

Administrative structures for the implementation of the ETS

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株式会社三菱総合研究所

Mitsubishi Research Institute, Inc.

Environment & Energy Research Division

Satoshi HASHIMOTO / Shuta MANO

Overview of JVETS

What is JVETS ?

Ministry of the Environment, Japan (MOEJ) has started JVETS to accumulate knowledge and experience about emissions trading in Japan and to support CO₂ emissions reduction activities by Japanese business operators.

Scheme Overview

The scheme aims to support voluntary CO₂ reduction activities by business operators and to ensure their target achievement in a cost-effective way using (1) a subsidy to facilities which contribute CO₂ emissions reduction, (2) participants' commitments to reduce CO₂ emissions below their base year emissions and (3) emissions trading.

Merits for scheme participants

- (1) Subsidy to facilities which contribute CO₂ emissions reduction
- (2) Opportunity to take third-party verifications of their CO₂ emissions
- (3) Sales revenues from their surplus emission allowances
- (4) Acquisition of know-how on domestic emissions trading
- (5) Acquisition of know-how on the established CO₂ emissions calculation system
- (6) Reduction of energy costs for JVETS participants

Key features of JVETS

(1) First carbon pricing and emissions trading in Japan

- Transactions are available on request for 10am - 6pm on business days
- Settlement is completed by emissions allowance transaction

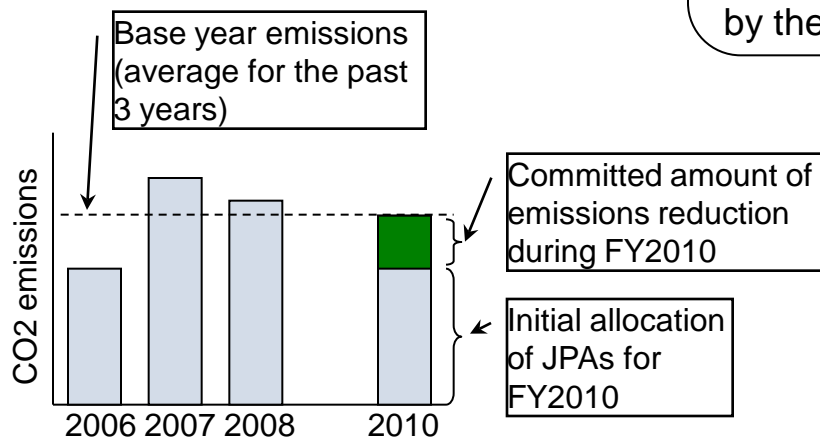
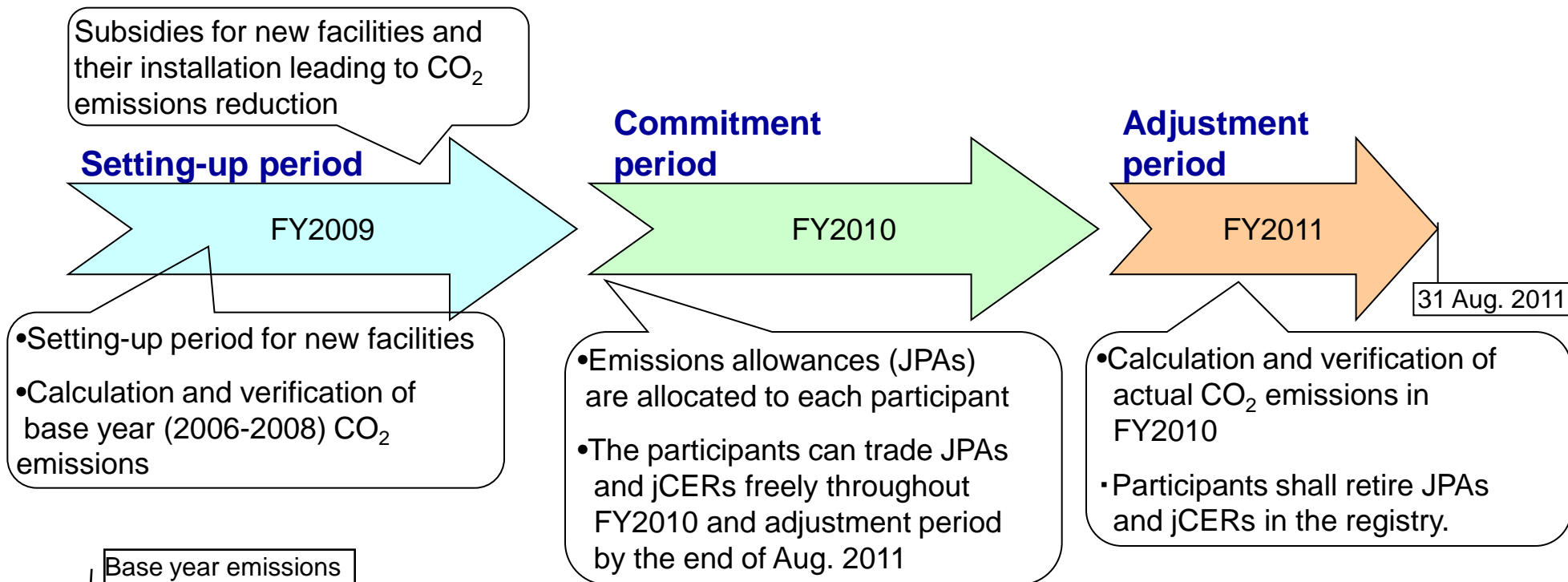
(2) Development of infrastructure for emissions trading

- IT system : the registry system, emissions management system, and trade matching system
- Guidelines : the monitoring and reporting guidelines, emissions verification guidelines
- Form of documents for a transaction contract
- Proposals for accounting treatment of emissions allowances in emissions trading

(3) Introduction of third-party emissions verification

- Third-party verifiers conduct emissions verification for participants' base year emissions and their reduced emissions
- Third-party verification ensures credibility of emissions allowances as “merchandise”

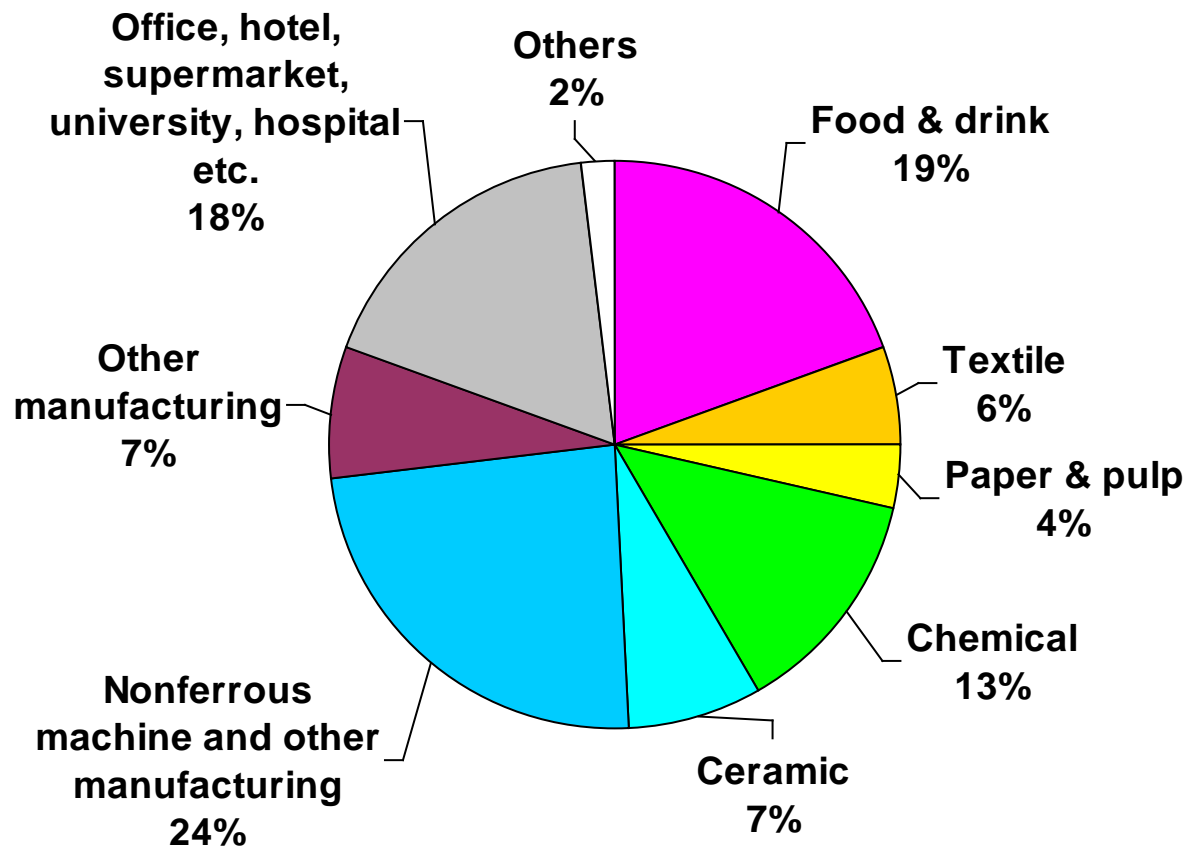
Schedule of JVETS (5th phase)



<Notes>

- After the final trading period, if participants cannot retire JPAs corresponding to the actual amount of their emissions, the subsidies paid should be returned.
- CERs from CDM projects also can be used for the retirement in the registry.

Industrial classification of JVETS participants (1st to 5th phases)



* If one company registered its two branches, they were counted individually.

Key guidelines in JVETS

Monitoring and reporting guidelines

- Play as an equivalent to EU-ETS Monitoring and Reporting Guidelines
- Suggest appropriate CO₂ emissions monitoring and reporting by the participants

Emission verification guidelines

- Encourage appropriate emissions verification for the third-party verifiers

- **Ensure consistency with International standards such as ISO 14064 series and ISO 14065**
- **Secure high accuracy in emissions calculation and verification**
- **Achieve cost effective verification which contributes to total cost cut of emissions reduction for the participants**

Result of JVETS

1st -3rd Phase : All participants cleared their target, because they acquired sufficient allowances by trading.

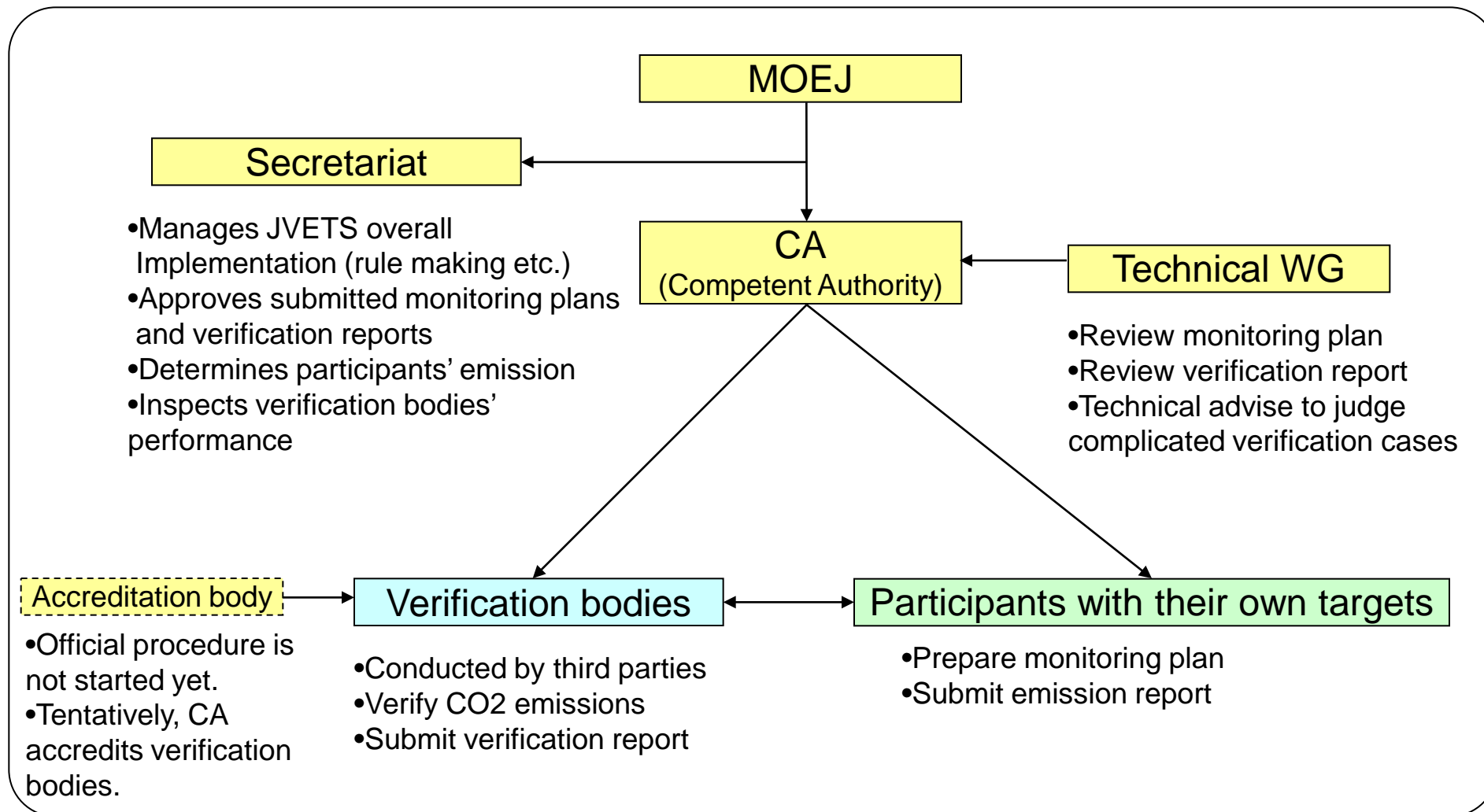
Phase	1 st	2 nd	3 rd	4 th	5 th
Commitment period	FY2006	FY2007	FY2008	FY2009	FY2010
Participants with target	31	61	61	81	57
Participants for trading	7	12	25	※	※
Total Base Year Emissions (kt-CO ₂)	1,666	1,123	1,661	3,366	516
Achieved reduction (kt-CO ₂)	377 (29%)	280 (25%)	383 (23%)	—	—
Committed reduction (kt-CO ₂)	273 (21%)	217 (19%)	135 (8%)	335 (10%)	96 (19%)
Number of total transactions	24	51	23	—	—
Total amount of traded JPA (kt-CO ₂)	82	55	34	—	—
Average JPA prices (about JPY/ t-CO ₂)	¥1,200	¥1,250	¥800	—	—

Rule of JVETS

Coverage	Voluntary Participation (Installation or Installations)
Compliance period	1 year
Gas covered	CO ₂ (Energy-related, Waste, Industrial process)
Target setting	Voluntary target setting
Allowance allocation	Allowance : Base year emissions – “Committed amount of emissions reduction during commitment period” Base year emissions : Average emissions of past 3 years (5th phase : FY2006-FY2009)
Offsets	Kyoto credits
Monitoring, Reporting, Verification	Participants are required to report their verified emissions to MOEJ based on monitoring and reporting guidelines, and emission verification guidelines.
Banking, Borrowing	Banking is allowed. Borrowing is not allowed
Penalty for non-compliance	The subsidies paid should be returned

Administrative Structure of JVETS

Operational Structure



Person in charge

■ Secretariat

- Ministry of Environment delegates administrative works to Mitsubishi Research Institute and MRI Research Associates.
- The administrative staff is consist of 4 regular staff members and 2 part-time staff members. (yet those staff members are not dedicated only for the JVETS)

■ CA (Competent Authority)

- CA is consist of 9 panel members. Most are academic experts (GHG, energy, economic, and accounting and audit) and one government officer (Tokyo).
- CA gives a kind of authorization for approval decisions. Practical operations are conducted by the secretariat and technical WG.

■ Technical Working Group (Reviewer)

- Technical WG is consist of 4 members. They are verifiers of the operational entity (OE).

Information: CA in Germany

- The German Emissions Trading Authority (DEHSt) is in charge of CA.
- CA consists of the section for specific sectors and the one for general support (legal, finance, IT and so forth).
- Total number of the staff is approx. 100 government officials.
- CA checks:
 - compliance of the target in the registry, and
 - verified emission reports (accuracy of calculation, deviation from historical emission trend and adaption of emission factor)
- CA can carry out inspection for verification performance.
- Verification bodies are accredited by the accreditation body.

Emission Reporting Step

Step 1: Identification of geographic boundary

- Identify the geographic boundary of the site by using public papers such as Fire Defense Law report, Factory Location Law report, etc.

Step 2: Identification of emission source

- Identify emission sources using document such as Fire Defense Law report, High Pressure Gas Safety Law, equipment list, purchase bill, etc.
- Identify emission sources owned/operated by other companies and omit them from the boundary.
- Among the emission sources inside the boundary, those which are below the emission threshold may be omitted.

Step 3 Determination of monitoring plan

- Determine the monitoring plan/monitoring point for each emission sources.
- Check if the monitoring plan meets the required tier, which is defined by the predicted activity level at each monitoring point.

Step 4 Establishment of monitoring/calculation structure

- Assign people responsible for monitoring and calculation.
- State “how” and “who” monitor the data, and “how” and “who” manage the quality of the calculation result.

Step 5 Monitoring and reporting

- Monitor the data according to the monitoring plan, calculate and report the CO2 emission amount using the monitored data.

Approval of monitoring plan by CA (before start of the commitment year)

* No approval procedure for baseline emission

Verification by OE

Approval of verification report by CA

Administrative work

■Rule making

- Operative provisions (prepare for each phase)
- Monitoring reporting guideline (latest version is 3.1)
- Verification guideline (latest version is 3.0)

■Review to Monitoring Plan, Emission report, Verification report

- Monitoring plan submitted by participants
- Emission report submitted by participants
- Verification report submitted by verification bodies

■Responding to inquiries from participants and verification bodies

- Frequent inquiries are: boundary, base year, monitoring approach (accuracy of measure (calibration)),

■Handling of Systems

- Registry system, GHG emissions management system and Trade matching system

■Holding CA

- 4 times a year

■Inspecting verification bodies' performance

Details of Operation 1

■ Check and approval of Monitoring Plan (MP)

■ Purpose

- Participants have to prepare a comprehensive plan for monitoring CO2 emission data (energy consumption data).
- Accurate MP helps participants to understand what data they have to collect for emission calculations.

■ Procedure

- Participants prepare and submit MP before start of the commitment period.
- Technical WG checks if a MP is developed consistent with the monitoring requirements (comprehensiveness, accuracy of measurement, calibration and etc.).
- If the MP does not meet the requirements, Technical WG requests participants to correct the MP.

■ Load

- 1-3 hours per 1 participant

Details of Operation 2

■ Check and approval of Verification report

■ Purpose

- It is crucial for emission trading to keep the quality of verification performance.
- Since there is no official accreditation process for verification bodies, the level of verification performance are still vary from verifiers to verifiers.
- Technical WG conducts sampling checks for verification reports.

■ Procedure

- Technical WG conducts sampling checks for verification report submitted by verification bodies.
- If the report does not meet requirements, Technical WG requests the bodies to correct the report.

■ Load

- 2-5 hours per 1 verification report

Future Challenges

■ Rule

- Improve the monitoring reporting guideline in order to minimize verifiers' expert judgments

■ CA

- Promote efficient operation through
- Consider who should be in charge of administrative work permanently (government agency or other institution?)

■ Verification

- Ensure quality control for verification bodies
- Start an official procedure for accreditation by Accreditation body (The Japan Accreditation Board for Conformity Assessment: JAB)