

Japan's new direction on climate change

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In one dramatic moment in 2011, Japan's national strategy to curb carbon emissions was thrown into chaos.



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At the 2010 UN climate change conference Japan committed to reducing its emissions by 25 per cent (relative to 1990 levels) by 2020 and 80 per cent by 2050. While these reductions were, in part, to be achieved through an emphasis on clean energy, the lynchpin of the program was to be its [reliance on nuclear energy](#) ^[2] and the introduction of a price on carbon at the national level. But the triple disasters in March 2011 not only saw the closure of the country's nuclear reactors but the difficult economic conditions that followed made it [impossible for the government to contemplate introducing a carbon price](#). ^[3] So it was no surprise when the government subsequently admitted that its pledges were no longer viable.

What came as a greater surprise to many, however, was [Japan's decision](#) ^[4] to no longer participate in the Kyoto Protocol. This decision grew from both a frustration with the inadequacies of the program, especially the lack of global commitment, and a realisation that Japan could no longer continue to meet its emissions reduction commitments. The Protocol sought to create a global market for carbon whereby each country would be allocated an ever reducing amount of emission permits. But the compliance periods for these permits have now elapsed, and participating countries must now offset any excess emissions by purchasing emissions allowances from other countries that have excess emissions credits.

Under the Protocol such credits might be generated through both domestic activities, achieving

a net removal in greenhouse gases, and joint initiatives leading to emissions reductions in other countries. In particular, the Clean Development Mechanism (CDM) recognises reductions achieved by developed countries investing in projects that either reduce emissions or improve carbon absorption in developing countries.

The CDM has been the subject of criticism. Approval of all CDM projects is given by a central body, the Designated National Authorities, and the process to obtain its approval can be complex and time consuming. The projects must provide for 'additional mandates' in a sense that it must prove that its emission reductions will be additional to what would otherwise have occurred — also known as 'additionality'. Given the difficulties in estimating baseline emissions, particularly in developing countries, this requirement tends to bring a level of arbitrariness to the decision-making process. There is also little evidence that the CDM's primary goal of providing technology transfers to developing nations is being achieved.

Japan's frustrations with the CDM and its departure from the Kyoto framework led to the development of its own program: the Bilateral Offset Crediting Mechanism (BOCM). Under this regime the Japanese government is to recognise credits for investments in emissions reduction projects in developing countries. In contrast to the CDM, however, there is no central administrator and each project is administered by a joint committee made up of Japanese officials and those from the country concerned. The BOCM permits a wider range of low-carbon technology to be used, and covers more sectors and activities, such as transport and waste management. One of the BOCM's fundamental aims is to minimise transactions costs, thereby enticing more private investment than the CDM.

Since 2010, Japan has engaged in over 100 feasibility studies under the BOCM. So far, four bilateral 'low carbon growth partnerships' have been signed, each with Bangladesh, Mongolia, Ethiopia and Kenya. While the BOCM has commenced operation as a non-tradable credit mechanism the plan is that the credits will be tradable in the future. The emissions reduction is allocated between Japan and the host country, and only participants to the project can use the credit earned by the project to offset their emissions, which is to be reported to the governments concerned.

As Japan strives to achieve international approval for its scheme, many questions remain to be addressed. Whether and how BOCM projects will prove additionality; the monitoring, supervision and verification requirements; the tradability of BOCM credits; and how double counting of credits is to be avoided, are issues of concern. Exactly how the private sector is to be encouraged to engage in this voluntary regime, especially in an environment where Japan's emissions reduction targets and energy policy are unclear, is also still being developed, although project participants do receive a substantial subsidy for their investment. However, the most fundamental issue is the bilateral nature of the scheme, and the precedent it could potentially set. Should the international community become populated by a range of bilateral mechanisms, with their own particular rules, protocols and registries, the global transaction costs of offset generation might increase considerably.

Nevertheless, the BOCM is of particular interest to Australia and is being monitored by the government to ascertain whether credits from the scheme might be employed to meet

obligations under Australia's emissions trading scheme once it moves to a trading platform. Of particular interest is whether the scheme will be extended to non-Japanese entities (arguably required by WTO rules). Australia has previously criticised the CDM for not including projects focused on reducing emissions from deforestation (REDD+) and the BOCM might provide an alternative mechanism in this regard.

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[1] <http://www.eastasiaforum.org/wp-content/uploads/2013/07/20130620000721593167-layout.jpg>

[2] reliance on nuclear energy:

<http://www.eastasiaforum.org/2012/08/13/japans-nuclear-restarts-not-a-done-deal/>

[3] impossible for the government to contemplate introducing a carbon price.:

<http://www.eastasiaforum.org/2011/05/23/japan-s-triple-disaster-and-climate-change-policy/>

[4] Japan's decision: http://unfccc.int/kyoto_protocol/doha_amendment/items/7362.php.

[5] *Waseda University*: <http://www.waseda.jp/ss/en/cjsp/faculty/teacher1.html>

[6] *James Cook University*: http://www.jcu.edu.au/law/staff/JCUDEV_002669.html