

# Climate Policy News

March 15 - 21, 2010

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## EU Emission Trading Scheme

### New measures against VAT frauds

The European Finance Ministers approved on Tuesday a modification of the current rules regarding value added tax (VAT) in order to avoid frauds, after last summer's cases had shown ways to exploit the asymmetries in which the VAT was levied in different countries. The new version of the tax is based on a reverse-liability mechanism, in which it is no more the suppliers of greenhouse gas emission allowances to be liable to pay VAT, but the final consumer. Member States have the possibility to reverse VAT liability until June 30. The reverse liability mechanism, which had already been chosen unilaterally by some European countries after this summer's frauds, has been approved very quickly, as the draft law was introduced only last September.

### Research group says "20" is not enough

While European environment ministers remain divided about the opportunity to upgrade the bloc's climate target for 20% to 30% below 1990 levels by 2020, the Greens/European Free Alliance group in the European Parliament presented a report of research group CE Delft in which the possible counter effects of sticking to 20% target are spelled out. Given the current economic crisis and its effects on energy demand and industrial output, the environmental effectiveness of the EU climate policy mix, including the EU ETS, is at stake, with the policies affecting only 4% of domestic emissions reductions, as companies are likely to bank unused allowances in the future period of the scheme. Thus, compliance will be easier than foreseen and the financial incentives toward better and greener technologies that the EU ETS was supposed to induce will not be effective. Moreover, a bolder target will be necessary for the EU to contribute its fair share in the international emission reductions the bloc has called for. In fact, the EU supports an overall 30% reduction in emission by developed countries, which would require at least as much by the Union alone, according to the report.

## News from the World

### The road to Cancun

Speaking at the side of a meeting with European environment ministers aimed at assessing EU's expectations about the upcoming Conference of Parties (COP 16) to be held in Cancun in Mexico later this year, the Mexican environment minister Quesada stressed the need to focus on concrete policy initiatives and avoid focusing the pre-Cancun debate on the likely formal status that a possible agreement might take. The schedule of the COP host is looking very busy as he plans to officially meet some 56 African environment minister after meeting his Indian counterpart last month, while at the same time working to implement fast-start adaptation funding and work towards an agreement on REDD (reducing emissions from degradation and deforestation). Quesada also stressed that Mexico will guarantee a "very open process" to all parties involved and take into close consideration the needs of "fellow developing countries". As for the fate of the Kyoto Protocol, Quesada confirmed that it will be substituted only if another appropriate instrument is found to replace it, as "for the developing countries, the presence of the Kyoto Protocol is very important".

### Japanese opposition presents climate bill

After criticizing the government's climate bill, considered "unrealistic" and "irresponsible" for its 25% emission reduction target by 2020, the Japanese opposition parties presented to the Parliament their own bill for consideration. The bill includes a 15% reduction target by 2020 from 2005 levels, which implies an 8% reduction compared to 1990 levels. Differently from the government's bill, whose targets are conditional on the agreement of an international regime with "ambitious" targets involving all major emitters, the opposition party bill is not subject to any further development in international negotiations.

## The Carbon Market

The news that "used" CERs had been resold in the market caused two exchanges to suspend CER trading on Wednesday and shattered the confidence in these credits, widening the EUA-CER gap by the end of the week. The used permits, which likely come from a Hungarian sale of 1.74 million credits last week, has spurred debate regarding the need for new registry procedures and prompted the European Commission to suspend the surrendering of CERs and ERUs in the EU's central carbon registry from March 19 until new procedures have been devised and implemented. Prices in the EUA compartment were not affected by the problems in the CER compartment and closed the week on the positive side at €13.08, after hitting a 3-month high during Friday's trading session. Secondary CER2010 closed at €11.43.

Volumes were quite low at the beginning of the week, with only 13 million allowances exchanged over all platforms, but picked up on Thursday, when the exchanges hit 26 million traded allowances.

#### SOURCES TO THIS ISSUE

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