

Proposal of Upstream Emissions Trading in Japan

Hidenori NIIZAWA
Tatsuyoshi SAIJO
Akinobu YASUMOTO

Upstream Emissions Trading

- Importers of fossil fuels should hold allowances to sell them in Japan.
 - The mechanism is different from the carbon tax.
- The total issuance of allowances will be reduced gradually from BaU before 2008.

Advantage of Upstream Emissions Trading

- Broad coverage of sources: small sources, moving sources
 - Effectiveness
 - Certainty
 - Efficiency
- Minimum monitoring cost

Initial Allocation of Allowances Reasons of Auction

- Possibility of windfall profit for upstream firms in case of 100% grandfathering
- Revenue recycling effect and tax interaction effect

Issues of Upstream Emissions Trading

- Burden sharing among upstream firms, downstream firms and consumers
 - Elasticity of fossil fuels demand
 - Industrial competition with US and China
- Possibility of adjusting the burden sharing by using the auction revenue

Research Institute of Market Structure

- Since April 2003
- Research project of upstream emissions trading
 - Design of upstream emissions trading
 - Numerical analysis of upstream ET
 - Design of auction
 - Implementation before 2008