

Country overview: Japan

1. Policies Currently Implemented

Pilot Projects of Voluntary Emissions Trading

Japan Voluntary Emissions Trading Scheme (JVETS)

- Since 2005, the Ministry of the Environment has been implementing the Japan Voluntary Emissions Trading Scheme (JVETS), in order to accumulate knowledge and experience on robust and cost-effective GHG emission reductions and emissions trading. This scheme is aimed at achieving emission reductions in a robust and cost-effective manner by supporting entities that are proactively engaged in emission reduction efforts through such measures as subsidy to facilities, absolute target setting on CO₂ emissions or trading of emission allowances. Since October 2008, JVETS has been recognized as one of the forms to participate in the experimental introduction of emissions trading, which is described below.
- In regards to JVETS participants in 2009 (all of them have absolute targets), out of 81 participants that carried out emission reduction activities in 2009, 67 over-achieved the reduction commitments (631,000t-CO₂), 14 did not reach their commitments (15,000t-CO₂), and the difference between the total achieved reductions and committed reductions of the 81 participants was 616,000t-CO₂. Until the end of September 2010, 24 transactions were completed, by which allowances of 58,000t-CO₂ were traded.
- Out of 67 participants who have the surplus of emission allowances, 9 entities sold (23,000 t-CO₂), 40 banked (487,000 t-CO₂), and 23 cancelled (121,000 t-CO₂). The 14 participants who did not reach their commitments bought emission allowances from other participants (15,000t-CO₂). As a result, all participants cleared their commitments.

Experimental Introduction of an Integrated Domestic Market for Emissions trading

- An experimental introduction of an integrated domestic market for emissions trading (hereinafter, referred to as “experimental introduction”) commenced on 21st October, 2008, in accordance with the “Action Plan for Achieving a Low-carbon Society“(cabinet decision on 29 July, 2008) released by the Global Warming Prevention Headquarters. The experimental introduction is

backed up by the idea of the Headquarter that in order to achieve CO2 emission reductions, it is necessary to facilitate technology development and emission reduction efforts by pricing CO2 and making full use of market mechanisms.

- Experimental introduction consists of 2 schemes as described below:
 - (1) Experimental emissions trading scheme
(A system in which participating corporations set their own emission reduction targets and try to achieve them with using exceeded emission allowances gained from other participants and credits as referred to at (2) below)
 - (2) Generation and Trading of credits that can be used in (1) above
 - Domestic CDM Credits
 - Kyoto Mechanism Credits
- Of 90 participants who set their emission reduction targets in the experimental emissions trading scheme in FY2009, on an actual emission basis, 60 participants achieved their targets and 30 failed to achieve their targets. As participants, who failed to achieve their targets, borrowed allowances, or bought and surrendered Kyoto mechanism credits or Domestic CDM credits, all participants met their targets. In terms of target types, out of 38 participants who set absolute targets, 34 achieved their targets (90%). Out of 52 participants who set intensity targets, 26 (50%) failed to achieve their targets. Also, out of 90 participants, 38 took third-party verification.
- Out of 60 participants who achieved their targets on an actual emission basis, 9 surrendered their emission allowances which they had borrowed last year (320,000t-CO₂), and 55 banked their surplus emission allowances (21,130,000t-CO₂). Also out of those participants who failed to achieve their targets on an actual emission basis, 5 used the allowances they had banked last year (80,000t-CO₂), 12 used external credits (out of which, 2 used Domestic CDM credits (300 t-CO₂), and 10 used Kyoto Credits (52,280,000t-CO₂).
- At a meeting of the Ministerial Committee on the Global Warming Issues held in April 2010, it was decided that the experimental introduction was to be reviewed in relation to such aspects as energy-based targets (conversion to CO₂ emission-based targets), intensity targets (comprehension of activity amounts and CO₂ emission projection etc. to be taken into account),

consideration of uniformed rules for monitoring, accounting and reporting (standard rules of industry to be taken into account), and participation of a wide range of industries and business scales in the third-party verifications for (provision of support, etc.).

Domestic CDM Credit Program

- The Domestic CDM Credit program is defined in the Kyoto Protocol Target Achievement Plan (cabinet decision on Mar 28, 2008). Under the program, large-scale enterprises provide their funds or technologies to small- and medium-scale enterprises, and utilize emission credits generated from the emission reduction activities undertaken by the small- and medium-scale enterprises. The emission credits can be accounted for the large-scale enterprises to meet their targets under the industry groups' Voluntary Action Plan (VAP), etc. (The scheme commenced in October 2008. Ministry of Economy, Trade and Industry, Ministry of the Environment, and Ministry of Agriculture, Forestry and Fisheries of Japan play a role of the administrative secretariat.)
- As of March 2011, 34 types of emission reduction methodologies have been established, 870 project plans have been accepted (the expected reduction amount is around 1,290,000t-CO₂). 150,693t-CO₂ of credits from 267 emission reduction projects have been certified, out of which approximately 26,000t-CO₂ has been surrendered or cancelled.

Offset Credit (J-VER)

- The Offset Credit (J-VER) Scheme is a scheme that has been established for certification of emissions reduction/removal by sinks of greenhouse gases achieved through domestic emission reduction/removal projects and issuance/management of credits. (The scheme commenced in November 2008, implemented by the Ministry of the Environment)
- As of April 2011, 28 methodologies of emission reduction/removal have been established, 92 emission reduction/removal projects have been registered, out of which 35 has been certified for an amount of 67,670 t-CO₂.

2. Policies Currently Under Consideration

Domestic Emissions Trading Scheme

Bill for the Basic Act on Climate Change Countermeasures

- In March 2010, the government of Japan submitted the Bill for the Basic Act on Climate Change Countermeasures to the Diet that included establishment of a domestic emissions trading scheme. This bill was for a moment withdrawn as the deliberation was unfinished. However, the bill was submitted again in October 2010 and as of now is still underdeliberation.
- In the Article 13 of the Bill, it is stipulated that the government shall establish a domestic emissions trading scheme as one of the basic policies, and prepare and agree on legislative draft within one year after the enactment of this Basic Act.

Consideration by Administrative Offices

Ministerial Committee on the Global Warming Issues

- On 28 December, 2010, the Ministerial Committee on the Global Warming Issue decided the policy direction of the Japanese government in regards to domestic emissions trading scheme in “Main 3 Policies of Global Warming Countermeasures”, as follows;
 - While domestic emissions trading scheme is a pillar of global warming countermeasures, it does raise concerns in terms of excessive intervention of business management, hindrance to investment of growing industries, encouragement of money games. The concerns lead to new regulations for large emitters in addition to the burden of the taxes for global warming countermeasures and feed-in-tariff.
 - Therefore, in regards to the domestic emissions trading scheme, it is vital that the deliberation is carried out carefully, in consideration of the impacts it will have on the country’s industry and employment, the current trend of emission trading schemes abroad and their impacts, the domestic global warming countermeasures that are already being carried out (e.g. voluntary initiatives by industries) and evaluation of their implementations, and projection of success or failure of international negotiations relating to a fair and effective international framework.

Bilateral Offset Credit Mechanism (BOCM)

Japan's Standpoint

- In December 2009, the Government of Japan announced “Hatoyama Initiative’ Regarding Assistance for Developing Countries”. The initiative highlights the need to improve current flexible mechanisms, while considering their effect as global warming countermeasures (environmental integrity). It also expresses the willingness to propose new mechanisms, under which entities’ contributions made through the provision of advanced clean technology, products, infrastructure, and manufacturing facilities, as well as through the implementation of countermeasures against reduced and degraded forest in developing countries, will be appropriately evaluated.
- In February 2011, the Government of Japan provided a submission to the UNFCCC Secretariat in regards to a new market mechanism. The submission defines possible requirements to be met by the new market mechanism, including (1) Efficient and facilitative nature, (2) Technology neutrality. (3) Ensuring flexibility to accommodate each country’s circumstances and ensuring transparency. (4) Ensuring the environmental integrity, (5) Synergy with the existing market-based mechanisms.

Efforts for Elaboration of BOCM

- Japan is proposing a bilateral offset credit mechanism to, under agreements concluded with partner developing countries, appropriately evaluate GHG reduction activities implemented by using its advanced technologies and products in various sectors of the developing countries, and to utilize the results of the activities as its emission reduction achievement.
- To elaborate the mechanism, Ministry of the Environment and Ministry of Economy, Trade and Industry implemented 33 feasibility studies with about 1 billion-yen in 13 countries in FY2010. Both ministries will continue the feasibility studies in FY2011 for accumulation of knowledge and experiences, in order to design mechanism which is consistent with an international framework
- Japan seeks cooperation on the feasibility studies and exchanges views on its proposal of the new market mechanism with countries where the studies are carried out. In addition, with India and Viet Nam, agreements at Prime-Ministers’ level were reached on pursuing the possibility for bilateral cooperation about climate change between Japan and these countries. Japan plans to continue exchanging views with interested countries.