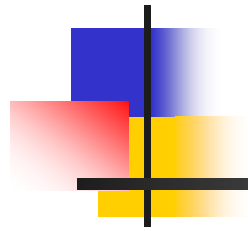


Significance and limitations of Japanese Voluntary Emissions Trading System



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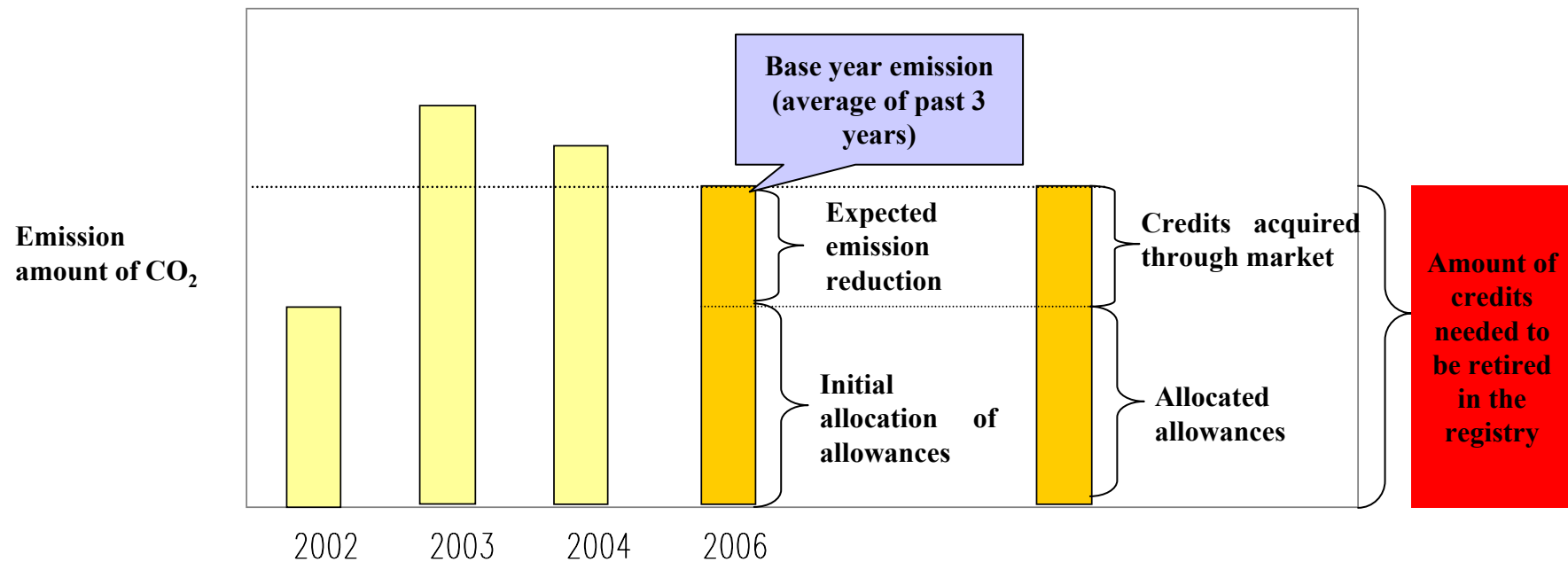
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Outline of JVETS (1)

- Voluntary target setting
- Subsidies for new facilities to reduce CO₂ emissions
- Initial allocation of allowances based on grandfathering
- Base year emissions: average emission of previous three years(2002-2004)

Outline of JVETS (2)





Outline of JVETS (3)

- **Criterion for subsidy:** cost efficiency
cost efficiency = total amount of subsidy applied ÷
yearly CO₂ emission reduction amount × facility's statutory period of duration
- Banking is permitted, but borrowing is not
- Failure to meet the target means return of the subsidy to the government
- **Participants:** 31 in 2005, 58 in 2006
- **Emissions reduction commitment:** voluntarily pledged by the participants e.g. 0.5 million t-CO₂ p.a.
- Subsidies paid / Total emissions reductions = around US\$10/ t-CO₂.



Significance and limitations of JVETS (1)

- The first case for cap & trade ETS in Japan
- Merit for MoE
 - .setting up an institutional foundation for future full-scale mandatory ETS
- Merits for participants
 - .subsidies for covering a third of investment costs
 - .for the remaining two-thirds, low-interest rate loan from Development Bank of Japan can be used
 - .accumulation of knowledge and experiences with ETS



Significance and limitations of JVETS (2)

- Some merits for Japanese climate change policy
 - . Establishment of informational and institutional infrastructure
 - . Development of guidelines for monitoring and reporting, emissions control system and electronic registry system (GHG-TRADE.COM)
 - . Establishment of third party examination system
- Limitations of JVETS
 - . not positioned as an official policy instrument in the climate change policy
 - . not compatible with Polluter Pays Principle