

## Japan's Cabinet Endorses Cap-and-Trade Climate Bill (Update2)

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(Adds analyst's comment in seventh paragraph.)

By Shigeru Sato and Takashi Hirokawa

March 12 (Bloomberg) -- Japan's Cabinet has endorsed a climate-protection draft law today that would cap industrial emissions and thrust the second-biggest economy into the \$125 billion market for trading carbon credits.

Some polluters will be subject to a flat ceiling on emissions while others may face a limit per unit of production, according to a copy of the bill, distributed to reporters by the Environment Ministry today. The draft leaves open which industries will be affected.

Efforts to pass climate legislation in Australia and the U.S. have stalled over criticism of proposed emission-trading programs. In Japan, power utilities, steelmakers and seven other industry groups said now isn't the time for a law they claim will hurt domestic companies as they compete with peers in China and India who won't face the same pollution limits.

"It's extremely regrettable the Cabinet approved the bill without enough nationwide discussion," the group led by Tokyo Electric Power Co. and Nippon Steel Corp., two of the nation's biggest emitters of greenhouse gases, said in a statement today. "We ask the government to ensure the public understands the issues before the bill is debated in the Diet."

Prime Minister Yukio Hatoyama has set a goal for Japan to cut emissions by 25 percent by 2020 and may pursue European-style trading of carbon-emission credits. China and India, the world's fastest growing major economies, have said they will target a reduction of emissions per unit of gross domestic product rather than setting a ceiling on overall emissions.

'Easier Option'

Japan's emissions as a ratio of national productivity are among the lowest in the Organization of Economic Cooperation and Development, according to the Institute of Energy Economics Japan, a government think tank. Japan produced 244 metric tons of carbon dioxide per \$1 million of GDP in 2006, compared with the OECD average of 444 tons and 510 tons for the U.S. China produced 2,685 tons and Russia emitted 4,190 tons.

By not mandating a flat cap on all industrial pollution, Japan is taking an easier option, said Roger Raufer, New Jersey-based independent carbon market consultant. "But they're a very efficient country, so this is a tough thing for them to do politically," he said by phone today.

Details of Japan's cap-and-trade program, including limits on specific industries and a timeframe, will be worked out within a year of the bill becoming law, according to the draft.

The legislation calls for a possible carbon tax from the year starting April 2011, expansion of nuclear generation and boosting the "feed-in tariff" to cover all renewable energy, including biofuels along with hydro, solar, wind and geothermal power.

## Feed-in Tariff

Japan introduced a feed-in tariff in November, requiring utilities to buy surplus solar power supplied to the grid by homes and businesses, and pay as much as double the regular rate. Consumers pay for the cost in higher power bills.

Japan should supply 10 percent of its primary energy from renewable sources by 2020, according to the bill. In 2007, renewables accounted for about 3 percent of the total, according to the International Energy Agency.

Hatoyama's government on Jan. 26 reiterated a promise to the United Nations to cut Japan's emissions of heat-trapping gases blamed for global warming by 25 percent by 2020 from 1990 levels. The pledge comes with the condition that "all other major emitters agree to a fair and realistic international treaty that calls for an ambitious reduction target," Hatoyama said.

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