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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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.

FY2005 - 07  FY08  FY09  FY10  FY11  FY12  FY13 - 16

First commitment period of the Kyoto Protocol

Cabinet decisions on March and October 2010

Bill for the Basic Act on Global Warming Countermeasures
- Stipulate introduction of cap and trade

December 2010

Ministerial Committee on the Global Warming Issue
- Decided that the domestic emissions trading scheme shall be considered carefully by evaluating burden on industry.

May 2016

The Plan for Global Warming Countermeasures
- Decided that the domestic emissions trading scheme shall be considered carefully by evaluating burden on industry.

From January 2008

Advisory Committee on the Emissions Trading Scheme

From April 2010

Domestic Emission Trading Subcommittee, Central Environment Council
- Interim summary on designing the scheme

From July 2011

Investigative Commission to Sort Issues on the Domestic Emissions Trading Scheme
- Sorted issues pointed out by the Ministerial Committee.

From October 2012

Investigative Commission on Measures to Extract Maximum Emission Reduction Potential
- Investigated on measures to maximize emission reduction potential.

From October 2008

Experimental Introduction of an Integrated Domestic Market for Emissions Trading
- Started by the previous government to achieve the Kyoto Target, without intention to introduce a mandatory system.

From April 2005

Japan Voluntary Emission Trading Scheme (JVETS) by Ministry of the Environment
- Aims at the accumulation of knowledge and experience in Cap and Trade and voluntary GHG reduction.
**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 per t-CO₂ of “Tax for Climate Change Mitigation”

<table>
<thead>
<tr>
<th>Petroleum and Coal Tax</th>
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<tbody>
<tr>
<td>Crude oil/Oil products</td>
</tr>
<tr>
<td>JPY 289*</td>
</tr>
<tr>
<td>Gaseous hydrocarbon (LPG/LNG)</td>
</tr>
<tr>
<td>JPY 400</td>
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<tr>
<td>Coal</td>
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<td>JPY 301</td>
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* Approx.US$2.6 (The rate of July 21, 2017)

### Enforcement Stage

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<tbody>
<tr>
<td>Crude oil/Oil products [per 1 kl]</td>
<td>JPY 2,040</td>
<td>+ JPY 250</td>
<td>+ JPY 250</td>
<td>+ JPY 260</td>
</tr>
<tr>
<td>Gaseous hydrocarbon [per 1 t]</td>
<td>JPY 1,080</td>
<td>+ JPY 260</td>
<td>+ JPY 260</td>
<td>+ JPY 260</td>
</tr>
<tr>
<td>Coal [per 1 t]</td>
<td>JPY 700</td>
<td>+ JPY 220</td>
<td>+ JPY 220</td>
<td>+ JPY 230</td>
</tr>
</tbody>
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### 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).
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 decarbonaized 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.
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 humper 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
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.

• 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.

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