Proposal of Upstream Emissions Trading in Japan

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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