CARBON MARKET NEWS

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Carbon Pulse

ASIA PACIFIC

China held the long-awaited "launch ceremony" of its national emissions trading system in late December, but revealed that the market was not yet ready to begin in earnest. Government officials said another year was required to develop underlying systems, such as a trading platform, registry and MRV rules. It will then launch a test market restricted to power generators, and when that works satisfactorily the ETS will begin in earnest. This is unlikely to be before 2020.

The recently elected New Zealand government continues to prepare for potentially big changes to its ETS, including the possible inclusion of agriculture and the removal of the market's price cap. However, as these changes will be part of a broader climate change strategy that includes a Zero Carbon Act, the outcome of the process is not expected until mid- or late 2019.

Kazakhstan launched its revamped cap-and-trade programme on Jan. 1, after the market was put on ice in 2016 due to a number of operational problems. The ETS will regulate CO2 emissions from 225 facilities within electricity generation, oil and gas, mining, and metallurgical production, which have been given 485.8 million CO2 permits for the 2018-2020 trading phase. However, actual trading won't be available in the immediate future.

Australia's Coalition government is working on a new energy and climate strategy, and in February issued draft regulations for a system that would require electricity retailers to meet certain carbon intensity requirements. The policy, if implemented, would not include the issuance and trade of explicit CO2 allowances, but retailers would trade carbon intensity electricity contracts that would in practice put a price on carbon in the sector.

Singapore in February announced a S$5/tonne tax on CO2 emissions from around 40 of the country's biggest emitters. The tax, set to be imposed from 2019, would oblige emitters to buy non-tradable permits from the government at a set price and then surrender those to the government. That system was put in place in order to make it simpler for the government to move to a traded system later, should it choose to do so.

AMERICAS

Canada's federal government unveiled legislation supporting "backstop" carbon pricing plan in January. In addition to a levy on fuels, the plan also includes an output-based pricing system for large emitters that features trading and offsetting as compliance options.

In February, the first ever WCI tripartite auction with Ontario in tow sold out of its record-breaking 98.22 million current allowances at a small premium to the reserve price. The carbon sale - the largest in North American history - was a display of further confidence in the market, even as the candidates vying for leadership of Ontario's Progressive Conservative party - currently leading in the polls ahead of this June's election - have vowed to rid the province of carbon pricing.

California regulator ARB also held a public workshop in early March detailing proposed updates to the post-2020 design of its cap-and-trade programme. These potential overhauls include a price ceiling, new price containment points, measures to address overallocation, and quantitative and qualitative adjustments to offsetting.

A highly-publicised push to pass cap-and-trade legislation in both the Oregon House and Senate fell short of full floor votes in both chambers. Lawmakers will now look to the far-longer 2019 session to implement a carbon market in the state. Separately, efforts by Democrat lawmakers to introduce a carbon tax in Washington state were abandoned after it became clear the measure lacked support.

Out East, both New Jersey governor Phil Murphy (D) and the state's legislature have begun exploring the process of how to re-enter RGGI. Meanwhile, a cap-and-trade proposal released by the Virginia Department of Environmental Quality is now out for a 90-day public consultation, though the framework stops short of calling for allowance auctions or a formal RGGI linkage to avoid legislative problems in the Republican-controlled House and Senate.

EMEA

EU carbon prices hit double figures for the first time in six years as the rally that began in spring 2017 continued unabated. Prices have gained nearly 40% since late last year on the back of the anticipated supply-curbing impact of the Market Stability Reserve and post-2020 ETS reform measures.

EU lawmakers gave their formal endorsement of the post-2020 ETS reform bill they had provisionally agreed in November. This largely procedural step was the final stage of a 2.5-year legislative process that will now enable the bill to become law within weeks.

With the ETS reforms in the books, lawmakers are turning their attention to completing the remainder of the EU's clean energy package over the first half of 2018. Updated Brussels figures found that rapidly falling renewables costs mean the bloc can set more ambitious 2030 clean energy goals without harming its economy. This exerts further pressure on member states to agree tougher targets, but without further safeguards in a subsequent ETS review, analysts have warned it could be bearish for EU carbon prices over the next decade.