACEA said in a statement.

Leading Brussels-based environmental lobby group, Transport&Environment (T&E) has reacted angrily to the Davies report's suggestion that meeting 130 g/km by 2012 is "too costly". T&E director Jos Dings said: "The 120 g/km target was agreed in 1995, and the car makers originally had 10 years. 17 years is more than enough, as certain makers have shown. The arguments that the current target is not feasible or too costly simply do not stand up to analysis."

According to T&E, a recent UK study by the website www.cleangreencars.co.uk found that if all cars performed as well as the best in their class, car makers would already be on track to meet the target. And when other factors are included, such as smaller engines, stop-start systems and other technologies already available, the target would easily be within reach.

T&E is worried that Davies has been persuaded by recent lobbying by the automotive industry. Dings added: "MEPs should not fall into the same trap as the Commission and be conned by the hysterical lobbying of ACEA. We urge the environment committee to stick to the EU's long-standing 120g target and ensure it is reached by 2012 at the latest."

ACEA spokesperson, Sigrid de Vries, told just-auto that there is a common misperception that ACEA agreed to a voluntary target of 120g/km in its original 1998 agreement with the European Commission. The agreement targeted 140g/km by 2008, a target European vehicle manufacturers are considered highly unlikely to meet. Beyond 2008 ACEA committed to discussing how to proceed, but that discussion would also take into account taxation and labelling as well as economic developments.

http://www.just-auto.com/article.aspx?id=91736

Portugal lays out EU presidency green priorities

Get the latest information on the new priorities of Portugal's EU presidency towards environmental and climate issues. All information online:

http://www.eu2007.pt/Templates/Generic.aspx?NRMODE=Published&NRNODEGUID=%7B853DC6E5-AACF-4CAD-A524-46E5E5B4DBA9%7D&NRORIGINALURL=/UE/vEN/Politicas/Ambiente/prio.htm&NRCACHEHINT=Guest#Spatial%20%20Planning%20and%20Regional%20Development

See EEB Memorandum to EU Presidency:

http://pdf.wri.org/Brookings-WRI_GreenTaxSwap.pdf

Dutch government plans sharply graduated car emissions taxes

[Planet Ark, June 4th 2007] The Dutch government is planning an additional first-registration tax of 80-90 Euro per gram of CO_2 above a threshold of 240 g/km for petrol cars and 200

g/km for diesels, the country's finance ministry announced on 1 June. The same system would provide modest tax incentives for buyers of lower-emissions vehicles, while raising the on-the-road cost of some large vehicles by nearly 4,000 Euro. The Dutch government is planning an additional first-registration tax of 80-90 Euro per gram of CO_2 above a threshold of 240 g/km for petrol cars and 200 g/km for diesels, the country's finance ministry announced on 1 June. The same system would provide modest tax incentives for buyers of lower-emissions vehicles, while raising the on-the-road cost of a large diesel SUV such as the 3.2 litre SWB diesel Mitsubishi Pajero by up to 3,960 Euro.

The new Dutch government, which took over in February 2007, wants to achieve energy savings of 2 percent per year, boost the share of renewable energy to 20 percent and cut CO_2 emissions by 30 percent, all by 2020.

Annual taxes would also be graduated in similar vein, and fuels may also be. For company-leased cars, the ministry proposes a tax reduction for employees who choose a car with a CO_2 emission rate below 110 g/km and use the car for private purposes, the ministry said.

http://www.autoindustry.co.uk/news/04-06-07_3

Estonia to slash its emissions quota

[eubusiness.com, July 12th 2007] The Estonian government decided to launch a legal challenge to the European Commission's decision to slash its 2008-2012 carbon dioxide emissions quota. Estonia decided to file a lawsuit at the European Court because the EU's executive arm rejected its proposed quota of an annual 24 million tonnes and instead allocated the Baltic country a total of 12.7 million tonnes a year, the Baltic News Service (BNS) agency reported.

The commission is responsible for approving national governments' bids for carbon dioxide allocations as part of the 27-member European Union's move to curb emissions of what is one of the main gases held responsible for global climate change.

The Estonian government argues that the commission used flawed data to set its ceiling and that the EU body also overstepped its authority.

Estonia charges that its quota was miscalculated because the commission treats shale oil, the main fuel used to generate electricity in Estonia, as equivalent to brown coal, even though it produces slightly less carbon dioxide.

The EU's ex-communist member states have been working to overcome a legacy of slack environmental standards left by their former regimes, and several have made major strides over the past decade.

However, they are concerned that a big clampdown will dent their efforts to bridge the economic gap with the older western members of the EU. Poland, the Czech Republic and Slovakia have also challenged their quotas. The commission's allocations affect industries such as metallurgy, oil refining and power stations which have a high energy consumption and are responsible for nearly half of EU carbon dioxide emissions.

US: Energy Chairman Floats Carbon Tax

[Edmund L. Andrews, NYT, 7th July 2007] A powerful House Democrat said on that he planned to propose a steep new "carbon tax" that would raise the cost of burning oil, gas and coal, in a move that could shake up the political debate on global warming.

The proposal came from Representative John D. Dingell of Michigan, chairman of the House Energy and Commerce Committee, and it runs directly counter to the view of most Democrats that any tax on energy would be a politically disastrous approach to slowing global warming. But Mr. Dingell, in an interview to be broadcast on C-Span, suggested that his goal was to show that Americans are not willing to face the real cost of reducing carbon dioxide emissions. His message appeared to be that Democratic leaders were setting unrealistic legislative goals.

"I sincerely doubt that the American people will be willing to pay what this is really going to cost them," said Mr. Dingell, whose committee will be drafting a broad bill on climate change this fall. "I will be introducing in the next little bit a carbon tax bill, just to sort of see how people think about this," he continued. "When you see the criticism I get, I think you'll see the answer to your question." The idea behind a carbon tax is to provide an incentive to reduce the use of fossil fuels like oil and coal, which are loaded with carbon, and increase the use of cleaner, renewable fuels like solar power, wind and fuels made from plants and plant waste.

Many economists like the idea of a carbon tax, saying that it would be simple to administer and could profoundly affect energy choices. But most Democrats are staunchly opposed, saying that a tax would raise the costs of travel, commuting and heating and cooling homes, and that it would be wildly unpopular at a time when voters are already angry about high energy costs. Republicans, they said, would seize on any such proposal as proof that Democrats were bent on raising taxes and increasing the size of government.

Indeed, many Democrats still cringe at the memory of President Bill Clinton's trying to pass a broad "B.T.U. tax" in 1993 on most forms of energy. The measure passed the House but not the Senate, and more than a few Democrats believe the effort was one reason they lost their majority in the House in 1994. Now, House and Senate Democrats are writing bills that would require factories and power plants to reduce emissions of heat-trapping gases through a so-called cap-and-trade system of mandatory requirements and tradeable pollution credits.

Most of the proposals would impose mandatory limits on the amount of carbon dioxide that companies would be allowed to produce each year, and those limits would become steadily more rigorous over time. A factory or a power plant that is already below the limit could sell its unused allocations to companies that were over the limit. The United States already uses a cap-and-trade system to limit emissions of sulfur dioxide and other pollutants that cause acid rain. The European Union has adopted a system to reduce greenhouse gas emissions, though the system has come under considerable criticism for letting companies game the rules and for failing to reduce emissions in line with European goals.

Bursik: Negotiations Successful! Czech govt for lowering of emissions

[Prague Daily Monitor,June 11th 2007] The Czech cabinet has agreed on a programme on the lowering of emissions, focusing mainly on car emissions and dust emissions, Vice-Premier Minister and Environment Minister – and Green Budget Germany executive board member – Martin Bursik (Greens) has told journalists.

The ministry wants to implement the programme within the next seven years and limit coal burning by households and toughen the regulations for car emission. Bursik said that the measures are to increase life expectancy for Czechs. The Environment Ministry aims at handing more powers to municipalities so that they can have more on traffic issues, such as the introduction of fees for driving into some areas.

By 2014, at least one-fourth of service cars of state, regional and local authorities should be "clean," Bursik said. Under the programme, households will be able to use coal for heating only if their boiler meets certain parameters.

US: The Mayor's Ode to Earth Day

[The New York Times, April 23rd 2007] Mayor Michael Bloomberg likes to talk about the big picture, even if it might not be pretty. 22nd April, he warned New Yorkers how their city could suffer by 2030 without his plans for the future. With a million new people coming into town, housing needs would soar. The sky could be as gray and toxic as London in the '50s. Every road into Manhattan would be above capacity – a gridlock nightmare that would make today's traffic jams look tame.

Then, Mr. Bloomberg laid out his plan for what he calls "a greener, greater New York." It is a broad, complicated and exciting blueprint that covers some 127 proposals ranging from more trees to better power plants to finally cleaning up brownfields enough to build safe parks and housing across the city.

In that sweep of new plans, the most controversial and also the most crucial is a proposal to charge $8 for vehicles coming into Manhattan. This move to congestion pricing in New York City is long overdue. But it will still kick up lots of opposition, especially in the State Legislature, which is where too many good ideas like this one go to die.

One good thing: Mayor Bloomberg is known for sticking to his guns – for better or worse. This time, it will be for the better, as Stockholm, Singapore and London can attest. Mr. Bloomberg says the city must act now, rather than wait for Washington, and he wants to begin congestion pricing with a three-year pilot proposal. There would be all kinds of exceptions, but the $8 fee could generate more than $500 million a year, the mayor figures. That is the right way to make money. The question is how to spend it. The mayor and other public officials must take care that this money goes to improve public transit in the outer boroughs, especially for those who will need better buses or subways when they leave

their autos behind. If people feel that this surcharge is going mostly to Manhattan, the plan will die on its shelf. It is worth noting that some public officials in Mr. Bloomberg's position, with less than 1,000 days left in office, might start to look beyond the present job. New Yorkers are fortunate to have a mayor willing to expend his energy and political clout to make their home a more livable city.

India: Tax to reward green companies and penalise polluters

[Neha Kohli, Times New Network, May 31st 2007] Call it the global warming impact: there could soon be an environment tax on coal and automobiles if the ministry of environment and forests has its way. The ministry has prepared a tax-neutral duty rejig proposal to incentivise environmental-friendly sectors while taxing polluting products. So, while it has recommended a tax on coal that has high ash content and an eco tax on polluting automobiles, it has proposed excise concessions for industries like blended cement and bio-pesticides.

The environment ministry has already submitted the proposal to the finance ministry. It is proposed that a tax of 1.44-6.33 percent of coal price be levied on the basis of the ash content of coal. The lower the ash content, the less polluting the coal is when burnt. It is also proposed that the revenue generated from the tax be used to set up a clean coal fund which could be utilised for setting up infrastructure for coal washing, selective mining research and clean coal technologies. For automobiles, the ministry has suggested that an eco tax of 3 percent-5 percent be levied on the factory price of passenger cars, jeeps and two wheelers. The taxes have been derived on the basis of categorisation done by the Society of Indian Automobiles Manufacturers of vehicles based on their fuel economy. The category that will be taxed is defined as the worst fuel economy category. The tax also takes into consideration the Euro emission norms which vary in states. The environment ministry has also asked for sops for environmentally friendly substitutes of chemical pesticides, cement and detergents. It has said that the excise duty on bio-pesticides be cut to half which is otherwise 16 percent for all pesticides. The revenue implication of this has been found to be negligible since bio-pesticides account for less than 1 percent of the pesticide market.

Similarly, it is proposed that excise duty on non-phosphate detergents which is less hazardous be reduced to 8 percent from 16 percent, while a rebate of Cenvat elide on the phosphatic compounds. Keeping with the high quantity of fly ash waste generated by thermal power plants, it is suggested that the duty on the cement that is blended with fly ash be halved.

"This would encourage blended cement manufacturers to increase their capacity utilisation because of which estimates show that the impact would be revenue positive", said a ministry official. The proposal is based on a study by the Madras School of Economics and the National Institute of Public Finance and Policy.

The ministry had earlier taken up a similar proposal with the revenue department but was asked to make the proposal more revenue neutral. "A response to the modified proposal is waiting. Meanwhile, we are studying the prospects of other sectors where a tax rejig is possible," said a senior government official.

http://economictimes.indiatimes.com/Tax_to_reward_green_cos_penalise_polluters/articleshow/2088003.cms

US: "The Economist" prefers tax

[Jakob Rinkewitz, GBG] According to "The Economist" a carbon tax would be much more efficient and direct reducing emissions and estimating their actual value which will help finally making climate policy efficient and even useful for the industry. As soon as we know the actual value of pollution, we will be able to create a tax system that will protect the environment and the economy as well. As the US-Newspaper says: "If policymakers knew the exact shape of these cost and benefit curves, it would matter little whether they reached this optimal level by targeting the quantity of emissions (through a cap) or setting the price (through a tax). But in the real world, politicians are fumbling in the dark. And that fumbling favours a tax. If policymakers set a carbon tax too low, too much carbon will be emitted. But since the environmental effect of greenhouse gases builds up over time, a temporary excess will make little difference to the overall path of global warming. Before much damage is done to the environment, the carbon tax can be raised."

http://www6.lexisnexis.com/publisher/EndUser?Action=UserDisplayFullDocument&orgId=1925&topicId=100002042&docId=l:626749019&start=1&dateId=20070616

Democrats Press Plan to Channel Billions in Oil Subsidies to Renewable Fuels

[Edmund L. Andrews, The New York Times, June 16th 2007] Senate Democrats are seeking a major reversal of energy tax policies that would take billions of dollars in tax breaks and other benefits from the oil industry to underwrite renewable fuels. The tax increases would reverse incentives passed as recently as three years ago to increase domestic exploration and production of oil and gas. The change reflects a shift from the Republican focus on expanding oil production to the Democratic concern about reducing global warming.

On June 19th, the Senate Finance Committee will take up a bill that would raise about $14 billion from oil companies over 10 years and would give about the same amount of money on new incentives for solar power, wind power, cellulosic ethanol and numerous other renewable energy sources. The bill is one of the signature issues this year for Democrats, along with immigration and the war in Iraq, and one in which they hope to clearly distinguish themselves from the Republicans. WHAT has happened to the bill – it was out there in June? Perhaps you can add a sentence here…

But Senate Democrats are expected to go beyond the $14 billion in tax changes in the draft bill. Democratic officials said the committee is all but certain to adopt a proposal by Senator Jeff Bingaman of New Mexico that would raise $10 billion from companies that drill for oil and gas in federal waters but do not currently pay royalties to the government.

"We are cutting back subsidies for the oil and gas industry and using that money to finance the development of new and cleaner sources of energy," said Mr. Bingaman, who plans to attach the entire tax package to the energy bill on the Senate floor next week. It is unclear how much President Bush or Republicans in Congress will fight the proposed tax shift. The ranking Republican on the Senate Finance Committee, Senator Charles Grassley of Iowa, has already endorsed the $14 billion package.

But the plan could easily founder because of opposition to any one of many hotly disputed provisions in the broader energy bill. Just last week, a threatened filibuster by Republicans forced Democrats to postpone a floor vote on requiring electric utilities to produce 15 percent of their power from renewable fuels. The White House, meanwhile, has threatened to veto the bill if lawmakers do not drop a provision intended to prosecute what Democrats call "unconscionably excessive" gasoline prices. Senator Charles E. Schumer of New York has proposed that oil companies be prohibited from using an accounting method called "last in, first out" for inventories that saves them as much as $5 billion in taxes a year.

Because Senate Democrats want to offset the cost of any new tax breaks with tax increases elsewhere, many lawmakers are pushing for even more tax raises from oil companies. Oil executives are protesting loudly, saying that the proposed changes would take money away from exploring and drilling in the United States and increase the nation's dependence on imported foreign oil. "They talk about our companies as if they're owned by space aliens," said John Felmy, chief economist at the American Petroleum Institute, a trade association. "They talk about energy security, but these provisions could have the opposite effect in terms of reducing our production here and increasing our imports."

The oil industry has ample reason to worry. With consumers seething about gasoline prices increasing to more than $3 a gallon and oil profits reaching record highs, oil companies would be short of friends in Congress regardless of the party in power. Beyond the immediate jockeying, however, lies a bigger question: Is Congress putting taxpayers at risk by funneling billions of dollars in subsidies into alternative fuels that are still a long way from being profitable? Indeed, industry experts said the Senate bill greatly understated the true cost of incentives for renewable fuels. Most of the incentives are set to expire at the end of 2009 or 2010, but Democrats in both the House and Senate have called for an increase in the production of such fuels by 2022. As a practical matter, the vast majority of "temporary" tax breaks are routinely extended once they are passed for the first time. In addition to higher taxes for oil companies, House and Senate Democrats are hitting at the oil industry in other ways. The Senate bill would give the federal government more power to prosecute companies that engage in "price gouging" on gasoline prices, which is broadly defined in the bill as charging "unconscionably excessive" prices that reflect "unfair leverage." A similar measure is moving through the House.

Separately, the House Natural Resources Committee passed a bill last week that would, among other things, crack down on companies that cheat on royalties they pay for oil and gas pumped on publicly owned land.

In effect, the various bills would transfer billions of dollars from oil companies to producers of renewable fuels. The Senate bill would offer $5.6 billion in tax credits over the next three years for companies that produce electricity from renewable fuels like wind and geothermal power. It would offer tax-free bonds for new power plants with renewable or clean energy. It would offer tax credits totaling about a dollar a gallon to producers of cellulosic ethanol, and even bigger tax credits for "biodiesel" fuel. It would extend and expand tax breaks for plug-in electric cars and other vehicles that use alternative energy sources, and it would provide tax breaks for gas stations that offer renewable fuels. In a nod to the politically powerful coal industry, the bill would also provide $1.5 billion in tax-free "clean coal bonds" for advanced coal-fired electricity plants and $332 million in tax credits for plants that make diesel fuel from coal. Democrats in the House are moving with similar legislation. The House passed a bill earlier this year that would raise about $14 billion over 10 years from oil companies, and the House Ways and Means Committee is expected to mark up a new tax bill that would offer rich incentives for alternative fuels and increased efficiency.

The Democratic bill contrasts sharply with the energy bill that the Republican-led Congress passed in 2005. The Senate bill offers less than $1 billion in incentives for coal, no tax breaks for nuclear power and tax hikes for oil. But two years ago, Congress approved $11 billion in additional tax breaks, of which $7 billion went to oil, coal and nuclear power.

"It is a dramatic change in policy, targeted at the big oil companies," said Senator Ron Wyden, Democrat of Oregon. "It will show the country the kind of things we can do by taking away subsidies for fossil fuels and putting the money into new sources of energy." Privately, some Democrats say it is payback time: the oil industry's political contributions have overwhelmingly gone to Republican lawmakers and President Bush, and many Democrats say they have little sympathy for the industry now.

It is unclear whether Republicans or Mr. Bush plan to protect the industry. In stinging criticism earlier this month, the White House Office of Management and Budget said the proposed price-gouging measure amounted to price regulation that would jeopardize investment in oil production and ultimately hurt consumers.

In 2005, Mr. Bush threatened to veto a one-year measure that blocked oil companies from using the "last in, first out" accounting method for inventories. The Bush administration, echoing charges by the oil industry, said the measure amounted to a one-year windfall profits tax that would frighten investors by raising the prospect of further tax raises whenever oil prices jumped sharply. Mr. Schumer's proposal is similar to the 2005 proposal, except that his measure would be permanent. The oil industry still has persuasive clout in Washington. Exxon, Shell and trade groups like the American Petroleum Institute have hired former Democratic lawmakers and Democratic lobbyists to help press their case. They have carefully positioned themselves, picking their fights on selected issues that attract fairly little popular interest but affect potentially large amounts of money. The effort is mostly defensive – fending off tax increases – but also has offensive elements. Royal Dutch Shell and other big companies hope to be big players in coal-based liquid fuels. And the industry in general is still pushing for Congress to open up more areas on the outer continental shelf for deepwater drilling. But industry executives hold out little hope for emerging unscathed.

New Zealand's Plans for a Regional Carbon Trading Hub

[Marisa Meizlish, ecosystemmarketplace.com, June 11th 2007] Leading businesses in New Zealand are pushing for the country to develop a platform that will be the hub of carbon trading in Asia Pacific. The Ecosystem Marketplace explores the possibility of a Green Wall Street in time zone one. Much of the activity in the emerging global carbon market centers on world financial hotspots such as London or Chicago. New Zealand is offering a very different market draw in a push to position itself as the carbon trading hub of the Asia Pacific: sunrise.

"We have a strategic position being that we're in the first time zone," says Joanna Silver, project manager for New Zealand's proposed carbon exchange, dubbed Time Zone 1 (TZ1). "New Zealand is aiming to carve out a leadership position

on climate change and establish itself as the center for carbon trading in the Asia Pacific region. We're developing a locally owned, regionally relevant and globally credible platform that can service transactions from Tokyo to Sydney to San Francisco."

A working group of leading New Zealand businesses, led by the New Zealand Exchange (NZX), recently presented a feasibility study to the government arguing that New Zealand is a natural owner of a carbon exchange and could be the world's "Green Wall Street." The idea is to provide a carbon trading platform for Kyoto credits and other regional compliance units, such as those created under a future Australian emissions trading scheme. "The exchange will allow buyers and sellers to settle in a shorter timeframe, and this lowers transaction costs and makes the market more efficient. But the key aim from our point of view is to get price transparency into the marketplace."

TZ1 will also provide a trading mechanism for voluntary credits, making it the first exchange in the world aimed at serving both the regulatory and voluntary markets.

"Late last year NZX formed the view that an exchange like this is important for New Zealand and Australian businesses," Silver says. "We know the window of opportunity is short and that the key to capturing the liquidity that will make the market successful is to be the first mover."

Global carbon markets were worth approximately $30 billion in 2006, three times greater than the year before according to The World Bank. Trading was dominated by the European Union Emissions Trading Scheme (EU ETS) in which a little less than half of the transactions were made via exchanges, rather than over the counter or directly between buyer and seller. Exchanges are likely to become more important as the number of buyers and sellers increases and transactions are made across the globe.

The working group's report argues that "companies trading credits in New Zealand are paying and will continue to pay a premium driven by a lack of market infrastructure. [TZ1] will provide New Zealand's corporates with lower transaction costs and ease of access to the growing international carbon market." In addition to providing transparent price signals and market access, TZ1 is also expected to bring expertise and new skills into New Zealand's economy and give the country direct links into fast growing Asian markets. "We all share a commitment to New Zealand as a place to do business and a determination to see New Zealand gaining from the clusters of productivity and expertise that will grow around this market," says Rob Fyfe, CEO of Air New Zealand. Air New Zealand is a member of the working group, along with other large companies, including Contact Energy, PricewaterhouseCoopers, ABN AMRO and Goldman Sachs.

"New Zealand businesses have been relatively slow to see the realities of a commercial world where carbon credits have an ongoing value and how they can be used not only to change their own emissions profiles but also for their own business benefit," says Mark Weldon, CEO of the NZX. The NZX recognizes this business opportunity and believes its infrastructure and expertise can house a regional exchange. It also has an eye toward regional competition and hopes to get the carbon exchange up and running before other regional players establish themselves in places such as Sydney or Singapore.

"Exchanges provide enormous market benefits, but the primary problem until now has been the low number of market participants," says Ken Chapman, general manager of new markets for the Australian Securities Exchange (ASX). "The bottom line is you need critical mass."

In Australia, that critical mass has been difficult to capture. According to Chapman, the regulatory market for carbon credits (limited to a greenhouse reduction scheme in the state of New South Wales) and renewable energy certificates has been limited, in part because many companies have managed their emissions liabilities internally rather than through the purchase of offsets on the open market. While it is not normally the role of exchanges to create products, Chapman is pursuing the idea of a carbon warrant, which would enable buyers to hedge against future price fluctuations in the New South Wales market.

"We have made it clear that the ASX has the capability to facilitate emission related instruments, and there is nothing stopping anyone from listing emission products whether they are warrants or futures or from trusts," says Chapman. Currently, there are no carbon instruments trading on the ASX. The federal government announced this month that Australia will establish an emissions trading scheme by 2012, suggesting that the critical mass required to spur these ideas into fruition

may quickly materialize. In New Zealand, the government has also recently announced its intention to develop an emissions trading scheme aimed at achieving the country's Kyoto target of returning to 1990 emissions during the first commitment period from 2008-2012. "TZ1 provides a policy option," says Silver. "It signals to government that people will be able to purchase carbon at least costs with a transparent price should an emissions trading system be established here in New Zealand."

Rather than just waiting for market drivers from government, TZ1 is also hoping to carve out a competitive position by offering a premium brand of carbon credits for voluntary buyers. This is the segment of the market in which companies and individuals voluntarily purchase offsets to mitigate their greenhouse gas contributions. The voluntary market was worth $100 million in 2006, according to the World Bank and appears to be increasing by an order of magnitude year on year. However, many observers note that market growth is fundamentally hampered by a lack of product consistency and competing standards on what defines a "credit."

"In designing TZ1 we recognised that there is a lack of comfort and brand recognition for voluntary products, and we think this is an area where we can add tremendous value," says Silver. "The goal is to create a fungible, liquid class of voluntary credits that can replace the small, separate pockets of activity that currently define voluntary transactions."

Voluntary credits will be branded as TZ1 Platinum credits. These credits can be generated in New Zealand or overseas and must meet eligibility requirements, which are currently being defined. Rather than create a new voluntary standard for TZ1 Platinum, the working group is proposing to identify which of the existing voluntary standards will be acceptable (Read more on voluntary standards). Products that are then certified to these standards are eligible to be traded on the exchange as TZ1 Platinum products. The working group is now working through details, such as the exchange's ownership structure and technical requirements for broker access, and intends for the exchange to be operational in the beginning of 2008, as the first Kyoto commitment period begins. It is envisioned that TZ1 will be owned by a group of six to eight owners that represent various market interests. This includes NZX as the market operator and brokerage trading houses that need to utilize the exchange in order for it to be successful. Buyers and sellers of carbon credits may also be included in the ownership structure.

These players are also helping the working group design the exchange's working infrastructure, such as determining the best interfaces so that brokers can access the exchange globally. Learning from the experience of the EU ETS, TZ1 also aims to incorporate a futures market that allows buyers to hedge their future position in compliance markets but includes a strong risk management counterparty to avoid the sudden price corrections that were seen in Europe.

It is evident that as global carbon markets continue to grow, there will be an increasingly important role for exchanges and other trading infrastructure. Whether geographic position in time zone one ends up being a competitive advantage will depend on the exchange's design, the strength of its first mover status and its ability to market itself to major players around the world.

China Releases Plan on Climate Change

[Ling Li, worldwatch.org, June 7th 2007] China unveiled its first national plan on climate change this June 4th, after two years of preparation by the State Council, the National Development and Reform Commission (NDRC), and 17 other departments. "The plan is China's first comprehensive policy documentation on climate change, as well as the first plan of its kind made by a developing country," Ma Kai, head of the NDRC, said at the news conference.

The five-part plan was developed under the approval of the United Nations Framework Convention on Climate Change. It states China's current situation and efforts on climate change, as well as the effects and challenges of climate change in the country. It also lays forth the nation's guidelines and goals for tackling the problem, related policies and measures, and China's stance on climate change and the need for international cooperation.

Rather than setting a direct target for the reduction or avoidance of greenhouse gas emissions, the Chinese government aims to reduce energy consumption per unit of gross domestic product (GDP) by 20 percent by 2010, according to the plan. China also aims to increase the share of renewable energy (including large hydropower) in primary energy provision to some 10 percent and to cover roughly 20 percent of the nation's land

with forest. China has set another major goal of strengthening its capacity to adapt to climate change, focusing on grassland restoration, improved irrigation efficiency, forest and wildlife conservation, flood control, and coastal security.

The plan stresses the key roles of technology transfer and international cooperation in helping China move toward a low-carbon economy, which is considered crucial to transitioning away from the country's current energy structure. Technology and cost are major barriers to energy efficiency in China, and it is considered difficult to alter the nation's coal-dependent resource and consumption framework in the short term.

The United States and China, the world's top two carbon dioxide emitters, recently agreed in their second strategic economic dialogue to collaborate on the promotion of clean coal technology. This includes developing large-scale coalbed methane capture projects in China, enhancing research and development of carbon capture and storage technologies, and formulating a national low-sulfur fuel policy for China.

UK study on macroeconomic rebound effects from UK energy efficiency policies

The Cambridge Centre for Climate Change Mitigation Research in Coorperation with Cambridge Econometrics CE, Policy Studies Institute PSI and Dr. Horace Herring has published a interesting study on the "macroeconomic rebound effects for the UK economy arising from UK energy efficiency policies and programmes for 2000-2010.

http://www.defra.gov.uk/science/Project_Data/DocumentLibrary/EE01015/EE01015_3554_FRP.pdf

Sweden: Study on policy instruments influencing CO_2 emissions and regional development

Swedish NGO *Naturvardsverket* recently released the following study based on official data by several swedish ministeries on CO_2 emissions of the transport sector. The study includes an english summary (pages 9-12).

http://www.naturvardsverket.se/Documents/publikationer/620-5710-3.pdf

6. GREEN BUDGET REFORM WORLDWIDE

The EU as a Pioneer in Climate Policy

[Dagmar Dehmer, eurotopics.net, April 3rd 2007]

As a resolution adopted at the EU Spring Summit on 9 March 2007 makes clear, the EU intends to assume a leading role in international climate policy. But how great is the consensus among member states?

Only twice in the past has the subject of global warming been as omnipresent in the media as it is now: in 1992 during the UN summit in Rio de Janeiro, when the United Nations Framework Convention on Climate Change was adopted, and in 1997 when the Kyoto Protocol was passed in Japan. Even in France, where environmental issues aren't very popular, there have been detailed reports on climate change and possible solutions for some time now. And in Germany, too, the issue is receiving more and more attention and making the headlines with increasing frequency. On March 2 2007, the "Frankfurter Allgemeine Zeitung" dedicated an entire culture section to the climate change debate. These days there is general consensus that climate protection measures are necessary. When the Czech president Vaclav Klaus described the warnings of climate researchers as "irrational" back in October 2006, Antje Buchholz, a German correspondent for the Czech newspaper Prazsky Denik, commented with sarcasm on 13 October 2006: "Professor Klaus remains unmoved by the arguments of hundreds of experts."

Climate protection has also become a hot topic for consumers. There are discussions about what the individual can do to help prevent climate change, or in other words, to reduce his or her own CO_2 emissions. "There's nothing wrong with putting yourself on a climate diet every now and then – whether it's what you eat, how you travel or how you heat," wrote Hanna Gersmann on 23 February 2007 in the German Tageszeitung.

The period between 1997 and 2005, on the other hand, was a kind of blank during which climate change was barely discussed. Climate conferences were spent battling out the finer points of the Kyoto Protocol, and some of those were so complex that it was virtually impossible to convey them to a wider audience.

It was only when the Kyoto Protocol took effect on 16 February 2005 – without the US and Australia – and with the British EU and G8 presidencies in the same year that the issue was taken seriously again. British Prime Minister Tony Blair announced that climate change was "the greatest challenge facing mankind this millennium". His team of advisers began drawing up a white paper aimed at turning the British economy into a "low-carbon economy". In Great Britain, interest in the subject of climate change has not waned since. Both Al Gore's film "An Inconvenient Truth" and the report by former world bank economist Nicholas Stern on the cost of climate change have now turned the niche topic into a global topic. Particularly the "Stern Report", which calculates the cost of global warming, has added fuel to the debate. The economy and growth are no longer being played off against climate protection. Now the latter is increasingly regarded as both a necessity and an opportunity for economic success.

George Monbiot commented on 31 October 2006 in British daily The Guardian that "It is a testament to the power of money that Nicholas Stern's report should have swung the argument for drastic action, even before anyone has finished reading it." Then last February the first part of the new IPCC Report appeared, compiled by a panel of leading climate experts set up by the United Nations. The IPCC researchers laid the blame for climate change squarely on mankind, and set 2020 as a deadline for the necessary changes. The European Union has traditionally played a key role in international discussion on climate change, and has always been a driving force at UN climate negotiations. So it's not surprising that expectations for what the EU can achieve for the follow-up to the Kyoto process are high. The agreement is due to expire in 2012. If a basic framework for a post-Kyoto agreement is not laid out at the climate conference in Bali this December, there is the risk of a gap between the two treaties. Among other things, this would be a fatal blow for emissions trading. The emissions trading scheme, which makes emissions of carbon dioxide (CO_2) expensive for industry by imposing limits, would probably collapse. Yet emissions trading, which represents an attempt to reduce greenhouse gases using a market model, is the EU's flagship project. This has been recognised by EU Environment Commissioner Stavros Dimas. Just before Christmas he rejected the first ten national emissions allocation plans submitted to him for the Emissions-Trading Scheme, saying they didn't go far enough. Shortly beforehand, France had withdrawn its allocation plan, which would probably have suffered the same fate. The British plan had only a small flaw; all the others had major problems as they were far too generous with emissions permits for their industries in the second phase of trading (2008-2012). The media is following these developments closely. European newspapers welcomed the European Commission's rejection of the emissions plans of certain countries. "The commission has at least shown that it is determined to be a credible regulator," noted Kate Hampton in The Economist of December 1, 2006. On the same day, the French Le Monde wrote that the Brussels authorities "are demonstrating their ability to resist the pressure of the business world." The bottom line in the media appears to be that if the emissions trading scheme fails, the EU will lose its credibility as far as climate protection is concerned.

Now, however, the 27-state Union has gone a step further. With the climate summit in Brussels "Europe has reinvented itself," writes Gerd Appenzeller in the Tagesspiegel. In her current capacity as president of the EU, Angela Merkel has managed to bring the other member states to agree on a new climate protection action plan. At the Bali climate conference in December 2007, the EU will offer to reduce its overall greenhouse gas emissions by at least 20 percent by 2020, and will aim for 30 percent should other states agree to take similar steps. In addition, by the same date 20 percent of its overall energy consumption is to be covered by renewable energies – nuclear energy does not count as renewable – and biofuel is to account for ten percent of all fuel. Energy efficiency is to increase by 20 percent, which means energy consumption should go down by the same amount. If the EU reaches these targets it will prove that a prosperous society model can indeed go hand in hand with less destruction of the climate.

An example like this is urgently needed to make consistent climate protection measures attractive enough to encourage emerging states like China, India, Mexico, Brazil and South Africa to take their own initiatives.

Nonetheless, right up to the end of the summit, France and the countries of Eastern Europe tried to have nuclear energy chalked up as an environmentally-friendly energy source in order to get

round the target for renewable energies. Moreover, countries like Poland and the Czech Republic are concerned about stringent reduction targets for CO_2 emissions because their economies are just starting to catch up with the rest. The Brussels summit brushed over the really difficult issues. No decisions were made as to how the burden of reaching the targets is to be distributed between individual states. Indeed, the summit would have failed without this limitation.

In the March 10th issue of the Nébszabadság, Brussels correspondent László Szöcs summed up the complexity of the situation as follows: "Cyprus needs energy to cool down the country. Denmark needs energy to heat. Finland is expanding its nuclear power facilities while Germany is reducing them. The EU has called for measures to reduce greenhouse gas emissions which will have a negative impact on the German car industry, while Italian and French cars already fulfil the requirements." Meanwhile, in the Frankfurter Allgemeine Sonntagszeitung of March 11th, Hendrik Kafsack describes the accord as an "agreement on targets and symbols".

Like Kafsack, most commentators doubt the EU's action plan will actually culminate in an agreement because the goal is to find an "adequate and reasonable" target for each country. But what is "adequate and reasonable"? As Pascal Aubert noted on 13th March 2007 in the French daily La Tribune, "There are as many interpretations as there are stars on the European flag."

EU-Commission-Report by IEEP: Reforming Environmentally Harmful Subsidies

A report to the European Commission's DG Environment titled "Reforming Environmentally Harmful Subsidies" was published in May.
http://www.ieep.eu/publications/pdfs/2007/executive_summary_ehs_%20report_23_03_07.pdf

Council of the European Union meeting on Environment

Press release on the Council's meeting on Environment June 28th 2007 in Luxembourg, including Council Conclusions on several market based instruments:
http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/envir/95033.pdf

Study on the Power Sector to save the climate

Greenpeace and the European Renewable Energy Council have released "a sustainable investment plan for the power sector to save the climate" July 2007.
http://www.greenpeace.org/raw/content/international/press/reports/future-investment.pdf

UN: biofuels raise risks

[Anthony Boadle, Havana (Reuters), sciam.com, July 4th 2007] The head of the U.N. Environment Program said Cuban leader Fidel Castro and others are justified in raising concern about the potential for ethanol production to threaten food supplies for the poor.

But UNEP director Achim Steiner said the jury is still out on whether risks outweigh the benefits when using food crops to produce ethanol as an alternative fuel. Castro, who has taken to writing articles since he was sidelined from power last year by intestinal surgery, has attacked U.S. plans to increase biofuels output using crops such as corn, saying this will increase food prices and global hunger.

"What President Castro points to is something the U.N. Food and Agriculture Organization has also raised recently: That there is significant potential and risk for competition between food production and production for a global biofuels market," Steiner told Reuters during a environmental meeting in Havana.

"We have to be aware that there are risks, and for some countries those risks may not be worth taking," he said. Steiner said it is too early to do a cost-benefit analysis on the use of ethanol, which environmentalists say will help slow global warming. While current technology simply turns crops, such as sugar or corn, into ethanol, new biofuels products on the horizon use enzymes to turn crop residue or agricultural waste into fuel, he said.

The UNEP is studying the efficiency of biofuels while focusing on the development of international standards that would minimize social and environmental risks. But Steiner added: "As long as the world is not able to agree on the norms and standards that should guide the development of a global biofuels market, the risks are going to be much higher."

7. CLIMATE NEWS IN GERMANY

German coalition unveils climate plan

[Parkins and Rose, July 3rd. Bloomberg.com]
German Chancellor Angela Merkel unveiled plans to slash greenhouse gas emissions, a step hailed by environmental groups though criticized by industry as meaning higher energy bills. Merkel, meeting with utilities and power users in Berlin today, outlined steps to reduce emissions by up to 40 percent by 2020. Proposals focus on boosting the productivity of power plants by 3 percent each year and improving energy conservation, measures Merkel has said are vital to achieving goals on tackling climate change. Germany is Europe's biggest emitter of carbon dioxide. "There is some doubt about whether our goals can be reached," Merkel told reporters in Berlin after the government's third energy summit. "I think we are on a reasonable path."

Merkel's decision to spearhead CO_2 reduction in the European Union gives added impetus to the government to fulfill ambitious targets. The proposals under discussion today ranged from light-bulb usage to "capturing" CO_2 in underground caverns. The future of nuclear power was also on the agenda, though Merkel rebuffed calls to extend the lifespan of German plants.

Nuclear Analysis

The energy summit analyzed a scenario in which nuclear plants were allowed to operate longer than currently permitted. Still, Merkel said the German government doesn't expect to agree on any change to its nuclear energy policy before 2009, when this legislative period ends.

"The complete renewal of Germany's energy park to meet productivity targets just isn't economically feasible," Michael Huether, head of the Cologne-based IW economic institute, said in an interview before the summit. "The debate over Germany's nuclear phase-out is about to be reopened." Germany's 17 nuclear power plants, amortized investments that are due to close by 2021 under an agreement made by the last administration and ratified by Merkel's government, generate about 26 percent of the country's electricity and emit smaller amounts of CO_2 than gas- or coal-fired plants. Reactor owners E.ON AG, Vattenfall Europe AG, RWE AG and Energie Baden- Wuerttemberg AG each want to run their nuclear plants longer. In a four-page paid supplement published on July 1 in German newspapers, RWE Chief Executive Harry Roels urged the government to re-examine the nuclear phase-out because "it was forged when climate protection wasn't as high in the public imagination as it is today."

"Anti-Energy Policy"

Other industrialists are blunter. "The energy policy of this government is an anti-energy policy," said Klaus Rauscher, chief executive officer of Vattenfall's German unit, cited in an interview in Spiegel magazine on July 1. Nuclear reactors produce more electricity than coal and lignite plants, which supply 21 percent and 24 percent of Germany's power needs respectively, according to the Economy Ministry. Solar and wind power, subsidized by tax, supply another 9 percent and gas some 12 percent of power. Germany has pledged to cut CO_2 output by 21 percent by 2012 compared with 1990 levels, starting next year with a cut of 57 million metric tons, or a tenth less than in 2007. The aim is to "unleash a revolution in power efficiency," Environment Minister Sigmar Gabriel told reporters in Berlin on June 29. Boosting power plants' productivity will save power consumers annual costs of 50 billion euros ($68 billion) by 2020, he said. "Surely, if you invest in efficiency that leads to savings," said the Social Democrat. "I can't understand industry's misgivings."

Something in Return

"I don't see how you can force utilities to invest in more efficient plants without giving something in return," said Alfred Richmann, managing director of the Essen-based VIK group that represents 80 percent of power bought by German industrial companies, including carmaker Volkswagen AG. "Power customers would pay the productivity charge," said Richmann in an interview. "We need to ensure that meeting climate goals doesn't torpedo our competitiveness – and this does."

Power prices are rising, putting a question mark over assumptions that productivity gains lead to lower prices. As many as 126 power suppliers increased prices by an average of 7.7 percent on July 1 after state controls on prices expired, the Verivox power-price monitoring service said on its Web site. Merkel's planned increase in spending on energy conservation may be more to industry's liking. She proposes raising subsidies for

programs to lower heat-loss by buildings to 3.5 billion euros from 1.4 billion euros a year.
http://www.bmu.de/english/press_statements_speeches/doc/39349.php

Germany moves to improve building energy use

[ENDS Europe DAILY, 23rd April 2007] Germany has unveiled proposals aimed at improving the energy efficiency of the country's buildings, which the government says contribute one-fifth of the country's annual carbon dioxide (CO_2) emissions. The proposals were unveiled by German building minister Wolfgang Tiefensee at an international energy efficiency conference in Berlin on. They are designed to implement an EU directive from 2003. The building ministry said the plans would be more ambitious than current EU standards. They would require disclosure of heating and water costs for all buildings from 2008, and new and renovated buildings would have to improve energy efficiency by up to 30 per cent. The proposals are to be discussed by the German cabinet.

The meeting was attended by governments from the EU and G8 countries and was intended to foster international dialogue on global energy efficiency initiatives. The subject will be included in a communiqué expected from G8 leaders in June, as a follow up to agreements made at the 2005 Gleneagles summit.

German industry minister Michael Glos said the purpose of the conference was to "show that the further decoupling of world-wide economic growth from energy consumption is possible". Environment minister Sigmar Gabriel said the "technologies are already present and the instruments are well-known – now we have to concentrate on making the switch" to energy-efficient alternatives.

Climate policy rhetoric escalates as Germany threatens trade duties

[forbes. com, June 18th 2007] Differences over climate change policy have pushed some governments to escalate their rhetoric, with Germany threatening developing countries with trade duties if they fail to make cuts in their greenhouse gas emissions.

Germany's Environment Minister Sigmar Gabriel was cited in German media over the weekend as saying that his government would use a border tax to push developing nations to accept cuts in greenhouse gas emissions. Because these countries are concerned with reducing poverty, the duties would be an incentive for these countries to use international aid to disconnect economic growth from climate damage, he said. This was aimed particularly at China and India, who have long argued their economies should be exempt from emission reduction targets out of a need to maintain growth and improve living standards.

"This is one option if international negotiations don't succeed in the talks in Bali," explained Tobias Dunow, a spokesperson for the German Environment Ministry, referring to the December meeting where the United Nations will bring countries together in an attempt to agree on emission reduction targets. The German government also said that this policy option had been discussed within the European Union and that the US had been informed. The G8 group of industrialized nations resolved at their meeting earlier this month in Heiligendamm, Germany, that they would "seriously consider" a target to halve carbon emissions by 2050, but fell short of a binding commitment.

However, the US was said to have reservations about following through with the target while China – the world's second largest emitter of greenhouse gases after the US – was not included in the deal, as weren't the other largest developing countries, India, Brazil, Mexico and South Africa.

Analysts said that because the US is unlikely to agree to any targets that do not include China, and because China is unlikely to accept any policies that would hinder its growth, the policies would seek to use aid to convince developing nations to cut emissions. If this fails, the next step in pushing forward climate policy would be to tax imports from those countries that refused to comply. Holger Schmieding, chief European economist at Bank of America, believes this is mostly a case of sabre-rattling to get developing nations to tow the line, but that overall global trade protectionism is not likely to rise significantly. 'There is still a strong commitment to find an agreement at the Doha trade talks,' where countries are seeking to lower trade barriers, Schmieding noted.

The German rhetoric is probably more of an attempt to push for results within climate policy, but it is not clear that the government would be will-

ing to go as far as imposing duties on Chinese and Indian imports, he said.
http://www.forbes.com/markets/feeds/afx/2007/06/18/afx3831386.html
See also articles in recent GBN issues:
http://www.foes.de/en/GBN17-5Art12.html
http://www.foes.de/de/FOES41-4Art1.html

Germany: Debates on possibly rising taxes on energy consumption

On 11th July 2007 German newspapers published rumors about energy tax hikes planned by the Ministry of Environment, referring to an internal strategy paper of the Ministry proposing a "climate cent" as a possible way of financing the ambitious goals on carbon reduction recently declared by the German government. Soon after this information appeared in the media, German Minister of Environment Sigmar Gabriel called references to all kinds of tax hikes "nonsense", as the internal paper did not reflect the opinion of the Ministry or current political concepts on carbon reduction.
http://www.pointcarbon.com/Home/News/All%20news/Kyoto%20International/Domestic%20policies/article23421-881.html

8. EVENTS

Innovation, Technology and Employment – Impacts of Environmental Fiscal Reforms and other Market-Based Instruments

Munich, 18-20 October 2007

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3rd Annual European Energy Policy Conference 2007, 21st and 22nd Nov. 2007

Following the 10th January Commission's Energy Package and the European Council's endorsement of the Commission strategy, all eyes turn to implementation of the ambitious EU objectives for 2020: reducing EU Greenhouse gas emissions by 30 percent, conditional to a global agreement on climate change or 20 percent unilaterally, achieving a 20 percent share of renewables in the overall energy mix, 10 percent of biofuels (5 percent in 2010), reducing primary energy consumption by 20 percent and operate 12 power plants ready operating with carbon capture and storage technologies in 2015. At the same time, the EU will need to ensure security of supply and the competitiveness of European industry.
The development, demonstration and diffusion of energy technologies will be crucial to achieve EU energy and climate change objectives. However, this "industrial revolution" will only happen if the EU succeeds in putting into place the necessary policies to promote this industrial transformation. This joint conference by the Brussels-based think tank Centre for European Policy Studies (CEPS) and Epsilon will take stock of existing policies at EU and member state level and assess progress towards meeting the EU objectives, and will ask how new energy technologies can best be supported.
This high-level conference is also a partner for the European Commission's Sustainable Energy Europe programme. Further details can be found by going to www.sustenergy.org.

Central European Biomass Conference Graz (Austria), 16-19 January 2008

After the very successful debut of the Central European Biomass Conference 2005 in Graz (Austria) – about 1000 participants from 28 countries – the second congress of this type will take place next year. The Austrian Biomass Association, the Styrian Chamber for Agriculture and Forestry and the ABC – Austrian Bioenergy Centre will organise the Central European Biomass Conference 2008 Graz (Austria), 16 to 19 January 2008.
The Central European Biomass Conference 2008 aims at providing an up-to-date overview of the latest political, economic and technological developments in the field of bioenergy (heat, electricity and transportation fuels). A special focus lies thereby on the biomass raw material supply out from forestry and agriculture – a topic that, facing the enormous biomass boom, poses to be a big

challenge aswell as a big chance for the central European area.

Location will be again the well-tried Messe Center Graz, and the date was chosen parallel to the "Häuslbauer" trade fair – the entrance to the trade fair is included in the conference fee! The congress aims at 600 participants, conference languages are German, English, Italian, Polish (simultaneous translation). All informations on the event are also available on our website (German and English):
http://www.biomasseverband.at/biomasse/?cid=24803

The Oregon Environmental Council's Forum for Business and the Environment, September 6th 2007

Roby Roberts of Goldman Sachs' Alternative Energy Investment Division and Ron Pernick, co-founder and principal of Clean Edge and author of The Clean Tech Revolution: The Next Big Growth and Investment Opportunity, discuss what clean technology means to the Pacific Northwest.

Roberts and Pernick will discuss how the clean-tech era is represented by a dynamic and diverse group of companies, from start-ups to multinational giants, that are being supported by forward-thinking investors, scientists, politicians, and customers. Goldman Sachs is one of those investors, using its influence to move markets by pumping close to $1 billion into renewable energy over the past year alone.

Environmental Law 2007, London, 13th and 14th September

The world is entering a new era of enlightenment as to the effect that human society is having on the Earth. Although environmental issues have been recognised as an increasing global problem, only in recent years have humans faced significant climatic shifts that illustrate the critical need to take action against further damage.

For many years, environmental law has been established to protect the natural environment while allowing human development to continue within a regulatory framework designed to improve sustainability. In the everyday practice of environmental law, key areas of development activity are constantly scrutinised and the law is further refined to ensure that these crucial elements are accessible to us, but safer for the environment. Throughout this evolution, law has been updated through judicial review, the way in which development projects are financed has been made more sustainable, and pollution and contamination caused by industrial processes has been reduced.

The law continues to evolve, but recent political and legislative trends indicate that the Earth's changing environment will continue to affect the law in practice and legal practitioners must continue to develop their skills in legal best practice in the dynamic world of environmental law.

9. READERS' GUIDE

Readers' Guide:

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We hope you enjoy reading your copy of GreenBudgetNews!

Best wishes from the editors!

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