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# JAPAN EMISSIONS TRADING SCHEME (GX-ETS)

<b>Years in operation</b>	<p>Phase 1 (FY2023-2025): Voluntary and trial.</p> <p>Phase 2 (FY2026- ): Cap-and-Trade programme with mandatory participation.</p> <p>The relevant bill for the compliance system was enacted on 28 May 2025, but the rules and guidelines will not become available until the end of the year.</p> <p>Some information contained in this Business Brief is from tentative government plans and is therefore subject to change.</p>
<b>Overall cap &amp; trajectory</b>	N/A
<b>Target(s)</b>	<p>Japanese NDC: 60% reduction from 2013 GHG levels by 2035, 73% by 2040</p> <p>ETS: N/A</p>
<b>Emissions reduced to date</b>	N/A
<b>Sectors covered</b>	<p>Phase 1: All sectors. Any registered Japanese company can participate.</p> <p>Phase 2: All sectors and entities with more than 100,000 tons of direct CO<sub>2</sub> emissions (average for the most recent three years). This amounts to an estimated 60% of Japan's national emissions.</p>
<b>GHGs covered</b>	<p>Phase 1: CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>, NF<sub>3</sub></p> <p>Phase 2: Only CO<sub>2</sub></p>
<b># of covered entities</b>	<p>Phase 1: About 800 entities volunteered to participate.</p> <p>Phase 2: An estimated 400 entities will be mandated to participate.<sup>1</sup></p>
<b>Allocation method</b>	<p>Free allocation: Compliance entities will report their emission targets based on the implementation guidelines, which will be available by the end of 2025. METI will allocate emission allowances to the entities free of charge in accordance with the guidelines in each year.</p> <p>In principle, the allocation will be calculated by multiplying the emission intensity determined by the benchmark of the sector by the three-year average of the base activity amount (FY2023-FY2025). Other factors may also be considered.</p> <p>For sectors where it is difficult to establish a benchmark, grandfathering (the allocation will be calculated by multiplying the average of the three-year emissions amount immediately prior to the start of the system by a certain reduction rate) will also be utilised.</p>

<sup>1</sup> (estimation by Ministry of Economy, Trade and Industry, METI)

<b>Trading rules</b>	<p>GX Acceleration Agency will operate the emissions allowance trading market.</p> <p>In addition to the compliance entities required to participate, financial institutions, trading companies and others can also participate in the trading market if they meet certain conditions.</p> <p>Upper and lower price limits for emission allowances will be established by METI. In case there is a shortage of supply, a compliance entity may be able to pay an amount equal to the price ceiling multiplied by their shortfall to meet their targets.</p> <p>The GX Acceleration Agency may support the purchase of emission allowances at the floor price if demand is too low.</p>
<b>Use of offsets and linking</b>	<p>J-Credits (domestic) and JCM Credits (under Article 6.2) may be used to calculate and report direct emissions levels, thereby effectively offsetting emissions. So far, no restrictions on % of credit use has been introduced.</p> <p>The GX-ETS will not be linked to systems in other jurisdictions.</p>
<b>Other features</b>	<p>Each entity will be required to open a holding account in METI's emission allowance accounting book to manage their holdings.</p> <p>Excess allowances in the account can be banked indefinitely.</p> <p>Borrowing is not allowed.</p>
<b>Penalties for non-compliance</b>	<p>If an entity fails to balance the account, it must pay the fine of 1.1 x the shortfall x the maximum price.</p>
<b>Use of revenues</b>	<p>METI plans to allocate emission allowances to entities under the compliance scheme free of charge until 2033, after which auctioning will be introduced. No revenue is expected till then.</p>

## MAJOR DEVELOPMENTS

The Ministry of Economy, Trade and Industry (METI) established an emissions trading scheme (GX-ETS) from FY2023 as a voluntary system (Phase 1) and is currently planning to transition into a compliance-based ETS scheme from FY2026 (Phase 2).

In August 2024 it was announced that a Carbon Pricing Expert working group will be convened to consider specific proposals for the compliance emissions trading scheme to be fully operational.

At the 4th meeting of the group on November 22, 2024, METI presented the draft of the basic concept for the compliance ETS to be implemented from FY2026, which includes following three key points:

1. Companies with direct CO2 emissions of 100k tons/y or more will be required to participate (The number of companies affected is estimated to be around 300 to 400, covering approximately 60% of Japan's GHG emissions).
2. Allocation of allowances will be set for specific industrial sectors, with some additional considerations.
3. A ceiling price will be introduced, and measures will be implemented to stabilise the market if prices fall below a set minimum.

At their 5th and last meeting on December 19, METI presented that the compliance ETS would become fully operational from Autumn of 2027 and the carbon credits eligible to offset would be limited to J-Credits (domestic) and JCM Credits (under Article 6.2) in accordance with the current GHG emission reporting system.

On December 26, 2024, the Japanese government published the draft of the GX2040 Vision, which includes some detailed concept on the ETS, and invited public comments on the draft until January 26, 2025. The GX2040 Vision was finalized and approved by the cabinet on February 18.

In section 6.2.2 of the finalized GX2040 Vision, it is stated that “J-Credits and JCM Credits may be utilized in the calculation of actual emissions.” This indicates that when the ETS is introduced, only the same offsetting methods as those for direct emissions in the “Adjusted Greenhouse Gas Emissions Calculation Method” in the official GHG emissions reporting system can be used, and A6 credits other than JCM credits and voluntary credits cannot be used for offsetting.

The proposed amendment of the GX Promotion Law which includes the implementation of the compliance ETS was approved by the cabinet in February 2025 and was enacted on 28 May 2025 without major changes from the draft. It will come into effect next fiscal year (April 2026).

By the end of 2025, the detailed rules and guidelines for the ETS will be disclosed, and companies will apply for allocation of allowances based on them. FY2026 will be the calculation period for emissions. The first emissions allocation will be made for FY2027, and the market will open around autumn of 2027.

## REFERENCES

Meeting materials of Carbon Pricing Expert WG in the Cabinet (Japanese)  
[https://www.cas.go.jp/jp/seisaku/gx\\_jikkou\\_kaigi/carbon\\_pricing\\_wg/kaisai.html](https://www.cas.go.jp/jp/seisaku/gx_jikkou_kaigi/carbon_pricing_wg/kaisai.html)

GX2040 Vision final (Japanese)  
<https://www.meti.go.jp/press/2024/02/20250218004/20250218004.html>

The proposed amendment of GX Promotion Law (Japanese)  
<https://www.meti.go.jp/press/2024/02/20250225001/20250225001.html>

The amended GX Promotion Law (Japanese)  
[https://laws.e-gov.go.jp/law/505AC0000000032/20260401\\_507AC0000000052](https://laws.e-gov.go.jp/law/505AC0000000032/20260401_507AC0000000052)

GHG emissions reporting system (Japanese)  
<https://policies.env.go.jp/earth/ghg-santeikohyo/manual.html>

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