

Carbon Pricing Proposal by Japan Climate Initiative (JCI) Members: Toward Simultaneous Achievement of 2030 GHG Emission Reduction Targets and Enhanced International Competitiveness

The government is aiming to achieve Green Transformation (GX) in order to simultaneously achieve its greenhouse gas emission reduction targets for 2050 and 2030, affordable and stable energy supply, and economic growth. As part of this effort, a "Growth-Oriented Carbon Pricing Scheme" has been launched, consisting of investment support through GX Economic Transition Bonds, a fossil fuel levy, and the GX-ETS.

The fact that a path has been paved for the introduction of carbon pricing, which has been discussed for many years, is a welcome step forward. It is hoped that further improvements will provide a strong impetus for emission reductions on the scale required internationally.

While the government is currently working on the specifics of the scheme, we believe that particular attention should be paid to the following three aspects.

- **Ensuring achievement of national GHG emission reduction targets, especially 2030 targets:** There is concern that the voluntary schemes currently proposed will have limited impact on emission reductions, and that the 2030 reduction targets will be missed due to slow implementation. A system is needed to ensure that Japan can achieve the targets it has pledged to the world, and to meet the international trend toward more ambitious emission reductions.
- **A fair system that does not disadvantage companies that are committed to emission reductions:** Voluntary participation in the scheme could put companies that are willing to bear the cost of emission reductions at a competitive disadvantage to those that do not participate. A fair system in which all companies that meet certain requirements are required to participate is needed.
- **A system that contributes to strengthening the competitiveness of the Japanese economy:** An inadequate carbon price could result in Japanese companies being subject to the Carbon Border Adjustment Mechanism (CBAM) or being excluded from international supply chains and investments. A system is needed that will allow emission reductions at the international level and the introduction of renewable energy sources to progress, thereby improving Japan's attractiveness as a business location.

There is little time left until 2030. To achieve effective carbon pricing, we must make the best use of the experiences gained from the widespread implementation of carbon taxes and emissions trading systems worldwide and improve the fossil fuel levy and GX-ETS. Specifically, we strongly demand that the following six principles be met to appropriately guide future system designs:

(1) An effective carbon pricing system should be introduced by 2025 to achieve the 2030 reduction target.

To achieve the 1.5-degree target set in the Paris Agreement, the IPCC has indicated that a 60% GHG global emission reduction (compared to 2019) by 2035 is necessary. Based on such science findings, the current schedule should be accelerated, and a highly effective carbon pricing system should be introduced by 2025 to ensure that Japan's 2030 reduction target is achieved.

In addition, in order to ensure that emission reductions necessary to achieve the target, the GX-ETS should have a cap on total emissions from the targeted sectors, similar to the emissions trading schemes that are leading the world and should be gradually enhanced in line with the timeline for achieving the 1.5-degree target.

(2) Fairness should be ensured by making all companies that meet certain requirements uniformly subject to the system.

To ensure fairness, all companies that meet certain requirements, such as emissions and energy use, should be subject to the emissions trading system uniformly. In addition, along with the fossil fuel levy, measures should be introduced to ensure performance, including the disclosure of company names.

The introduction of both systems should be designed in such a way as to avoid double burdens and limit administrative burdens. The advantages and disadvantages of each system should complement each other to design a fairer and more effective system in which a wide range of companies are involved in reduction efforts.

(3) Future carbon price should be clearly stated at a level comparable to the world.

In a way that helps companies make investment decisions, the carbon price should be clearly stated at the time of introduction, aiming for a carbon price comparable to international levels, such as the \$130/t-CO₂ in 2030 indicated by the IEA.

After its introduction, the price should be reviewed in a timely manner in line with future scientific findings and international discussions. It is also desirable for Japan, as a developed country, to aim for an even more ambitious carbon price.

On the other hand, the GX Promotion Act sets a ceiling on the unit price of the fossil fuel levy. While consideration should be given to ensure that the burden on energy is not excessive, the cap should be eliminated if it hinders the conformity of the carbon price to international standards.

(4) The system should conform to international rules.

The fossil fuel levy and emissions trading system should be compatible with international rules to avoid double administrative burdens and competitive disadvantages for companies due to differences in domestic and international rules. In addition, in order to avoid being subject to the EU's Carbon Border Adjustment Measure (CBAM), it is necessary to design the basic system, including uniformity and breadth of the system's coverage, measures to ensure performance, and the pace of carbon price increases, aiming for the same level and quality of carbon prices as those in other countries and regions.

In designing the system, lessons learned in other countries and regions should be fully taken into account. In particular, the use of credits should be carefully considered in light of international trends.

(5) Government revenues should support reductions by companies that have difficulty reducing emissions under fair evaluation.

Revenues from the carbon pricing system should be used to support the development and diffusion of new technologies in industries where emission reductions are difficult to achieve with existing technologies, to help small and medium-sized enterprises and others cope with the burden of energy conversion, and to accelerate efforts to expand the introduction of renewable energy and energy-saving technologies. In doing so, it is necessary to narrow the scope of support under certain conditions, such as not supporting technologies that are inconsistent with the 1.5°C target (e.g., ammonia co-firing in coal-fired power generation).

In addition, the amount and timing of emission reductions expected from each support program should be clearly defined and distributed in a balanced manner. Furthermore, such support should be transitional not to distort the overall system design.

(6) Transparency should be ensured in the planning, evaluation, and updating of carbon pricing.

A forum should be established on a regular basis for a wide range of actors in society who have a stake in carbon pricing to share and discuss their expertise, domestic and international trends, awareness of the crisis, and the relationship with other areas such as biodiversity and resource recycling. Its composition should not be biased toward companies in specific industries, but should include a wide range of non-state actors.

In addition, given the small amount of time remaining until 2030, discussions on the introduction of the system must be swift and efficient.