

February 14, 2026

Comments submitted in response to the
**Public consultation on the Draft Ministerial Ordinance partially amending
the Enforcement Regulations of the Act on the Promotion of a Smooth
Transition to a Decarbonization-Oriented Growth Economic Structure, and
the Ministerial Ordinance concerning the Finance and Accounting of the
Decarbonization-Oriented Growth Economic Structure Transition
Promotion Organization**

IETA is an international non-profit organisation representing over 300 member companies committed to smart, well-designed and effective carbon markets to help achieve the goals of the Paris Agreement and reach net-zero emissions by 2050. As the trusted business voice on carbon markets, we appreciate the opportunity to provide input regarding the draft GX2040 Vision and look forward to continuing our close engagement with the related ministries and agencies in Japan.

We would like to express our gratitude for being given the opportunity to submit our comments on the above-referenced draft ministerial ordinances and others.

1. Overseas Certified Emission Reductions

Article 12-3(b)(3) of Chapter 3 (p. 45) of the Guidelines for the Implementation of the Allocation of Emission Allowances to Decarbonization-Oriented Growth Investment Business Operators for Business Operators Intending to Make Investments Contributing to a Smooth Transition to a Decarbonization-Oriented Growth Economic Structure (hereinafter, the 'Implementation Guidelines') recognizes 'overseas certified emission reductions' as credits that may be used for so-called offsets. We understand that, pursuant to Article 2, paragraph 8 of the Act on Promotion of Global Warming Countermeasures, these refer to credits that fall under Article 6, paragraph 2 of the Paris Agreement, namely JCM credits.

Meanwhile, on June 28, 2022, the ‘Study Group on Environmental Arrangements for the Appropriate Use of Carbon Credits toward the Realization of Carbon Neutrality’ published the Carbon Credit Report. On page 36 of that report, it states that:

‘(1) As carbon credits that contribute to the achievement of Japan’s NDC, carbon credits generated from projects implemented domestically and therefore ultimately reflected in the national inventory, as well as carbon credits generated from projects implemented overseas for which international transfer adjustments (corresponding adjustments) under the Paris Agreement have been made, can be categorized as carbon credits whose emission reductions also contribute to Japan’s NDC.’ We understand that this proposal was reached after much discussion.

We believe that, in addition to JCM credits, it should also be possible for NDCs to benefit from “carbon credits that can be categorized as contributing to our country’s NDC in terms of the amount of emissions reductions, and that are implemented overseas with corresponding adjustments made for international transfers under the Paris Agreement.” I hope that the discussions that took place, and the thinking on which this proposal is based, will be made public. I consider this to be important from a long-term perspective when engaging in overseas emissions-reduction projects.

If, in the future, it becomes necessary to expand the scope due to factors such as a shortage in the supply of emission allowances, we would like this to be examined with sufficient lead time, taking into account the lead times required for investment in emissions-reduction projects.

2. Regarding Article 11 (Development of the Investment Environment) of the Implementation Guidelines

With regard to Implementation Guidelines Article 11 (page 42), paragraph 2 states that operators whose allocated allowances exceed their required holding obligations may sell emission allowances on the market. It also states that, in addition to covered entities under the system, certain “partial trading participants” are permitted to participate in trading. These provisions are important for ensuring liquidity and for price discovery, and we understand that this is because the emissions allowance trading market is identified as an item for consideration in FY2026, as described on page 109

and following of the Interim Summary of the Subcommittee on the Emissions Trading System issued on December 19 last year (hereinafter, the “Interim Summary”).

When deliberations are conducted in the coming fiscal year, it would be beneficial to draw on the experience accumulated through various initiatives around the world, including the use of futures markets and liquidity management.

IETA has a history of approximately 25 years, dating back to the early period following the adoption of the Kyoto Protocol. During this time, emissions trading systems have encountered and overcome a wide range of challenges. IETA and its members have accumulated significant expertise from practical experience in market transactions. Going forward, in considering the design of the trading market, the information and experience of IETA and other market participants will also become useful.

3. Reference Upper Transaction Price and Adjustment Benchmark Transaction Price

With regard to the reference maximum transaction price and the adjustment benchmark transaction price stipulated in the public notice establishing these prices pursuant to the Act on the Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure, we understand that—based on the proposal submitted to the 7th Subcommittee on Emissions Trading and in order to ensure smooth implementation—the reference maximum transaction price (the upper price) was determined with reference to standard fuel-switching costs, and the adjustment benchmark transaction price (the lower price) was determined with reference to energy-efficiency measure costs.

While setting floor and ceiling prices can be a reasonable approach in the early stages of an ETS to secure a smooth market launch and to provide clear price signals that enhance investment predictability, it is also important to consider how the system should evolve as the market develops. As liquidity increases and price discovery becomes more robust, there may be merit in gradually allowing the market to play a greater role in determining the carbon price, contributing to a more mature and well-functioning market environment.

At the same time, the assumptions underlying the initial price corridor — including domestic conditions as well as broader geopolitical and economic factors — may evolve over time. In light of such potential changes, it may be worth considering whether the

parameters on which the corridor is based continue to remain appropriate. Depending on the findings of these assessments, adjustments to the level of the floor and ceiling prices, or, where warranted, reconsideration of the need for maintaining the price corridor, may not be ruled out.

In the long run, the ETS may mature and become more fit for purpose, thereby allowing the carbon price to be shaped to a greater extent by market dynamics while still ensuring that mitigation efforts remain aligned with long-term decarbonisation objectives.

In addition, while the use of internationally certified emission reductions is also an option, it would be helpful, when considering the use of such units, to take into account demand from other competing schemes as well as the situation in each host country regarding the status of its NDC implementation.

4. Benchmarking and Grandfathering

Under the Order concerning the business sectors and other matters prescribed by the competent ministerial ordinance pursuant to Article 32, paragraph 2, item (iv), sub-item (a) of the Act on the Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure (hereinafter, the “Order”), the business activities subject to benchmarking have been specified, and a clear distinction has been made between business activities subject to grandfathering. In addition, through the amendment of the GX Promotion Act Enforcement Regulations and the establishment of the Implementation Guidelines, the detailed methodology for calculating emissions allowances has been clearly defined. We believe that these developments provide important guidance for corporate initiatives.

Furthermore, the statement on page 116 of the Interim Summary that “even for sectors subject to grandfathering from FY2026 onward, consideration will be given to transitioning to benchmarked sectors” is also an important message for affected companies.

However, the procedures and other details for this transition are not included in the current amendments or the Implementation Guidelines. We hope that the timing and review framework for such revisions will be further specified going forward. In addition, in order to clearly identify the actual situation and the targets, we would appreciate

consideration being given to publishing the total volume of emissions captured under benchmarking and the total volume of emissions captured under grandfathering.

Finally, in order to ensure fairness at the time of introduction and to take past efforts into account, the system has become quite complex and entails a significant amount of administrative procedures. The Interim Summary includes measures such as limiting the application period for consideration of deviations from benchmark indicators (page 116) and limiting the application period for consideration of past emissions-reduction efforts (page 117). We hope that, while ensuring a fair evaluation of past efforts, efforts will also be made to reduce the administrative burden of system operation and on companies.

5. Final remarks

While it is desirable to achieve decarbonized growth through domestic emissions reductions, considering technological and locational constraints, it will also be extremely important to aim for the broad utilization of the Joint Crediting Mechanism (JCM) implemented under Article 6 of the Paris Agreement as a practical and cost-effective measure to support the achievement of Japan's NDC. This will help reduce the cost for compliance entities and further strengthen global decarbonisation efforts.

At present, it seems unclear whether the JCM can supply the volume necessary to achieve the 2030 targets, suggesting that further reinforcement is needed. In this regard, enhanced policy support—particularly to accelerate private-sector JCM initiatives—is considered essential.

Emissions trading markets and IETA have a history of approximately 25 years dating back to the early period following the adoption of the Kyoto Protocol. During this time, emissions trading markets have experienced and overcome a variety of challenges. IETA and its member companies have accumulated substantial expertise from hands-on experience in emissions trading markets.

As the details of the emissions allowance trading market are expected to be examined, we hope that the information and experience of IETA, its member companies, and other market participants will also be utilized.

We look forward to engaging further on this and related issues.

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