Policy Proposal towards COP 18

October 16, 2012
Keidanren

1. Introduction

The importance of achieving sustainable development was reaffirmed at the United Nations Conference on Sustainable Development (Rio+20) held in June this year, 20 years after the Framework Convention on Climate Change was adopted at the United Nations Conference on Environment and Development (Rio Earth Summit) in 1992.

Global warming affects the very foundations of human existence, and requires the adoption of truly effective measures while achieving economic growth. To this end, it is essential to create a framework for emission reduction efforts that covers not only developed countries, but also emerging and developing nations, which are accomplishing remarkable economic growth and are projected to continue emitting increasing amounts of greenhouse gases (GHGs).

The 17th session of the Conference of the Parties (COP 17) to the United Nations Framework Convention on Climate Change (UNFCCC) held last year in Durban, South Africa, agreed to complete the work as early as possible but no later than 2015 in order to adopt a protocol, another legal instrument or an agreed outcome with legal force, and for it to come into effect and be implemented from 2020. Keidanren has long called for an equitable and truly effective international framework with all major emitters participating with responsibility, and acclaims the agreement reached in Durban last year as the first step toward creating such a framework.

COP 18 in Doha, Qatar, presents the first COP opportunity to discuss the new framework. With high expectations for negotiations to create a truly effective international framework that allows for both economic growth and global warming countermeasures, Keidanren has drawn up the following proposal.

2. Reducing GHGs on a Global Scale

Given that worldwide energy demand is expected to increase further in conjunction with population expansion and economic growth in emerging and developing countries, promoting energy conservation in developed, emerging, and developing nations will be the most effective and essential path to achieving sustainable growth while controlling GHG emissions.

The key to success lies in harnessing the power of the private sector which plays a major role in developing technologies. To dramatically reduce GHG emissions while still aiming at economic growth, there is a need to promote widespread adoption of existing low-carbon technologies, products, and services, and to develop new breakthrough technologies enabling even greater reductions.

Japan lacks natural and mineral resources, and as a result of overcoming two oil crises and encouraging energy-saving initiatives, it stands out among major countries for having created the society with the lowest ratios to GDP of energy use and of carbon dioxide (CO_2) emissions (see Charts 1 and 2). Having maximized wealth while minimizing resource consumption, Japan can provide a model for sustainable development. It is our mission to continue to maintain and enhance the world's highest levels of energy efficiency.

From the perspective of controlling GHG emissions to the greatest possible extent, it is also vital to take measures to address fluorocarbons,[1] which are outside the scope of the Kyoto Protocol (see Chart 3 and Table 1). In this context, Japan can utilize its technology and expertise in recovering and destroying fluorocarbons to cooperate with emerging and developing countries in preventing the further release of fluorocarbons to the atmosphere on a global scale. We hope that the Japanese government will adopt policies supporting fluorocarbons recovery and destruction efforts in developing countries.

[1] Japan has addressed the issue of GHG fluorocarbons including chlorofluorocarbons (CFCs) and hydrochlorofluorocarbons (HCFCs) through its Fluorocarbons Recovery and Destruction Act (Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons concerning Designated Products), but these substances are outside the scope of the Kyoto Protocol. It is estimated by international organizations that release of fluorocarbons to the atmosphere leads to GHG emissions equating to more than 2 billion tons of CO_2 annually (*IPCC/TEAP Special Report: Safeguarding the Ozone Layer and the Global Climate System*).

3. Towards a Truly Effective International Framework

(1) A Single Framework with All Major Emitters Participating Responsibly

Frameworks under which a limited number of countries undertake reduction commitments, such as the existing Kyoto Protocol, create structural problems including "carbon leakage," whereby businesses shift production to countries that have no reduction commitments, and thus do not control global GHG emissions. In reality, global GHG emissions have continued to rise even after the Kyoto Protocol came into force.

To create truly effective global warming countermeasures, it is essential to build an international framework with responsible participation by all major emitters. Accordingly, rather than perpetuating a division between developed and developing countries based on the principle of common but differentiated responsibilities, the new legal framework to apply to all countries from 2020 needs to require each country to reduce emissions according to its respective capabilities. It will be crucial to adopt a sustainable approach to balancing effective reduction efforts with economic growth, so that even developing countries—where other issues such as eliminating poverty may be the highest priority—can take concrete measures to control GHG emissions.

Considering the political and economic circumstances in many countries and UN climate change negotiations to date, the bottom-up "pledge and review system"[2] agreed under the Copenhagen Accord offers a realistic and valid approach to creating a truly effective international framework with all major emitters participating. It is also imperative to establish and implement a suitable measurement, reporting, and verification (MRV) system to enable countries to confirm each other's mitigation efforts, thus ensuring transparency and efficacy.

(2) Interim Efforts Required

To encourage participation in the new framework by emerging and developing nations

[2] A system whereby each participating country voluntarily submits and commits itself to its own emission reduction targets and action plan (pledge), and progress towards those targets is assessed internationally (review). Under the Copenhagen Accord that was proposed at COP 15 (held in Copenhagen in 2009) and that inspired elements of the Cancun Agreements at COP 16 (held in Cancun in 2010), countries accounting for more than 80% of global emissions, including the US and China, agreed to participate in this system and submit their own emission reduction targets and action plans to the United Nations.

that have not so far made reduction commitments, developed countries need to create an environment conducive to participation while supporting such nations in the interim. It is important for Japan to further strengthen inter- and intra-regional ties and to share its technology, expertise, and experience.

New collaborative structures are being established in the aim of achieving low-carbon growth through financial and technical cooperation and human resource development. One example of this is the East Asia Low Carbon Growth Partnership Dialogue[3] launched with participation by major emitters including the US, China, and India. At COP 17 last year the Japanese government announced its African Green Growth Strategy, a joint effort by the public and private sectors that commits to concrete support for low-carbon growth and climate-change-resilient development in Africa. It is hoped that such public-private initiatives by Japan will also build momentum for emission reductions in developing countries.

Sectoral cooperation schemes utilizing specific technologies and expertise are another effective method of encouraging efforts in emerging and developing countries. One such example is the Asia-Pacific Partnership on Clean Development and Climate (APP), now absorbed into the Global Superior Energy Performance Partnership (GSEP). The public and private sectors of participating countries form sector-specific working groups to engage in cooperative efforts, including transfer of technology and expertise to emerging and developing nations. Japan expects to bring about significant emission reductions by exercising initiative as lead country for the steel, electricity, and cement working groups, particularly given that countries such as China and India have a high proportion of coal-fired thermal power stations in their electricity sectors and growing steel and cement industries.

4. Swift Construction of Frameworks for Technology Transfer and Financial Cooperation

Japanese industry has the world's highest levels of energy efficiency, and facilitating widespread adoption and use of Japanese technology, expertise, and products overseas will enable a large contribution to worldwide efforts to tackle global warming.

[3] The first meeting of the Dialogue was held in Tokyo in April 2012, attended by representatives of 18 countries: the 10 ASEAN nations (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) plus Australia, China, India, Japan, New Zealand, the Republic of Korea, Russia, and the US.

Keidanren hopes that the Japanese government will support such efforts by creating the diverse frameworks mentioned below, so that Japanese industry can display its full potential in this area and Japan's international contribution is appropriately recognized.

(1) Bilateral Offset Mechanism

The Clean Development Mechanism (CDM) introduced under the Kyoto Protocol to support emission reductions in developing countries entails rigid and time-consuming procedures, and screening by the CDM Executive Board requires rigorous evidence of "additionality" to prove that reductions in emissions are additional to any that would occur in the absence of the certified project. For these reasons, it is difficult to gain certification for the energy-saving projects that are one of Japan's strengths, and it has been pointed out that this mechanism is not necessarily conducive to the dissemination of technologies that are effective in combating global warming and suited to circumstances in individual countries.

To achieve steady progress in reducing emissions through flexible responses tailored to individual countries' circumstances, there is a need to improve the CDM while complementing it with new schemes such as the Bilateral Offset Mechanism (tentative name) that the Japanese government is discussing with other countries.

The Bilateral Offset Mechanism is expected to overcome issues with the CDM by being simplified, objective, and practical. Japan is examining potential methodologies and other details in bilateral joint committees, but to create a mechanism that will actually contribute to emission reductions, it will be essential to fully reflect the views of industry, which will take the lead role in implementing individual reduction projects. To this end, it is necessary to establish subcommittees under the joint committees, with participation by industry representatives. With a view to smooth project implementation and operation, two-step loans and other forms of support tailored to the needs of local businesses are effective ways for the Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA) to offer policy and financial assistance.

In order to promote understanding of the bilateral offset mechanism in the international community, it will be crucial to ensure credibility and transparency at the implementation stage through appropriate MRV systems and to steadily build a successful track record by actively adopting promising projects.

(2) Technical Cooperation

Based on the decision to establish technology mechanisms reached as part of the COP 16 Cancun Agreements, UN climate change negotiations are under way aimed at creating a Technology Executive Committee (TEC) and a Climate Technology Centre and Network (CTCN). These mechanisms will encourage the development and transfer of technologies for emission reduction and adaptation, and we expect that they will take shape soon.

Meanwhile, the technological needs of developing countries must be properly identified in order to encourage efforts aimed at reducing their emissions through technology transfer. It is expected that the TEC will draw up technology maps for both mitigation efforts, which control GHG emissions, and adaption initiatives, which address global warming impact and damage. Taking full account of developing countries' technological needs, Japan should aim at that time to have the maps incorporate specific technologies in which Japan excels.[4] It will also be important for the public and private sectors to collaborate in making the CTCN a reality. At the same time, there is a need to train personnel capable of learning about and utilizing energy-saving technologies in developing countries.

Although many developing countries have submitted proposals for the compulsory licensing or buyout of intellectual property rights in order to accelerate the spread of technology, we believe that maintaining appropriate protections for intellectual property rights is vital to promoting the development of technologies and facilitating their transfer. For this reason we oppose any compulsory licensing or buyout of intellectual property rights. As part of creating an environment conducive to technology transfer, it is particularly important to establish systems within developing countries that offer effective protection for intellectual property rights.

(3) Financial Cooperation

Energy-saving and low-carbon projects will be vital to simultaneously achieving economic growth and emission controls in developing countries. The Cancun Agreements called for the establishment of a Green Climate Fund (GCF),[5] which held

[4] At the fourth TEC meeting held in Bangkok, Thailand, in early September 2012, the Japanese government delegation outlined specific technologies owned by Japanese companies, including drip irrigation, landslide prevention, and salt damage mitigation, and these technologies were highly evaluated by the international community.

[5] The Cancun Agreements adopted at COP 16 reached accord on establishing this new fund to support GHG emission reductions and adaptation to the effects of climate change in developing

its first board meeting in late August this year, and we hope the GCF will act as a lever to advance such projects. Intergovernmental discussion on GCF design has only just begun, and to ensure that the fund can function effectively, it will be essential to reflect the views of the business community, which actually owns the technologies for emission reduction and implements projects.

In this context, we welcome the decision which approves the attendance of private-sector observers at GCF board meetings. When examining the method of selecting observers, it is necessary to keep in mind that the observer must reflect a wide range of business community views, and it will be important to adopt a process for cross-sector discussion and selection of observers by the business community itself.

The Japanese business community will actively cooperate in implementation of low-carbon projects aligned to the needs of developing countries through the GCF.

5. Views on Japan's Medium-Term Targets

Regardless of whether Japan participates in the second commitment period under the Kyoto Protocol, it must not relent in its efforts and needs to continue to make progressive effort in global warming countermeasures from 2013 onward.

On September 14, 2012, the Japanese government's Energy and Environment Council approved the "Innovative Strategy for Energy and the Environment," but this strategy, which aims to cease operation of all nuclear power stations in the 2030s, will encourage further hollowing out of Japanese industry and have profound and extensive negative effects on energy security, employment, and people's lives. It also presents a range of other problems, including the feasibility of targets for energy conservation and introduction of renewable energy.

The government should rewrite Japan's energy strategy to make it realistic and

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countries while taking into account the needs of developing countries vulnerable to such effects. The fund is managed by a board comprising 24 members (12 from developed countries and 12 from developing countries), operating under the UNFCCC framework. Until an independent secretariat is established, the board is supported by an interim secretariat that the secretariats of the UNFCCC and the Global Environment Facility (world's largest public fund for environment) jointly operate.

subsequently re-examine Japan's medium-term targets. Medium-term targets need to be examined in light of international equity, feasibility, and a reasonable public burden (see Charts 4 and 5).

6. Conclusion: The Japanese Business Community's Contribution to Achieving a Low-Carbon Society

(1) Continuing and Enhancing Industry-Led Initiatives

The Japanese business community has proactively engaged in energy-saving and emission-reduction initiatives, producing many concrete results. For example, Keidanren formulated a Voluntary Action Plan on the Environment in June 1997, before the Kyoto Protocol was adopted. The plan aimed to reduce average CO_2 emissions from the industrial and energy conversion sectors to below 1990 levels during the period 2008–12, and participating industries continue to make constant efforts to achieve this goal.

In fiscal 2010, CO_2 emissions from the 34 industries in the industrial and energy conversion sectors[6] were 12.3% below 1990 levels. Analysis of the reasons behind the reduction shows that, while increased production activities led to a 5.0% rise in emissions, reduced CO_2 emissions per unit of production activity contributed to a 15.8% decline and the lower emission coefficient brought about a 1.5% decline. These figures prove that participating industries' efforts to reduce carbon intensity (i.e., improve CO_2 efficiency) were the driving force behind emission reductions (see Table 2).

Following the end of the Kyoto Protocol First Commitment Period this year, Keidanren will resolutely continue contributing to a reduction in global GHG emissions by further advancing the development and deployment of world-class low-carbon and energy-saving technologies through proactive, industry-led initiatives based on its Commitment to a Low Carbon Society (basic policies formulated in December 2009). Participating industries have pledged to maintain and enhance the world's highest standards in low-carbon technologies and energy efficiency and formulated action plans

[6] In the base year of fiscal 1990, CO_2 emissions from the 34 industries in the industrial and energy conversion sectors that participated in the fiscal 2011 follow-up survey equated to approximately 44% of total emissions in Japan and approximately 83% of emissions from the industrial and energy sectors.

based on four key pillars: (1) establishment of reduction targets for domestic business operations up to the year 2020, (2) strengthened cooperation with other interested groups, (3) contributions on the international level, and (4) development of innovative technologies. Keidanren is monitoring progress by operating a highly transparent and reliable plan-do-check-act cycle (see Chart 6).

(2) Vital Policies to Support Industry-Led Initiatives

For Japanese industry to exercise its strengths and contribute to low-carbon growth on a global scale, it will be essential to maximize the use of best available technologies (BAT) and develop innovative technologies through the Commitment to a Low Carbon Society. In addition, policy support including an appropriately designed bilateral offset mechanism and enhanced tax incentives for research and development could be expected to boost green innovation in Japan.

Given that Japan's significant advances in energy conservation leave little scope for further reduction of emissions, policies that would restrict production or other economic activity, such as a domestic emissions trading system, would have a severe impact on people's lives, employment, and industrial competitiveness. They would also give rise to various other problems, including further carbon leakage and wresting resources from companies that could otherwise be used for development and deployment of innovative technologies. Any policy that would deprive companies of research and development funds and hinder the introduction of advanced energy-saving and low-carbon technologies is an obstacle to innovation, and we oppose such measures on the grounds that they run counter to the aim of combating global warming. Keidanren hopes that the Japanese government will take proactive initiatives aimed at achieving a low-carbon society on a global scale, for example, by proposing international frameworks for utilizing advanced Japanese technologies to help reduce worldwide GHG emissions.

As well as refining world-class energy-saving and low-carbon technologies, the business community will promote closer international business ties through forums such as the Major Economies Business Forum on Energy Security and Climate Change (BizMEF)[7] and take further concrete action aimed at reducing emissions on a global scale.

[7] Created in February 2009, BizMEF is a partnership among business groups from major economies. Its membership consists of Australia, Brazil, Canada, China, Denmark, the EU, France, Germany, India, Italy, Japan, Kenya, Mexico, New Zealand, South Africa, Turkey, the UK, and the US. Keidanren represents Japan.

Chart1　Total primary energy supply per real GDP（2009）

* US dollar, 2000 standard rate

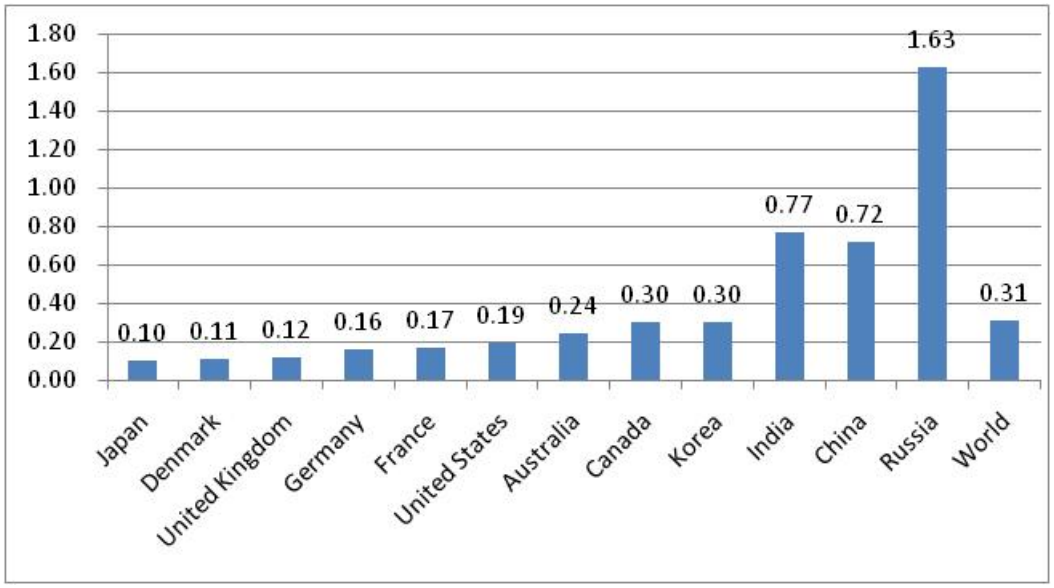
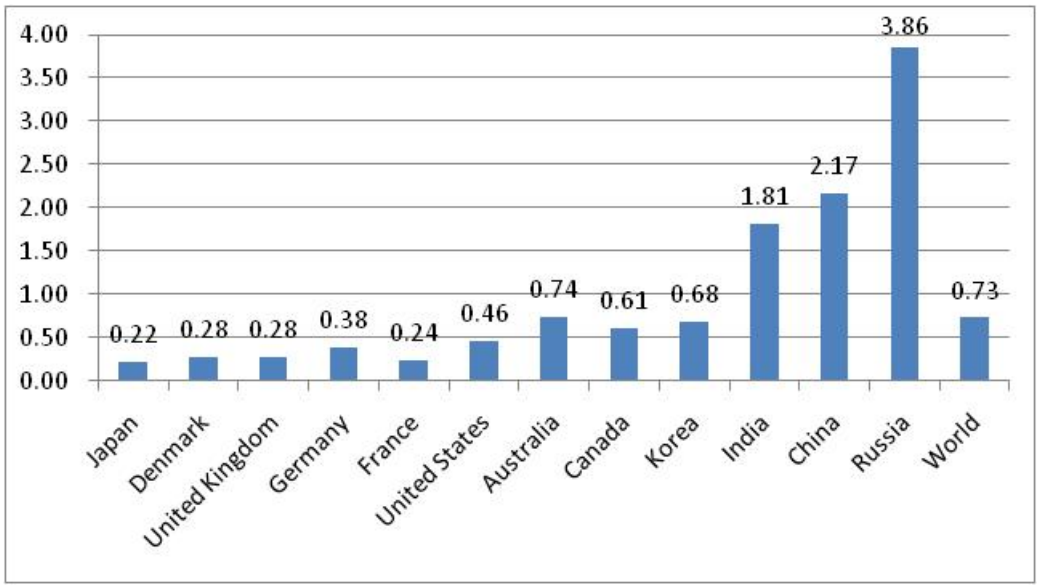


Chart2　CO_2 emission per real GDP（2009）

* US dollar, 2000 standard rate



≪＊Source: IEA "Key World Energy STATISTICS"≫

Chart3　Ozone Depleting Substances and GHGs

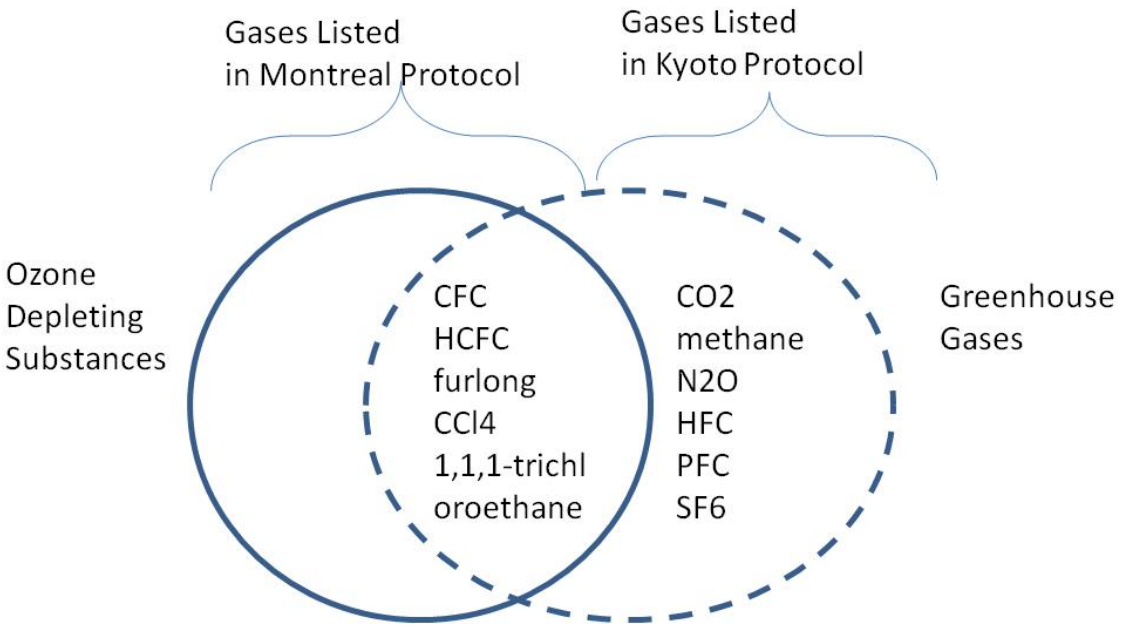


Table1　Global warming potential of CFC、HCFC

	Global warming potential	Main usage
CFC	4,600～14,000	refrigerator, air conditioner, heat insulating material, washing material
HCFC	120～2400	refrigerator, air conditioner, heat insulating material, washing material

≪Source of Chart3, Table1:material submitted at the Central Environment Council≫

Chart4　Comparison of marginal abatement cost (MAC) of reducing CO_2 emission under Copenhagen Pledge and Japan's three scenarios presented in the "Options for Energy and the Environment"

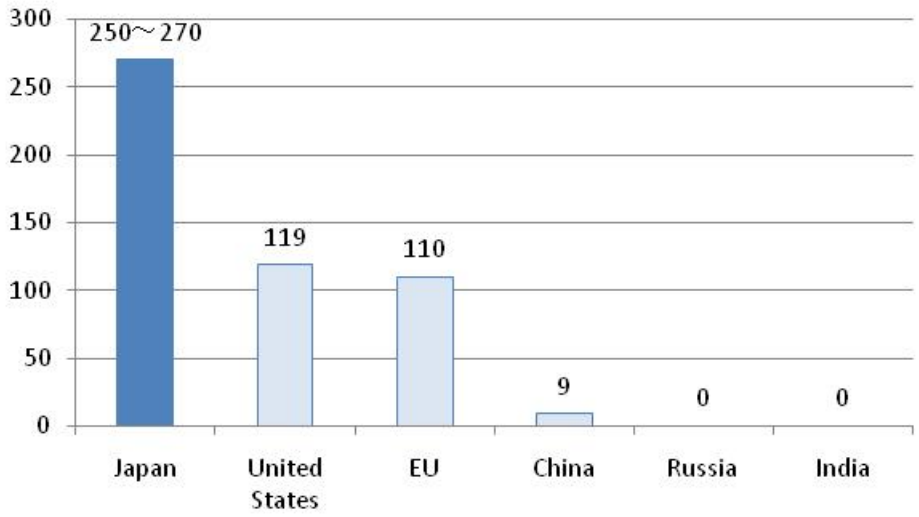
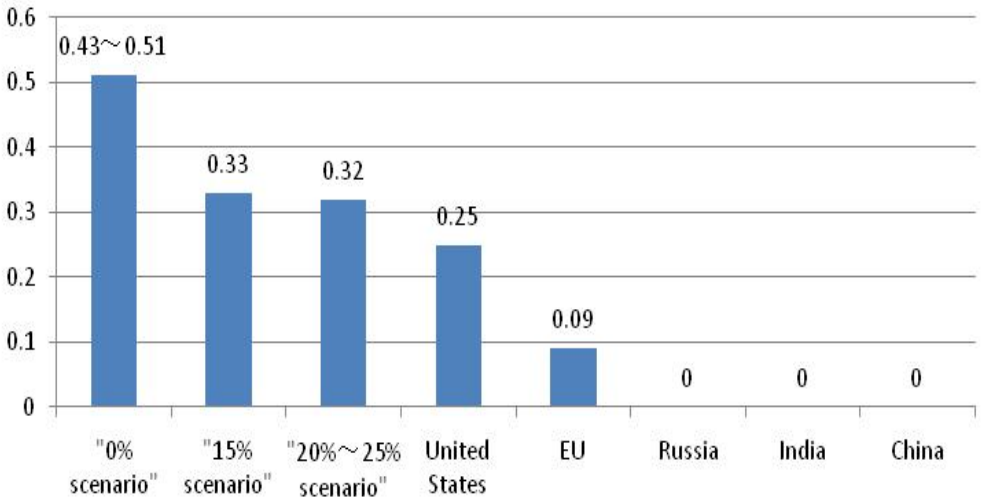


Chart5　Comparison of marginal abatement cost (MAC) of reducing CO_2 emission per GDP under Copenhagen Pledge and Japan's three scenarios presented in the "Options for Energy and the Environment"



≪Source: Estimates by Mr. Keigo Akimoto at the Research Institute for Innovative Technology for the Earth (RITE)≫

Table2　An Attribution Analysis for Changes in CO_2 Emissions by Industrial and Energy-Conversion Sectors in Fiscal 2010 (Comparison to FY 1990)

	Comparison to FY 1990
Change in production activity*[1]	+5.0%
Change in CO_2 emission factor*[2]	-1.5%
Change in CO_2 emissions per unit of output (efficiency improvement)	-15.8%
Total	-12.3%

*[1] For change in production activity, the indices with the closest relation to energy consumption in each industry were selected.

*[2] CO_2/MJ for fuel use and CO_2/kWh for electricity consumption.

Chart6　Keidanren's Commitment to a Low Carbon Society