

# **The Current Status of the Emissions Trading Scheme in Japan**

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# Consideration on “Emissions Trading Scheme” in JAPAN

## Japan’s Voluntary Emissions Trading Scheme (MOE) (2005～)



### Advisory Committee on the Emissions Trading Scheme (MOE) (Jan 2008～)

- MOE established the committee for intensive consideration on ETS possible to be introduced in Japan, its allocation method, covered sectors, monitoring, reporting, verification, enforcement, registry, cost containment measure etc.
- Member of the committee coming from academia, industry(incl. steel, electricity, automobile, machinery), lawyer, bank, stock exchange
- The committee published “Approach to Japanese Emissions Trading Scheme [Interim Report]” on 20 May, 2008 which sketched out desirable framework of ETS in Japan.

! Speech by Prime Minister on June 9<sup>th</sup> in 2008, and Cabinet Decision on July 29<sup>th</sup> !

**Experimental Introduction of an Integrated Domestic Market of Emissions Trading(GOJ) (Oct. 2008～)**

**Offset Credit(J-VER) (MOE) (Nov. 2008～)**

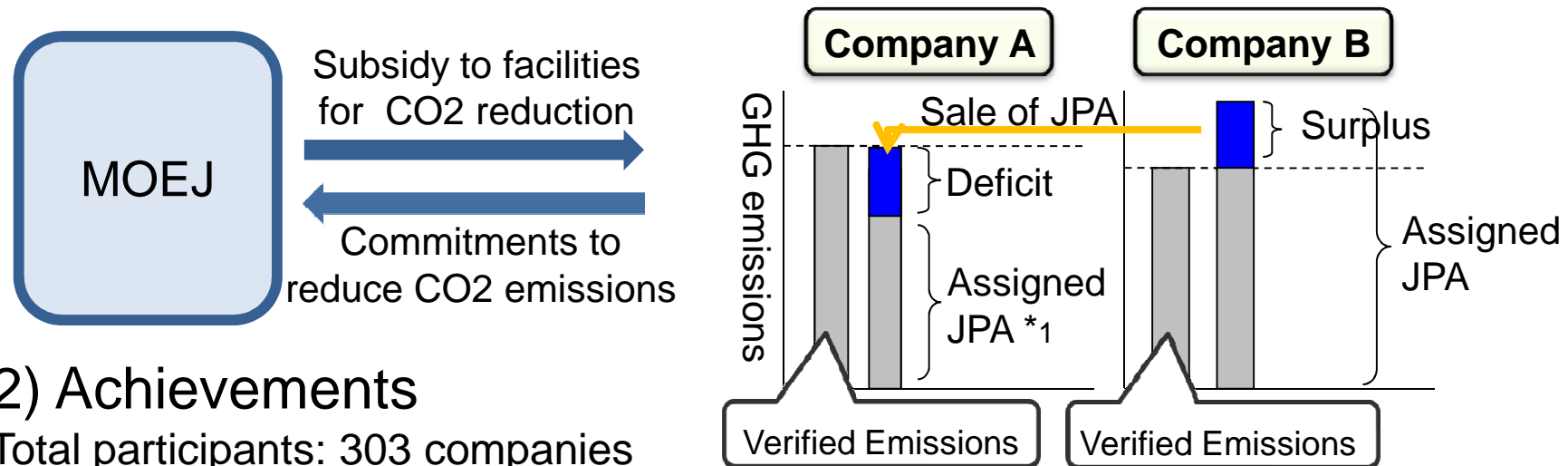
**Statement by YUKIO HATOYAMA PM of Japan at the UN Summit on Climate Change (Sep. 22<sup>nd</sup>, 2009)**

**Project Team on Emissions Trading Scheme (under Ministerial Committee) (Nov. 2009～)**

# Japan's Voluntary Emissions Trading Scheme (JVETS)

## (1) Scheme outline

- Launched by MOEJ in 2005
- Supports voluntary CO2 reduction activities by business operators to ensure their emission reduction targets in a cost-effective way with subsidy and emissions trading
- Participants of JVETS constitute a part of Experimental Integrated ETS (2008~).



## (2) Achievements

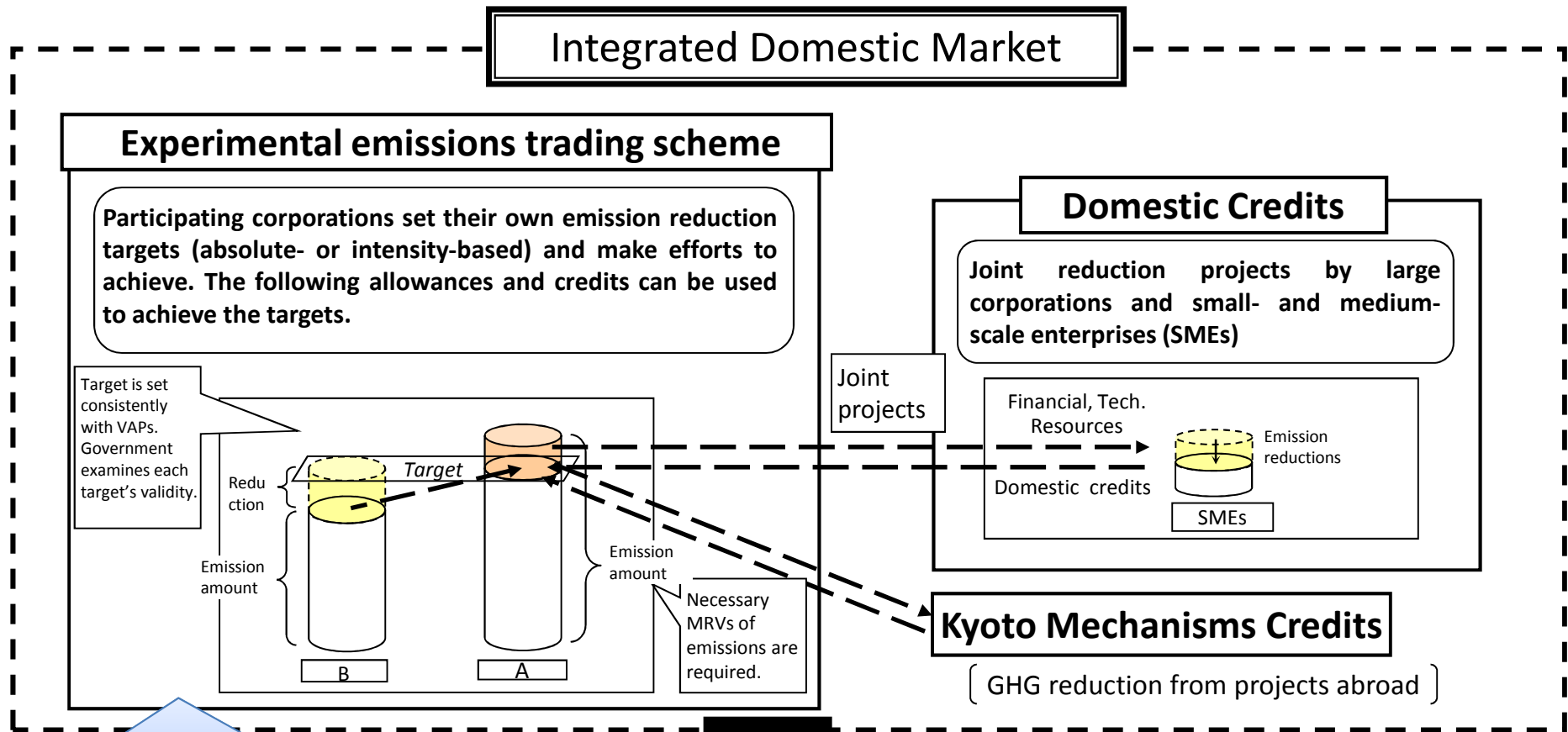
- Total participants: 303 companies

Commitment Period	FY2006	FY2007	FY2008
Achieved Reduction(kt-CO2)	377(29%)	280(25%)	383(23%)
Committed Reduction(kt-CO2)	273(21%)	217(19%)	135(8%)
Number of transactions	24	51	23
Average JPA price (JPY/t-CO2)	JPY1,200	JPY1,250	JPY800

\*1 : Assigned JPA = (Base year emissions (An average for the past 3 years)) – (Committed reduction)

- Development of infrastructure: Monitoring, reporting and verification guidelines, third-party verification, the emissions management system and the registry for allowance.

# Experimental Introduction of an Integrated Domestic Market for Emissions Trading



*JVETS is incorporated into this scheme as one of participating options.*

**Achievement of targets is to be reflected in the "voluntary action plan" and contribute to achieving the 6% reduction target.**

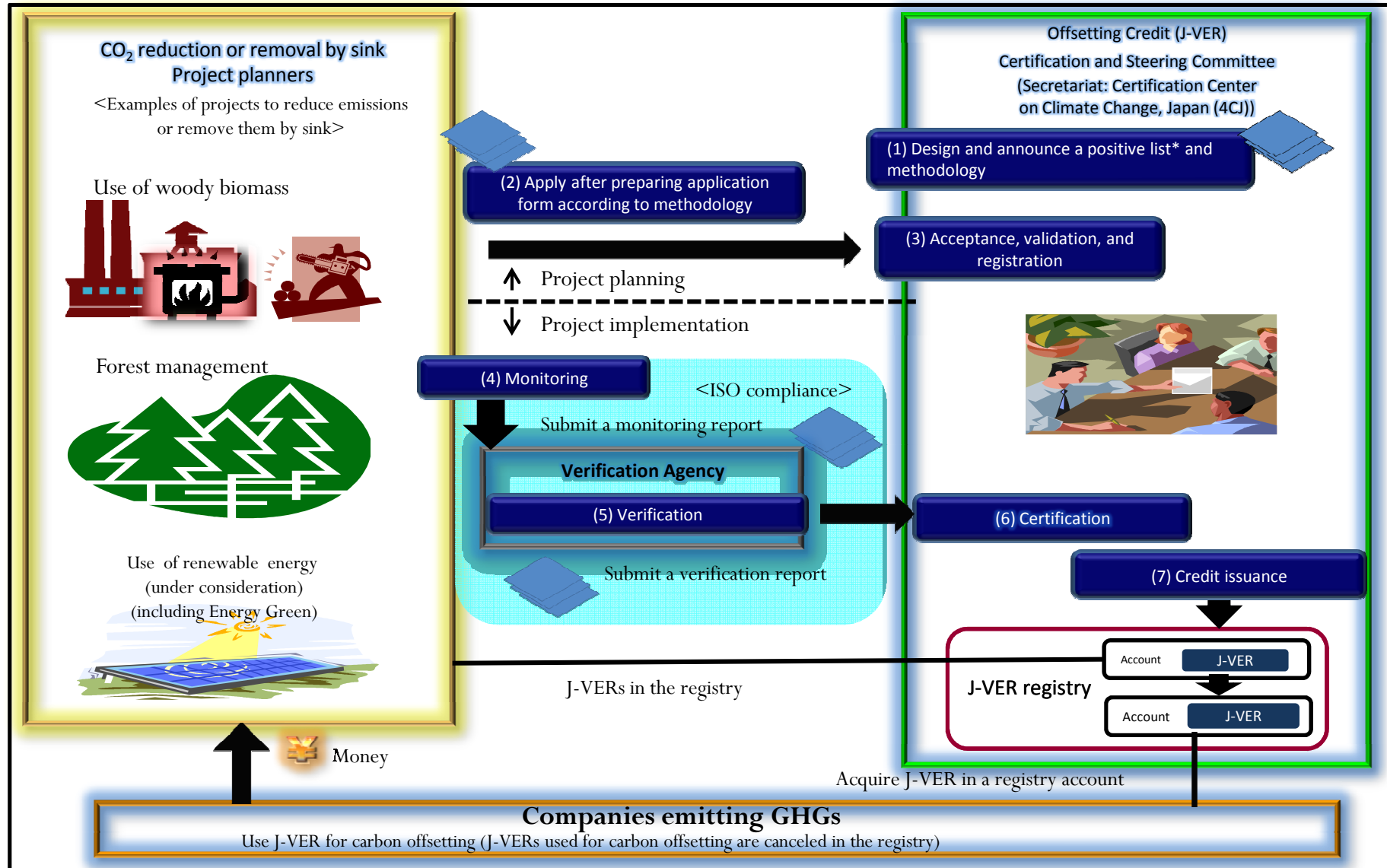
## Key points

- Experimental Introduction has begun **since Oct 2008**. **715 companies participated**.
- This scheme prepares various options for **substantial emissions reduction** by various entities including large corporations and SMEs in every sector.
- In the **integrated domestic market**, various allowances and credits are available for target achievement..

# Offset Credit (J-VER)

In November 2008, MOEJ set up the Offset Credit (J-VER) Scheme, a verification scheme for credits generated through the reduction/removal by sink of greenhouse gases carried out via domestic projects.

It is expected that the scheme will vitalize domestic projects (promote local industry) by channeling funds back into Japan's emissions reduction/removal projects



## Statement by YUKIO HATOYAMA PM of Japan at the UN Summit on Climate Change on Sep. 22<sup>nd</sup>, 2009 (excerpt)

[Reduction targets]

Allow me to touch upon the issue of reduction targets for greenhouse gas emissions.

Based on the discussion in the Intergovernmental Panel on Climate Change (IPCC), I believe that the developed countries need to take the lead in emissions reduction efforts. It is my view that Japan should positively commit itself to setting a long-term reduction target. For its mid-term goal, Japan will aim to reduce its emissions by 25% by 2020, if compared to the 1990 level, consistent with what the science calls for in order to halt global warming.

This is a public pledge that we made in our election manifesto. I am resolved to exercise the political will required to deliver on this promise by mobilizing all available policy tools. **These will include the introduction of a domestic emission trading mechanism** and a feed-in tariff for renewable energy, as well as the consideration of a global warming tax.

However, Japan's efforts alone cannot halt climate change, even if it sets an ambitious reduction target. It is imperative to establish a fair and effective international framework in which all major economies participate.

The commitment of Japan to the world is premised on agreement on ambitious targets by all the major economies.

**On the establishment of the domestic emission trading market, we will promote exchange of information on systems of other countries, and hold discussions on the issue, bearing in mind the impact on international competitiveness as well as possible future linkages among countries.**

# Consideration of Emission Trading within the Government

## Ministerial Committee on Global Warming

(PM, vice-PM, Cabinet Chief, MoE, METI, MOFA, MOF, MAFF, MLIT, MEXT, MIC)

### Vice-Ministerial Team

(Headed by vice-PM, coordinated by Env Minister, consisted of vice-ministers)

**Task Force on Mid-term Goal** (Consisted of researchers and institutes)

**Hatoyama Initiative PT** (Vice-PM, Env Minister, relevant vice-ministers)

### Emission Trading PT

(Headed by vice-PM, coordinated by Env Minister, consisted of vice-ministers)

- Established on 6 Nov 2009 (1<sup>st</sup> meeting held)
- Mandated to consider the design of cap and trade domestic emission trading system.

# Cap & Trade ETS: Our perception

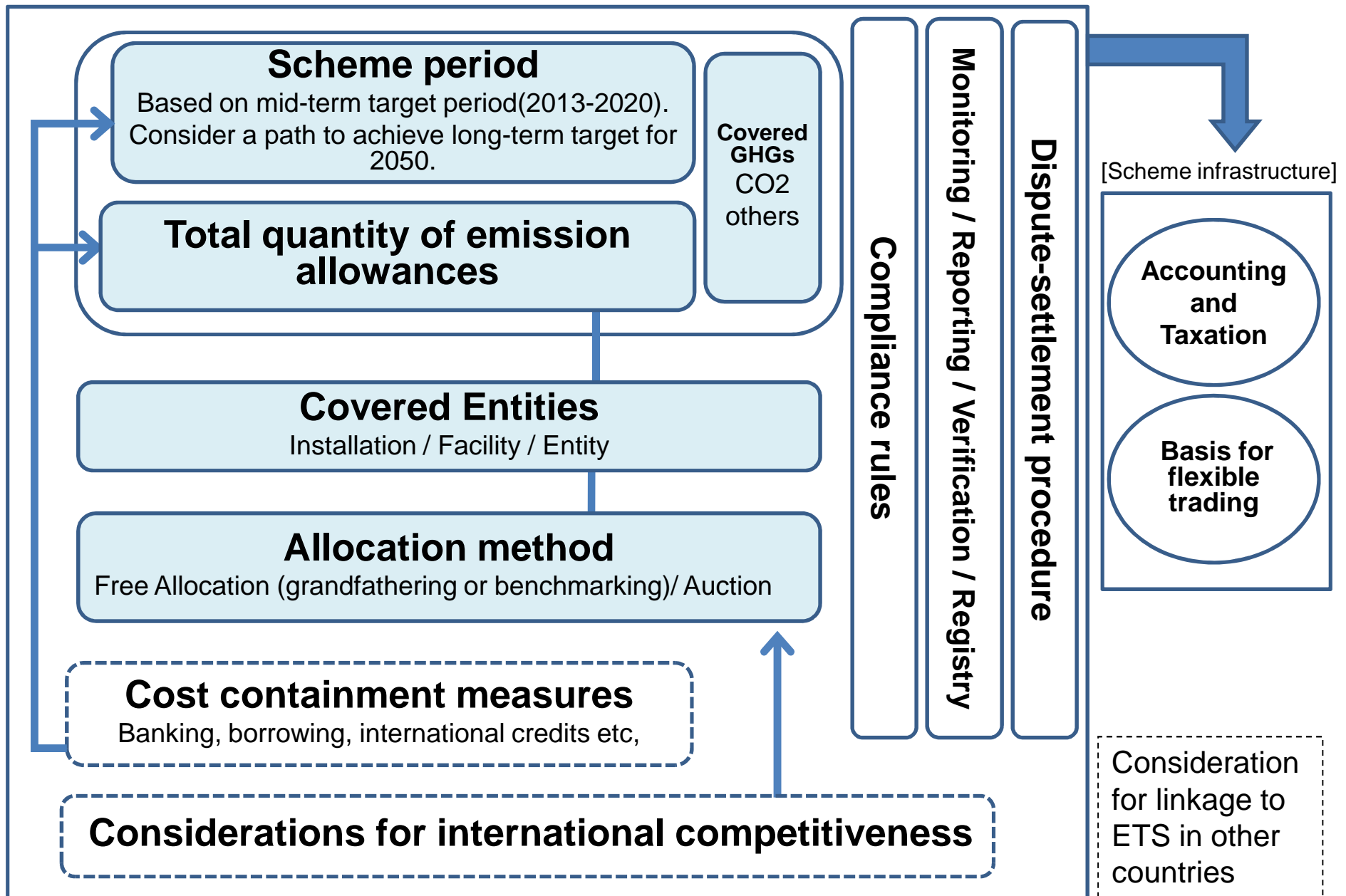
- **Cap & trade ETS can incorporate CO2 emission**
  - as a cost in corporate management
  - establishes a new market that directly connects emission reduction to business profit
- **Cap & Trade ETS is an essential component for the construction of a low carbon society**



# Towards ETS: What actions?

- **We will submit a bill for “Fundamental Law on Climate Change” as early as possible**
  - including a provision to establish the cap & trade emissions trading scheme
- **Based on the fundamental Law, we will amend the existing “Law on the Promotion of Climate Change Actions”**
  - to set out the concrete design of Cap & Trade scheme

# Key Elements for designing future ETS in Japan



# Discussion Points on Cap & Trade Emission Trading

## 1. Scheme Period

- Initially Mid-term target period (2013-2020) dividing into multiple phases with a long-run path to achieve long-term target for 2050

## 2. Total Quantity of Emission Allowances

- Establish the total cap basically covering manufacturing, business (offices etc.) and part of transport, taking into account the state of technology
- But need further reconsider the cap through following up the progress against the mid-term target

## 3. GHGs Covered

- Initially CO<sub>2</sub> including both energy generated and industrial process
- Adding non-CO<sub>2</sub> gases later taking into account accuracy of monitoring

## 4. Entities Covered

- Allocate allowances at entity-basis

## 5. Treatment of electricity

- Careful consideration needed whether direct allocation or indirect allocation
- In case of indirect allocation, further consideration is needed how to give incentives to reduce emissions from power stations

\* Direct allocation: allocation of allowances to power companies that directly emit CO<sub>2</sub>.

\* Indirect allocation: allocation of allowances to electricity users by calculating the CO<sub>2</sub> from the electricity use.

## 6. Allocation Method

- Methods can be free allocation based upon bench making/grand-fathering or auctioning
- Careful consideration is needed for which allocation methods will be implemented
- It is necessary to set up any measures in case that some sectors expose to international competition and possibility of carbon leakage.

## 7. Cost Containment Measures

To prevent excessively high cost of allowances, the following measures can be included:

- (1) **Banking:** Carry over unused allowances to the following period.
- (2) **Borrowing:** Borrow the allowances from future period or from the government.
- (3) **Use of external credits:** - Foreign credits such as Kyoto Units (from CDM or JI)  
- Credits from domestic reduction or sink.
- (4) **International link to other ETS**

## 8. Others

- (1) **Compliance rules (commitment period, measures against non-compliance, etc)**
- (2) **Monitoring, reporting and verification of emissions**
- (3) **Registry system**
- (4) **Market surveillance**

# “Market Mechanisms” (MOEJ’s website)

[http://www.env.go.jp/en/earth/ets/mkt\\_mech.html](http://www.env.go.jp/en/earth/ets/mkt_mech.html)

The screenshot displays the website for the Ministry of the Environment, Government of Japan. The page is titled "Market Mechanisms" under the "Global Environment" section. It features a navigation menu with options like "HOME", "In Focus", "What's New", "News Headlines", and "Category". The main content is organized into several sections, each with a list of links to PDF documents:

- Study of Emissions Trading Scheme**
  - [The Current Status of the Emissions Trading Scheme in Japan \(09.11.11\)](#) [PDF 1,059KB]
  - [Approach to Japanese Emissions Trading Scheme Interim Report \(Executive Summary\) \(08.5.20\)](#) [PDF 207KB]
- Japan’s Voluntary Emissions Trading Scheme (JVETS)**
  - [Japan's Voluntary Emissions Trading Scheme \(JVETS\) \(09.03.19\)](#) [PDF 1,380KB]
  - [Prototype Project of Voluntary Domestic Emissions Trading Scheme for Fiscal Year 2003](#) [PDF 22KB]
- Experimental Emissions Trading Scheme**
  - [Result of an Intensive Recruitment \(Oct.21~Dec.12\) for "Experimental Introduction of an Integrated Domestic market for Emissions Trading" \(08.12.13\)](#) [PDF 207KB]
  - [Integrated domestic market for Emissions Trading Scheme \(Global Warming Prevention Headquarters Decision\) \(08.10.21\)](#) [PDF 142KB]
- Carbon Offsetting/ Offsetting Credit**
  - [Carbon Offsetting in Japan\(09.9.13\)](#) [PDF 1,334KB]
  - [Forest Carbon Sink Becomes Carbon Offsetting Credit\(09.6.3\)](#) [PDF 1,534KB]
  - [Offsetting Credit \(J-VER\) \(09.4.17\)](#) [PDF 1,046KB]
  - [Outline of Carbon Offsetting \(09.2.19\)](#) [PDF 244KB]
  - [Statement of Cooperation by DEFRA, UK and MoE, Japan regarding Exchange of Information on Calculating Carbon Footprints and Carbon Offsetting \(08.10.09\)](#) [PDF 35KB]
- Kyoto Mechanisms**
  - [Introduction of Co-benefits Approach for GHG Emission Reduction Projects\(08.11.27\)](#) [PDF 711KB]

The browser's taskbar at the bottom shows the "インターネット" (Internet) icon and a 100% zoom level.