

Opinion Paper on Climate Change Policy

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KEIDANREN

1. Introduction

(1) Measures to address the problem of climate change have become ever-more important. Members of Japan's business community possess an array of excellent technologies that will be the key to bringing about a solution to this problem, and KEIDANREN members are determined to actively contribute to the creation of a low-carbon society on a global scale while intensifying their own independent and proactive efforts as leaders in the emissions-reduction field.

It is imperative that government policy to address climate change strive for a balance with economic growth by putting emphasis on the development of an environment that enables companies to better harness their vitality. Following the wrong course would exacerbate the hollowing of Japan's domestic industrial base and have a severe impact on employment trends as well as on the lives of Japan's citizens.

(2) Nonetheless, three years ago, the Japanese government abruptly adopted a mid-term target for greenhouse gas (GHG) emissions (a 25 percent reduction in GHG by 2020 compared to 1990 emission levels) with no publicly open or transparent national discussion or debate, and had that target formally registered with the United Nations. At that time, no consideration whatsoever was given to matters of target attainability or even the definitions of international fairness or selection of the base year that would be relevant to future negotiations. Also, not only did the government launch a feed-in tariff system for renewable energy (the FIT system) and implement a tax for measures to address global warming, but a certain government ministry is now even studying the idea of introducing a domestic emissions trading scheme.¹

Furthermore, in September this year the Energy and Environment Council adopted the Innovative Strategy for Energy and Environment,² a plan riddled with numerous faults from the perspectives of implementation viability and the burdens it would place on the public.

(3) Within the business community, this string of government policy initiatives has been regarded as one of six ills currently facing Japan's corporate sector.³ By depriving

¹ In 2011, Japan's Ministry of the Environment set up a closed-door Study Panel to Examine Issues Regarding a Domestic Emissions Trading Scheme. The study panel concluded it would be possible to create a system that will secure a certain level of CO₂ reduction effects while limiting the impact on domestic industry and employment and assuring an appreciable measure of cross-industrial fairness. A new Study Panel to Investigate Measures to Maximise the Efficacy of an Emissions Trading Scheme is currently engaged in study geared towards implementation of an emissions trading scheme.

² This strategy has no realistic content and as such, the GHG emission targets it sets for 2020 and 2030 are also unrealistic.

³ In addition to overzealous measures against climate change, the six ills include excessive appreciation of the yen, high corporate tax burdens, delays in economic partnerships, rigid labour regulations, and energy-related bottlenecks.

companies of their vitality, measures against climate change that overly neglect economic reality will end up impeding innovation and aggravating hollowing trends in the industrial base. At the same time, they can be expected to set the stage for carbon leakage, thus compromising the very goal of reining in climate change.

The Japanese government should construct a more realistic energy strategy that achieves a balance among safety, energy, economy, and the environment (S+3E)⁴ and then drastically revise climate change policy that is inextricably linked.

2. The Importance of Initiatives Led by the Business Community

(1) To date, KEIDANREN has demonstrated tangible achievements in the areas of energy conservation and the reduction of CO₂ emissions through its Voluntary Action Plan.⁵ As a result, Japan has become one of the lowest carbon societies in the world, whether measured on a national scale or in terms of specific industries. The merits of these initiatives have been highly valued and under the government's Kyoto Protocol Target Achievement Plan, the voluntary action plan has been assigned importance as a core platform for countermeasures by the business community.

(2) The government of Japan has indicated it has no intention to be under obligation during the second commitment period of the Kyoto Protocol. Japan's business community is, however, determined to step up its efforts from fiscal 2013 onwards to develop and commercialise world-leading low-carbon and energy-saving technologies through the Commitment to a Low Carbon Society. In this commitment, the Japanese business community resolves to use its technological prowess and assume an instrumental role in the drive to halve global GHG emissions by the year 2050.

The Commitment to a Low Carbon Society comprises four key pillars: (i) maximal integration of cutting-edge low-carbon technologies into corporate operations; (ii) the development and commercialisation of consumer-oriented products and services that boast energy savings and low-carbon footprints among the best in the world; (iii) transfers of technology and expertise to other countries; and (iv) the development of innovative technologies.

In addition to asking companies to set targets for the reduction of CO₂ emissions generated by their own operations, the commitment encourages companies to demonstrate wherever possible the emissions reduction potential from a product life-cycle perspective and through overseas technology transfers and contribute to GHG reductions on a global scale by working to translate that potential into reality.

(3) In Japan, industry-led initiatives have been effective to date and contributed to significant curbs in GHG emissions. It is anticipated that the Japanese government will formulate a new set of post-Kyoto measures against climate change to replace its Kyoto Protocol Target Achievement Plan (which will last through fiscal 2012). In any event, the Commitment to a Low Carbon Society should be treated as a foundation for those

⁴ With safety as a fundamental precondition, ensure energy security (stable energy supplies), economic efficiency, and environmental suitability.

⁵ In fiscal 2011, CO₂ emissions by the industrial and energy-conversion sectors (with 34 participating industries) together totalled 454.26 million t-CO₂, for a decline of 10.1 percent from the fiscal 1990 level (and an increase of 2.5 percent compared to fiscal 2010).

new measures.

KEIDANREN is determined to meet the expectations of the Japanese public and steadily implement the commitment while promoting a highly transparent and credible PDCA cycle.

3. The Orientation of Government Initiatives

(1) The national government should move forward with the development of an environment supportive of the business community's Commitment to a Low Carbon Society.

In particular, to ensure that corporate vitality is harnessed in full, the government should focus its energies on bold efforts in regulatory reform, the formulation of technology-driven energy conservation standards, green procurement, the expansion of tax incentives for research and development, and the promotion of popular national movements. Further, in the interest of facilitating international contributions by Japan on the technology front, the government needs to accelerate negotiations towards the creation of bilateral offset mechanisms with emerging and developing economies.

(2) Conversely, it should not pursue policy initiatives that have the effect of undermining the vitality of the corporate sector. For example, it absolutely should not implement a cap-and-trade style domestic emission trading scheme, for such a mechanism would deal a serious blow to corporate operations.⁶ Indeed, the top-down allocation of corporate emission quotas by the national government could lead to the problems of excessive bureaucratic authority and increased administrative costs.

Furthermore, now that electric utility rates are expected to rise, the government should revise its stance on the FIT system and the global warming tax at an early date in view of the severe impact they will have on the lives of citizens and corporate operations and the likelihood they will function as disincentives to innovation.

4. The Reassessment of the Mid-Term Target

(1) Japan needs to start over and completely revise the mid-term target it currently has registered with the United Nations. To that end, it will have to make a solid reassessment of implementation feasibility and the appropriateness of the consequent burden on the nation and build up, sector by sector, its true emission reductions potential, which excludes offsetting and only includes domestic efforts in energy efficiency and decarbonisation. Because international contributions can lead to drains on national wealth, they should not be incorporated into the target in advance.⁷

At the same time, it will be vitally important to ensure international fairness.

⁶ Adverse effects would include (i) interference with corporate efforts to account for complete life-cycles (contributions through product and service life-cycle assessments); (ii) barriers to fair corporate competition; and (iii) the stagnation of R&D investments in innovative technologies because targets can be achieved by emission quota purchases. In the EU, which launched this kind of framework early, emission credits have tumbled in value and companies have lost interest in investing in clean technologies, thus demonstrating a lack of viability in terms of achieving reduced emissions.

⁷ Despite maintaining levels of energy efficiency that are among the highest in the world, under the first commitment period of the Kyoto Protocol, Japan has allowed vast outflows of national wealth for purchases of foreign emission credits, thus placing a burden on the Japanese public.

Scientifically and objectively grounded comparative assessments, including those for the establishment of appropriate benchmarks, will be needed.⁸

(2) The first commitment period under the Kyoto Protocol utilised 1990 as its base year. More than two decades have already elapsed and in the interim, many countries have already experienced sweeping changes in their industrial and energy-supply structures. From the perspective of international comparisons that adequately reflect these structural changes and past efforts towards curbing emissions, we should transition to a base year that represents a more recent point in time.

5. The Shape of International Negotiations

As seen with the Kyoto Protocol in its current form, under frameworks that obligate selected countries to pursue reduced emissions, one cannot avert the problem of carbon leakage that results from the transplantation of industrial bases to other countries that face no obligation to reduce their emissions. Accordingly, on a global scale, no net curbs in GHG emissions will be forthcoming.

If we are to move forward with measures against climate change that will be viable in a realistic sense, then it will be essential to build an international framework that is based on responsible participation by all leading CO₂-emitting countries. Under a new, legally binding framework that applies to all countries from the year 2020 onwards, efforts to achieve emission reductions that are in line with each country's "respective capabilities" will be called for, not the approach to date that has divided developed and developing countries in line with the principle of "common but differentiated responsibilities."

On that point, the bottom-up "pledge and review" system highlighted by the Copenhagen Accord counts as an approach that will be both realistic and effective.⁹ Finally, for the purposes of mutually verifying the emissions reduction efforts of individual countries and ensuring transparency as well as viability, it will be critically important to establish and implement a mechanism for measurement, reporting, and verification.

⁸ The study of mid-term targets made under the Aso administration serves as a good reference here. In that study, the Japanese government took into account past emission reduction efforts and performed comparative assessments of the marginal abatement costs for leading industrial countries from the perspective of preventing carbon leakage. Comparisons of CO₂ emissions and energy consumption per unit GDP would be useful as well.

⁹ Under this approach, participating countries voluntarily submit and pledge to implement reduction targets and action plans and undergo international reviews of progress towards achievement of their targets. Proposed during COP 15 (2009 in Copenhagen) and approved by delegates at COP 16 (2010 in Cancun), the Copenhagen Accord has the participation of China, the US, and other countries that together account for over 80 percent of total global emissions. Each participating country has submitted reduction targets and action plans to the United Nations.