

## Key Features of Domestic Emissions Trading Scheme in Japan (Interim Report)

(Compiled by the Domestic Emissions Trading Subcommittee, Global Environment Committee, Central Environment Council, December, 2010)

(Note) Although subcommittee members have not reached consensus on all items below, the subcommittee compiled them for the purpose of further discussion.

### 1. Scheme Period

- Toward national mid-term reduction target in 2020, initial scheme period will be a three-fiscal-year period and a five-fiscal-year period thereafter, provided that the scheme starts in FY2013.

### 2. Covered Gases

- The scheme should cover CO<sub>2</sub> initially. Further consideration is necessary regarding coverage of non-energy use CO<sub>2</sub> in the view of accuracy control of monitoring.

### 3. Entities Covered by the Scheme

- The scheme should cover legal entities that own one or more large emitting facilities (considering threshold as annual emissions at or above 10,000tCO<sub>2</sub>/year).
- It needs further consideration in the light of its advantages and competition polices whether to allow entities to comply jointly with their emissions caps.

### 4. Cap Setting & Treatment of CO<sub>2</sub> emission from electricity

#### <Method of Cap Setting>

- Each entity's cap should be set flexibly, based on Emission Reduction Potential, meaning the achievable level of emission reduction taking into account its reduction efforts in the past and the applicable technologies in the future.
- Method of cap setting and the treatment of CO<sub>2</sub> emission from electricity should be based on "Indirect emission from electricity consumption + absolute emission cap setting for free) + intensity target for electricity suppliers," also considering possibilities to mix the advantages of other methods.

**【Indirect emission from electricity consumption】** Covers electricity users by counting indirect CO<sub>2</sub> emissions from electricity consumption. (By contrast, Direct CO<sub>2</sub> emission covers electricity suppliers by counting direct CO<sub>2</sub> emissions from electricity generation stations.)

**【Absolute emission cap by free setting】** Combines Benchmarking and Grandfathering. Benchmarking sets absolute emissions caps based on CO<sub>2</sub> emissions per unit of production (Benchmark) multiplied by activity levels. Grandfathering sets absolute emissions caps based on past emissions multiplied by reduction rate.

**【Intensity target for electricity】** Requires electricity suppliers to improve their emission intensities (CO<sub>2</sub> emissions per electricity).

(Other Methods)

**【Intensity target】** Only Limits CO<sub>2</sub> emissions per unit of production (emission intensity) and does not set absolute emission caps.

**【Absolute emission cap set by auction】** Each entity acquires emission allowances by auction.

#### <Estimated total allowance volume>

- The total allowance volume should be estimated by accumulating the reduction of applicable technologies in Japan. It should be used as an indicator of whether additional measures among sectors not covered by the scheme are necessary in order to achieve the mid- and long-term emission reduction target.

## **5. Compliance Procedure**

- Each entity shall account its actual emission annually and ensure it does not exceed its emission cap in each compliance period\*. An entity may trade allowances for compliance.

\* Other than one-year compliance period, a multi-year compliance period will also be considered.

## **6. Cost Containment Measures**

- The scheme should include banking (carrying over unused allowances to the next compliance period or future scheme period) and borrowing in effect (use of allowances for the next compliance period, issued before retirement).
- An entity may use external credits (foreign credits and credits from domestic reductions) shall be allowed under qualitative and quantitative conditions.
- In cap-setting, the products contributing to emission reductions and effects on international competitiveness should be considered.

## **7. Coordination between national statute and local ordinances**

- National statute should specify the relation between the scheme under national statutes and local ordinances, in order to ensure such consistency as to avoid excessive burden on or confusion to covered entities, and to avoid hampering early actions under the existing local government ordinances.

## **8. Others (Registry System, Market Infrastructure)**

- Technical consideration is necessary for registry system that manages emissions allowances, and for market infrastructure rules.