

## Considerations for the Compilation of this Report

The government's policy for combating climate change (The New Climate Change Policy Programme; hereafter "Programme")<sup>1</sup> takes a step-by-step approach. The progress of the measures and programs, the status of emissions, and other developments are to be assessed in 2004 and 2007, and additional measures and programs required to achieve the 6% reduction in the Kyoto Protocol to be devised. Consequent to this policy, the Central Environment Council has been studying a variety of alternate policy instruments<sup>2</sup>, in order to be able to propose a concrete mechanism should taxes to combat climate change be required as additional measures. At the same time, in October 2001 it created the Expert Committee on Tax System to Combat Climate Change, which has been studying Climate Change Tax.

In addition to meeting 14 times, the Expert Committee created a working group under itself for focused discussion on the creation of a report. After receiving the report from the working group, the Expert Committee approved it, recognizing the report as generally appropriate. But the working group's report was quite long and technical, and without modification, the report itself might not have been enough to serve as a basis for debate and discussion by the Japanese people. The Expert Committee therefore carried out further discussions based on the working group's report, and drafted a simpler proposal that was mainly aimed at the general populace.

Taking into account the expected severity and scale of its impact, climate change is one of the most important environment issues facing us today, which could literally threaten the existence of the human race. In addition to examples that hit close to home, such as worsened living environments due to the increasing pace at which urban temperatures are rising, climate change is a serious issue threatening the environment of the entire planet, including islands in the Pacific that could be totally submerged. Climate systems form the basis of life of planetary ecosystems, as well as people. Climate systems also have a major impact on Japan, both directly and indirectly. Climate change would require disaster prevention measures, measures against new infectious diseases, maintenance of food production, and other measures. But not only this: it also heightens many risks for trade, including changes in world grain production volumes and prices, and social instability in each country. The turmoil that abnormal weather patterns have caused in society in recent years provides us with a snapshot of the impact of a large, rapid change in the climate. It is a major issue that impacts every Japanese, as well as the Japanese of future generations.

Meanwhile, the greenhouse gas emissions that cause climate change have a variety of sources, with ordinary households and automobiles making up a considerable proportion of them. In other words, preventing climate change will require a commitment on the part of the Japanese people as a whole, and this commitment will intimately involve their lifestyles. Thus, the nature of the problem means that any policies put in place to deal with it could have a major impact on people's lifestyles and the economy. For this reason, we must think about policies for preventing future climate change, including Climate Change Tax, as a nation, and form a national consensus. This is a matter that should be debated broadly, by

all groups in the country.

The report below, *Draft of Climate Change Tax: Proposal for a national dialog*, is based on this thinking. It is the belief of the Expert Committee that the proposal presented herein is the best system at the present time. A portion of the working group's report is also attached to this report.

The Kyoto Protocol, a new set of international rules for protecting the planet, is an international agreement that was presided over by Japan. It is hoped that the protocol will be put in effect as soon as possible. It is the sincere wish of this Expert Committee that all of the Japanese people, from every group and affiliation, will read this report and the attached documents, provide feedback to the Central Environment Council. The council will use this feedback as a basis for further study, in order to fulfill its role of proposing appropriate government measures.

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1. The New Climate Change Policy Programme was created by the Global Warming Prevention Headquarters Government of Japan (Chief: Prime Minister; Deputy Chiefs: Chief Cabinet Secretary, Minister of Economy, Trade and Industry, and Minister of the Environment; All Ministers of State are members) in March 2002, before Japan ratified the Kyoto Protocol. The program includes more than 100 measures and policies aimed at achieving the 6% reduction in greenhouse gases committed to in the Kyoto Protocol (see the figure on the following page for measures and policies against energy-derived CO<sub>2</sub>).
  2. In addition to studying taxes, the Central Environment Council and the Ministry of the Environment are also studying policies for encouraging industry to adopt voluntary action plans, enhancing measures in the private and transportation sectors, such systems as the clean development mechanism (CDM), which is an international commitment among businesses, support for joint implementation (JI), and emissions trading, as well as promoting policies for saving energy using the special account for petroleum, measures for alternate sources of energy, etc.

**Figure: Sample Measures and Policies by The New Climate Change Policy Programme (Measures for reduction of GHGs Emissions (main examples))**

①CO<sub>2</sub> emissions from energy use (Targets: ±0% compared to the 1990 level)

	Industry Sector	Domestic Sector (commercial and residential)	Transportation Sector
Energy Conservation 22M t CO <sub>2</sub>	<ul style="list-style-type: none"> <li>• Solid implementation &amp; follow-ups of Voluntary Action Plans by industries (Emission level in 2010: below ±0% compared to the 1990 level)</li> <li>• R&amp;D of high efficient boilers &amp; lasers</li> <li>• Promotion of high efficient industrial furnaces</li> </ul>	<ul style="list-style-type: none"> <li>• Application of energy-management system to the large commercial buildings etc. based on amendment of the Energy Efficiency Law</li> <li>• Scope expansion of appliances to "Top Runner Standards" (e.g. gas appliances)</li> <li>• Promotion of high-efficiency water heating</li> <li>• Promotion of HEMS &amp; BEMS</li> </ul>	<ul style="list-style-type: none"> <li>• Accelerated introduction of vehicles achieving "Top Runner Standards"</li> <li>• Acceleration of R&amp;D and dissemination of low emission vehicles including clean energy vehicles</li> <li>• Traffic flow management by promotion of ITS etc.</li> <li>• Promotion of efficient Logistics system Including shift of transport modes from trucking to shipping</li> <li>• Promotion of public transport utilization</li> </ul>
New Energy 34M t CO <sub>2</sub>	<ul style="list-style-type: none"> <li>• Add biomass and snow &amp; ice cryogenics to energy which is promoted by Law concerning promotion of the use of New Energy</li> <li>• Proposal of the Bill concerning the Use of New Energy by Electric Utilities</li> <li>• Subsidies to promote introduction of Photovoltaic power, Solar thermal, wind power, waste power, biomass energy etc.</li> <li>• Strengthen R&amp;D and demonstration tests on fuel cells, photovoltaic power, biomass energy, etc.</li> </ul>		
Fuel switching 18M t CO <sub>2</sub>	<ul style="list-style-type: none"> <li>• Assist fuel switching from coal to natural gas for old power generation</li> <li>• Assist fuel switching for industrial boilers</li> <li>• Develop safety standards on natural gas pipelines</li> </ul>		
Nuclear Promotion	<ul style="list-style-type: none"> <li>• Promotion of nuclear power under assurance of safety</li> <li>• Assist economic development of municipalities hosting nuclear fuel cycle</li> </ul>		
NOTES	Approx. 462M t CO <sub>2</sub> (-7%)	Approx. 260 t CO <sub>2</sub> (-2%)	Approx. 250 t CO <sub>2</sub> (+17%)

Note: (···) is percentage of reduction compared to base year 1990 of each sector

- Quantities of emission (% of increase/decrease) referred as targets in each sector are not compulsory targets but the expedient estimations through the model simulations under certain conditions.
- Evaluation of measures shall be conducted taking consideration of Japanese energy supply and demand structure.
- It is expected that Kyoto mechanisms is utilized for industries to reduce GHG cost effectively.

**Reference 1: Choice of Name "Climate Change Tax"**

Taxes for combating climate change are often called "eco-taxes." However, simply calling them environmental taxes obscures their meaning, as environmental taxes could conceivably encompass a wide range of taxes, such as taxes on industrial waste. For this reason, the Expert Committee has decided to call such taxes "environmental Climate Change Tax," and for convenience, "Climate Change Tax".

Note that the Expert Committee also chose the term "Climate Change Tax" to allow the possibility that such measures could include the study of existing related laws, as well as the adoption of new laws.