

Carbon Pricing Overview

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In Japan, debate still continues...

- We have been debating this for almost two decades.
 - ✓ MOE's tax reform request (環境税) since the early 2000s
 - ✓ Introduction of "tax for measures tackling climate change" (地球温暖化対策税) in 2012 : now ¥ 289/tCO₂ (but ¥ 4057/tCO₂ if energy taxes included, ¥ 6301/tCO₂ if FIT payment also included)
- Green Growth Strategy with 2050 Carbon Neutral (Dec. 2020)
 - ✓ Now different stage with 2050 CN announcement as a game changer
 - ✓ "carbon pricing that contributes to growth strategy"
 - ✓ "technical discussions are needed"
- Two Study Groups at MOE and METI kicked off in Feb. 2021

MOE Study Group

- Interim Report (July 2021)
 - ✓ carbon tax, ETS, credit mechanism, CBAM, internal carbon price, etc.
- “Carbon pricing within policy mix” (Dec. 2021) : Further deliberation is needed for:
 - ✓ Voluntary credit trading
 - ✓ Carbon tax (including reform of tax for measures tackling climate change)
 - ✓ ETS (including future introduction)
- In the meantime, MOE submitted FY2022 tax reform request mentioning carbon pricing (Sept. 2021)

METI Study Group

- Interim Report (July 2021)
 - ✓ carbon tax, ETS, credit mechanism, CBAM, internal carbon price, etc.
 - ✓ Proposed vitalization of credit trading market and “CN Top League” as a voluntary ETS, with a caveat that if it does not work, pricing by the government could be considered.
- Basic concept of “GX League” (Dec. 2021) as a forum to:
 - ✓ Discuss and create sustainable future of 2050 CN,
 - ✓ Discuss market creation and rule-making in CN era, and
 - ✓ Implement voluntary ETS to achieve ambitious voluntary targets
- Details of “GX League” will be announced in Feb. 2022 to be fully implemented in FY2023.

Kishida Administration

- FY2022 Tax Reform Principles (税制改革大綱) (Dec. 2022)
 - ✓ Neither “carbon tax” nor “carbon pricing” was mentioned
- “Growth and Distribution” (成長と分配) : PM Kishida’s core creed
 - ✓ Does this fit carbon tax, which disproportionately affects low-income families?
 - ✓ MOF’s influence in the administration/Timing of national election
- Policy Speech (施政方針演説) (Jan. 2022):
 - ✓ “We will find future directions for many points at issue:, carbon pricing.” (about ten issues were mentioned)
- “Clean Energy Strategy”
 - ✓ Deliberation is under way at PM Office and METI since Dec. 2021
 - ✓ Transformation of demand side

EU

- Fit for 55 (July 2021) : “Pricing” as one of the four pillars
 - ✓ Extended coverage of ETS (maritime, building & road transport)
 - ✓ CBAM (炭素国境調整メカニズム)
 - ✓ Energy tax reform, etc.
- EC’s CBAM proposal:
 - ✓ Coverage: steel, cement, aluminum, fertilizer, electricity
 - ✓ Levy: EU-ETS auction price X embedded emissions (scope 1 only) of imported goods
 - ✓ Deduction of explicit carbon price paid in exporting country
 - ✓ Timeline: until 2025 reporting only, after 2026 implemented with 10-year phase-out of free allocation in EU-ETS
 - ✓ Revenue: (€21 million) accrues to EU budget

A myriad of issues on EC's CBAM proposal

- Accounting methods of embedded emissions
- WTO compatibility (GATT Art. 20): use of revenues, etc.
- Possibility of trade war through retaliation, and negative impact on climate talks
- Explicit vs. implicit carbon price: will Japan be targeted?
- Counter-proposal from the Parliament:
 - ✓ Wider product coverage: chemicals, hydrogen
 - ✓ Wider emissions coverage: scope 1 & 2
 - ✓ Earlier implementation
 - ✓ More focused revenue-use (LDC support)

GOJ's basic position on CBAM

"Green Growth Strategy" (Jun. 2021)

CBAM objective shouldn't be its introduction. CBAM should incentivize countries around the world to take effective measures while avoiding adverse effect on international trade.

- ① Ensure WTO compatibility
- ② Take the lead in developing international rules of measurement of embedded emissions
- ③ Investigate carbon costs of targeted products in Japan and countries with CBAM
- ④ Coordinate with like-minded countries

US and the rest of the world

US

- Seemingly quiet recently
- Initially Kelly was cautious about EU CBAM proposal, but thereafter mentioned the President Biden's instruction to study CBAM (with no follow-up?)
- Yellen favored for implicit carbon price in CBAM
- The \$1.75 trillion package now under Senate debate does not include CBAM-like measure
- Depending on the outcome of the mid-term election, carbon price could be a non-starter in US

China, Indonesia, ROK, Russia, and Vietnam have implemented or are considering carbon tax and/or ETS.

International

- Climate Club : German proposal for G7 (Aug. 2021)
 - ✓ Agree on 1) the same product standards for carbon intensities of steel, chemicals and cement, and 2) definitions of “green” hydrogen
 - ✓ A path to minimum carbon price (both explicit & implicit)
 - ✓ Protect against carbon leakage such as through joint CBAM

- Steel & Aluminum EU-US Joint Statement (Oct. 2021)
 - ✓ Confer on methodologies for calculating steel and aluminum carbon-intensity
 - ✓ Restrict market access if standards for low-carbon intensity are not met

- IMF, OECD