Government of Japan
Recent Developments of Emission Trading

1. Adoption of “Kyoto Protocol Target Achievement Plan”

The “Kyoto Protocol Target Achievement Plan”, which is new comprehensive policy framework for the Japanese government to meet the Kyoto target, was adopted in April, 2005 as a result of thorough assessment and review of the former general framework. The new plan urges the Japanese government to utilize the Kyoto Mechanism in earnest.

Concerning the idea of introducing a domestic emission trading system in Japan, the new plan states that it is an issue that must be comprehensively studied, taking into accounts wide range of discussion points including a comparison with other methods, the effects and the impacts on industrial activities and the national economy. The new plan also states that a voluntary domestic emissions trading scheme is to be implemented, to gather experience of emissions trading and to provide incentives for additional CO_2 reductions.

The new plan projects the GHG emissions in 2010 with the existing policies and measures, estimating 1.331 Gt-CO_2, 6% above the base year emissions and 12% above the target emissions. The new plan also describes various policies and measures, including “additional measures”, to be taken to meet the Kyoto target. Despite the efforts of these domestic measures, Japan will fall short of meeting the Kyoto target by 1.6% of the base-year emissions. The gap will be filled by utilizing the Kyoto Mechanism.

2. Activities under the “JKAP”

In an effort to utilize and promote the Kyoto Mechanism more effectively and efficiently, all of the concerned ministries and agencies united into one and launched this year the all Japan program, “Japan Kyoto Mechanism Acceleration Program (JKAP)”. Under this program, the following measures are made available to Japanese private sectors:

- Financial assistance for F/S for possible JI/CDM projects;
- Underlying Finance provided by public finance institutions;
- Up-front type subsidies program, in which the recipients are required to transfer ERUs/CERs equivalent to amount of the up-front payments to the account of the Japanese government; and
- Establishment of carbon finance (Japan Carbon Finance) to purchase ERUs/CERs for the investors, collecting about $140 million.

Furthermore, the Japanese government has implemented, under the program, the capacity-building programs in many JI/CDM host countries, which have facilitated and improved institutional capacity-buildings of such host countries for carrying out JI/CDM projects.

3. Other Policies and Measures to Facilitate the Kyoto Mechanism and Emissions Trading

Ministry of Economy, Trade and Industry (METI) and Ministry of the Environment (MOE) are planning to commence the credits-purchase program for the next budgetary year. These ministries requested the budget to this end, totaling 8.8 billion yen. In addition, METI requested the budget request for continuing up-front payment program applicable to possible JI/CDM projects.

The draft interim report, now made available for public comment, of the Special Committee on Market Mechanism[1] under the Global Environmental Sub-Committee of the Industrial Structure Council, an advisory body to Minister of Economy, Trade and Industry, suggests that the GIS be utilized to meet the Kyoto target of Japan and requires for contribution to establishing international schemes for this purpose.

Moreover, METI conducted experimental project of trading and transferring Kyoto credits in 2003. It built great confidence in the Japanese national registry and accounting rule for trading Kyoto credits, establishing solid technical base.

In terms of domestic emissions trading, MOE launched Japan's Voluntary Domestic Emissions Trading Scheme: JVETS, in May 2005, to learn "real" emissions trading with verification and compliance assessment and to provide incentives for additional CO2 reductions.

In the scheme, private companies are invited to commit their CO2 emissions reduction for receiving subsidy, and then they are screened on the basis of "cost-efficiency" optimization. Subsequent to newly installation of GHG emissions reduction facilities during FY2005, allowances will be allocated to each of the participants according to their commitment. In the next year (FY2006), the participants need to demonstrate to have their allowances cover their verified CO2 emissions. They can trade allowances freely throughout that year. In the case of non-compliance, the subsidy should be returned.

[1] The English-translation for the name of the Special Committee is pending.