

The 9th International Forum for Sustainable Asia and the Pacific
Market Changes: Making Headway with Carbon Pricing in Asia

Carbon Pricing in Japan

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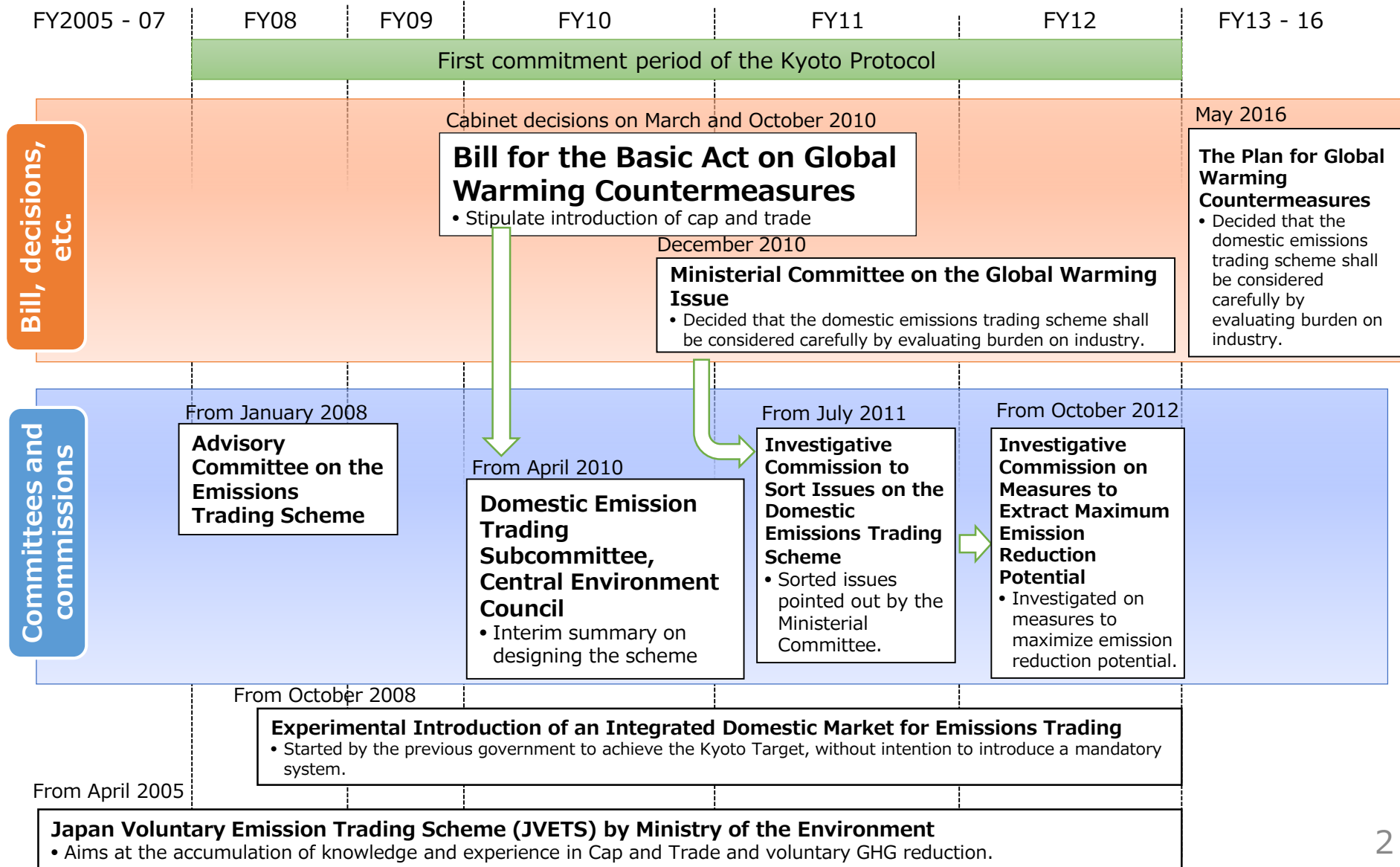
Climate Change Policy Division

Global Environment Bureau



History of Consideration for the Domestic Emissions Trading Scheme in Japan

- In Japan, the Bill for introducing cap and trade scheme was submitted in 2010, which did not pass the Parliament.



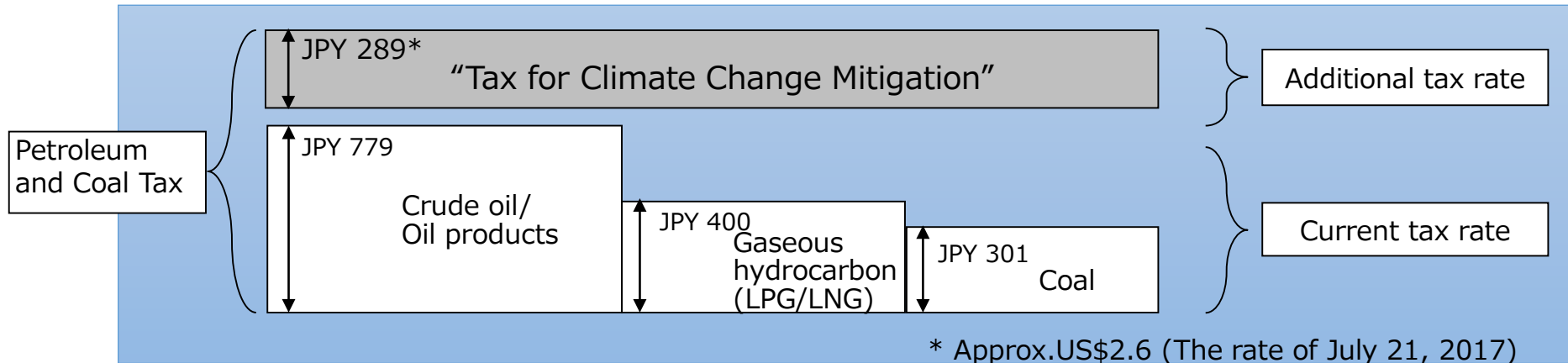
Tax for Climate Change Mitigation

- Tax for Climate Change Mitigation was introduced in Oct. 2012.

- Tax rate corresponding to the amount of CO₂ emissions for all fossil fuels (JPY 289/t-CO₂)
- All the tax revenue will be allocated for curbing energy-originated CO₂ emissions

Tax Rate

Tax Rate per t-CO₂ of “Tax for Climate Change Mitigation”



* Approx.US\$2.6 (The rate of July 21, 2017)

Enforcement Stage

Taxable Objects	Current Tax Rate	From Oct. 1, 2012	From Apr. 1, 2014	From Apr. 1, 2016
Crude oil/Oil products [per 1 kl]	(JPY 2,040)	+ JPY 250 (JPY 2,290)	+ JPY 250 (JPY 2,540)	+ JPY 260 (JPY 2,800)
Gaseous hydrocarbon [per 1 t]	(JPY 1,080)	+ JPY 260 (JPY 1,340)	+ JPY 260 (JPY 1,600)	+ JPY 260 (JPY 1,860)
Coal [per 1 t]	(JPY 700)	+ JPY 220 (JPY 920)	+ JPY 220 (JPY 1,140)	+ JPY 230 (JPY 1,370)

Tax Revenue

[1st year] **JPY 39 billion** ; [Normal year] **JPY 260 billion**

➔ To be used for introduction of renewable energy and enhancement of energy conservation measures, etc.

- The Cabinet decided “The Climate Action Plan” on May 13, 2016. The Plan states that the Government will **consider carefully** the domestic emissions trading scheme.

The Climate Action Plan

Chapter 3 Policies and Measurements for Target Achievement

Section 2 Global Warming Countermeasures

2 Cross-sectional Measures

(h) Domestic Emissions Trading Scheme

The Government of Japan will consider carefully this scheme, with evaluating burden on Japanese industry, associated impacts on employment, developments and effects of emissions trading schemes in other countries, and global warming countermeasures which are already implemented in Japan (e.g. voluntary actions by industry).

Long-term Low-carbon Vision

(the Global Environment Committee of the Central Environment Council, March 2017)

Three basic directions

① Full utilization of existing technologies, knowhow and findings

- Diffusion of Japanese technologies and knowhow inside and outside the country is important, considering the importance of “carbon budget” and international contribution.
- The experience of “Diagnosis of CO2 reduction potential” shows room for diffusion of existing technologies and knowhow is still large even inside Japan.

② Create innovation of technology, socioeconomic system and lifestyle

- Every kind of innovation is necessary without being caught up by industry structure and traditions.
- Increase of productivity through innovation is indispensable for economic growth.
- Government’s role is to show consistent direction looking at future decarbonized society and to develop policies along the direction.

- ### ③ Mobilize all policies
- Realize ① and ② by implementing various combinations of PaMs.
 - Need to incorporate climate change perspective into policies of all areas including energy and spatial planning appropriately.

Direction of main PaMs

- Long-term goal lies ahead the mid-term goal of 2030. Steady actions based on the current “Climate Action Plan” are the first step.
- Need implementation of PaMs to accelerate reduction, promoting actions based on the “Climate Action Plan”.

- ① **Utilize market dynamism through carbon pricing.** Enhance market competitiveness of low-carbon technologies, products and services. Develop a market environment for innovation acceleration.
- ② Other PaMs for significant GHG reduction: Disclose environmental information, Regulation, Promote and diffuse innovative technology, land use, Contribute to global GHG reduction.

Make progress for long-term significant reduction

Check progress including accumulated emission.

※There exist different opinion on several policy directions, incl. carbon pricing.

Long-term Low-carbon Vision (Excerpt)

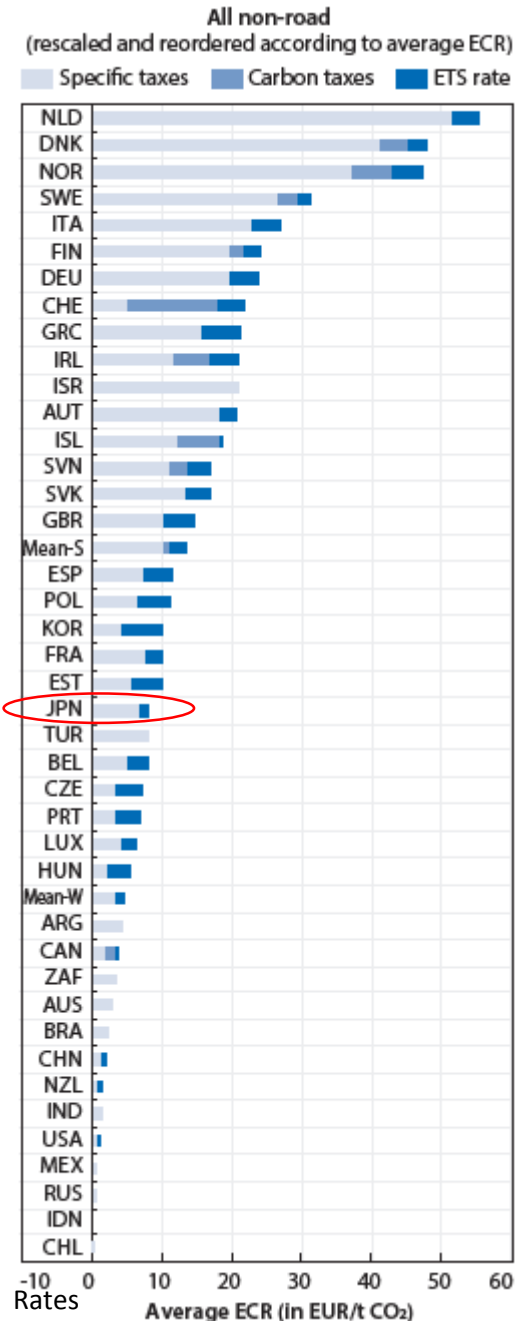
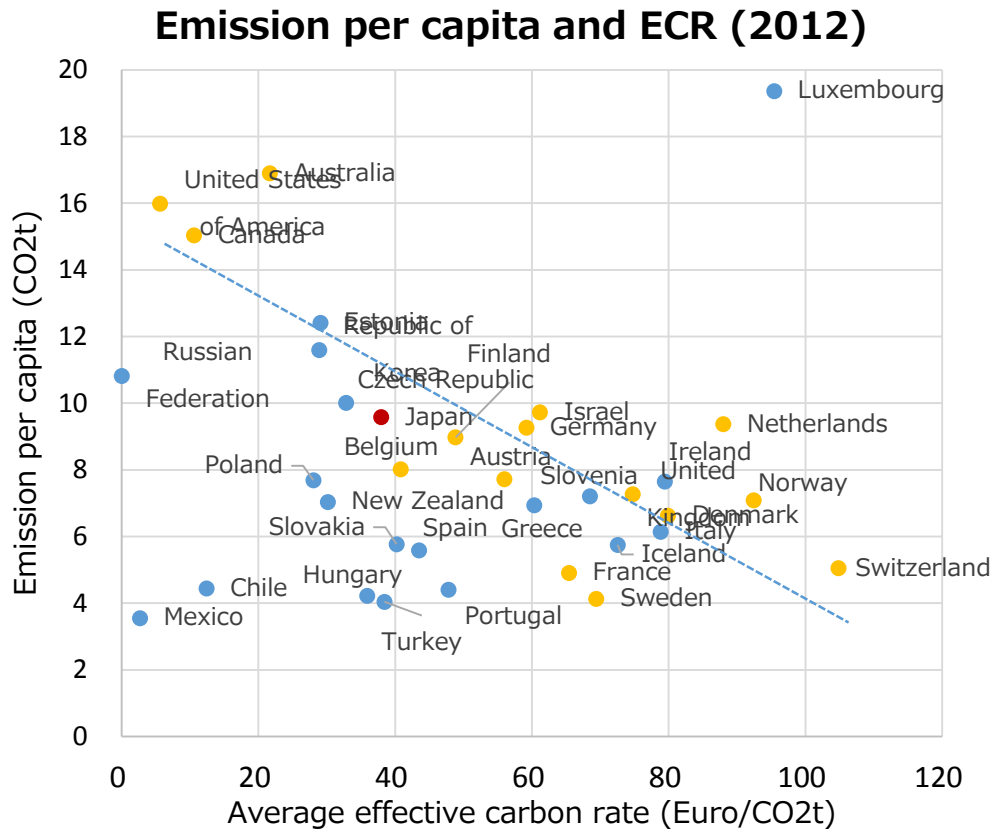
- ◆ Full-fledged carbon pricing is effective and necessary to develop a de-carbonized society. It also has a potential to play an important role to provide solutions both for climate change and for economic and social issues such as economic growth, local empowerment and energy security.
- ◆ It takes time to spur innovation and transform a society through carbon pricing. In addition, carbon pricing – depending on the level of pricing - could have adverse impacts on some parts of society in the short term. Therefore, it is important to maximize the long term effects while avoiding short-term adverse impacts, by introducing effective carbon pricing at the earliest possible time. From the point of view that we need to reduce cumulative emissions towards 2°C goal, it is required to introduce effective carbon pricing as soon as possible.
- ◆ Thus, we should step forward and go beyond general discussion over carbon pricing. **It is time to give full consideration on what types of carbon pricing are effective in Japan with a view to accelerating domestic actions which spur innovation towards long-term significant emissions reduction**, with analyzing their impacts on domestic industry, employment and competitiveness.

Some committee members pointed out on the issue of carbon pricing:

- Carbon pricing leads to the rise of cost of products and services, which carries a risk of drop in demand and deterioration of competitiveness
- It is not clear whether consumers will accept price pass-along and how they will change their behavior
- Carbon pricing will impose burdens on industry and lead to the shortage of financial resources for R&D, and thus affect negatively on economy
- Industry sector will lose motivation for investments for R&D and de-carbonization and will hamper innovations, and therefore it is not effective in terms of long-term mitigation
- It is important to ensure international equal-footing on carbon price and, without the equal footing, carbon pricing leads to carbon leakage and does not lead to global emissions reduction
- Industry sector stands firm against carbon pricing

Effective Carbon Rates

- According to the OECD's analysis, Japan's ECR (effective carbon rates: the price of carbon emissions resulting from taxes and emissions trading systems) is not high compared to other OECD and G20 countries. (right)
- In the analysis of Japan and other OECD countries with higher GDP per capita than Japan, the correlation between ECR and emission per capita can be observed.



Right: (Source) OECD (2016) Effective Carbon Rates

Committee on Carbon Pricing

- In November 2016, the Environment Minister Koichi Yamamoto gave a direction to accelerate the consideration of introducing carbon pricing in Japan.



Environment Minister Koichi Yamamoto gave his speech at the first meeting of the Committee on Carbon Pricing, 2 Jun 2017

- In March 2017, the Global Environment Committee of the Central Environment Council published **the Long-term Low-carbon Vision**. It reads that it is time to give full consideration on what types of carbon pricing will be effective in Japan.
- In June 2017, **the Committee on Carbon Pricing**, led by Prof Naohiko Jinno, was launched.
- They will give further consideration on carbon pricing under the Committee.

Thank you!