COLUMN:
RECENT DISCUSSIONS ON TRADE-RELATED CLIMATE MEASURES (TRCMS) AND JAPAN'S INITIATIVES

1. CURRENT STATE OF TRADE-RELATED CLIMATE MEASURES (TRCMS)

There are active International discussions on trade-related climate measures (TrCMs)

Carbon leakage is one of the issues being discussed. Although there is no internationally agreed definition, the term is understood as referring to the problem where, as a result of a country or region tightening its greenhouse gas emission regulations, (i) domestic products are replaced by imported products from, or (ii) domestic companies relocate their production bases or investment targets to, countries or regions with less stringent greenhouse gas regulations, and consequently, the country's stricter regulations do not contribute to the reduction of global greenhouse gas emissions. As a countermeasure to this issue, efforts to introduce and implement carbon border adjustment mechanisms (CBAM) are gaining momentum in the EU as well as in other countries and regions.

In the EU, CBAM has been in effect since October 2023. The region is currently undergoing a transitional phase, during which importers are not required to pay CBAM levies but are obligated to submit quarterly CBAM reports detailing the volumes of imported products subject to CBAM, (a part of both direct and indirect) emissions generated during manufacturing of those products, and the carbon prices paid in the exporting country. From January 2026 onwards, importers will be required to pay CBAM levies through the purchase of CBAM certificates. The sale of CBAM certificates is set to begin in 2027 (see also Part I, Chapter 4, EU "Carbon Border Adjustment Mechanisms").

In December 2023, the UK also announced its plan to introduce CBAM by 2027. The outline of the system was clarified in the UK government's responses to the public consultation initiated in March 2024 and in October of the same year. Products to be subject to the measure are five items consisting of aluminum, cement, fertilizers, hydrogen, and steel, and the scope of emissions subject to measurement will cover both direct and indirect emissions (emissions associated with electricity use). The basic approach to calculating CBAM levies is largely the same as that of the EU CBAM. However, there are differences such as the inclusion of fossil fuel levies imposed on electricity generation within the UK in addition to the UK ETS upon determination of the effective carbon price within the UK, which will be factored into the calculations. Additionally, the UK CBAM departs from that of the EU in that the exemption for small-scale transactions is set based on annual import amounts; if the import value of the subject product is GBP 50,000 or less per year, it is exempt from the obligation to pay CBAM levies (the EU CBAM is set to be amended to exempt annual imports of 50 tons or less from the CBAM levy payment obligation).

In Australia, the first Carbon Leakage Review was conducted in November 2023. The review examined multiple policy options from the perspective of preventing carbon leakage, and one of these options was the potential introduction of border carbon adjustment (BCA). Furthermore, the second Carbon Leakage Review was conducted in October 2024, during which a design proposal for BCA was presented as an option under consideration. The review prioritized cement and clinker as target products and specified that the scope of emissions to be measured should be limited to Scope 1 (direct emissions) as defined by the GHG Protocol. When compared with the EU and UK policies, a distinctive feature of the Australian system is that levies will only be imposed if the emissions intensity of the imported product is higher than that of domestically produced products and the carbon costs already paid for such imported product is lower than those that would be imposed domestically for the same amount of emissions (i.e. when carbon leakage is likely to occur).

Figure: Comparison of carbon border adjustment measures introduced/under consideration by the respective countries

Country/ Region	Introduction/Consideration Status	Target Items	Calculation Method of Levied Amounts	Deductible Extraterritorial Carbon Price	Exemptions (De Minimis)
EU	・**Implemented (transition period)** *Enforced May 2023, transition period commencing October 2023, levies to be imposed from January 2026	・Cement ・Aluminum ・Fertilizer ・Electricity ・Hydrogen ・Steel	・**Embedded emissions per product unit × Product import volume × CBAM certificate price** ・Emissions: **Actual emissions** or **default values*** *Set based on average embedded emissions by exporting country and product, for cases where actual emissions cannot be measured ・Scope: Direct and indirect emissions (Limited to direct emissions for aluminum, hydrogen, and steel for the time being) ・CBAM certificate price: Average closing price of the EU-ETS	・Only **effective carbon prices paid** are deductible	・**Imports of products not exceeding EUR 150 per shipment** are exempt
UK	・**Under consideration** *Considering enforcement from January 2027	・Cement ・Aluminum ・Fertilizer ・Hydrogen ・Steel	・**Embedded emissions of products × Effective domestic carbon price (UK CBAM rate)** ・Emissions: **Actual emissions** or **default values*** * For all exporting countries, set based on the weighted average embedded emissions according to the production volume of UK's major trading partners for each product, for cases where actual emissions cannot be measured ・Scope: Direct and indirect emissions ・UK CBAM rate: Calculated by taking into account the UK ETS	・Only **explicit carbon prices** are deductible	・Imports of **GBP 50,000 or less** are exempt

			price, allocation of free UK ETS, and domestic fossil fuel levies		
AUSTRALIA	・**Under consideration** *The details are from the Carbon Leakage Review which recommends policies to the government, and are not actual government policies	・Cement ・Clinker	・**Embedded emissions of products exceeding domestic emission allowances × Australian carbon unit price** (no levies if emissions are within allowances) ・Emissions: **Actual emissions** or **default values*** *Details under consideration ・Scope: Direct emissions ・Australian carbon unit price: Currently under consideration including the use of the most recent average value of Australian carbon credit units (ACCUs)	・Only **explicit carbon prices** are deductible	・Currently under consideration

2. Issues in TrCMs Concerning Methodologies For Measuring Embedded Emissions

As such, efforts to introduce and consider TrCMs, including CBAM, are gaining momentum. In this context, if each country's TrCMs were to require the measurement of embedded emissions of imported products etc. in different forms or methods, it would impose an excessive burden on businesses. This is particularly a significant issue for small and medium-sized enterprises and businesses in developing countries and could potentially lead to trade barriers. To minimize the costs of businesses, countries could adopt methods for measuring embedded emissions that are based on internationally recognized standards to the greatest extent possible upon the introduction of TrCMs.

Amid growing awareness of these issues, efforts are underway in both the public and private sectors to establish international standards for measuring GHG emissions and ensure interoperability between different national standards. For example, the OECD Inclusive Forum on Carbon Mitigation Approaches (IFCMA), established at the 2022 OECD Ministerial Council Meeting, is focusing on the energy-intensive trade exposure (EITE) sector, analyzing the current status and challenges of carbon intensity measurement methods at the sector and product levels. Its report[1] published in November 2024 pointed out that different standards and methods relating to carbon intensity could increase costs for companies, and emphasized the importance of international intergovernmental coordination. Additionally, at the 2023 G7 summit where Japan served as chair, it was agreed to commence efforts on implementing a data collection framework for GHG emissions from steel production and products under Japan's lead. Based on this agreement, efforts are underway to enable interoperability among five major measurement methods, including those based on ISO standards.

[1] OECD (2024), "Towards more accurate, timely, and granular product-level carbon intensity metrics: challenges and potential solutions: An IFCMA report", Inclusive Forum on Carbon Mitigation Approaches Papers, No. 4, OECD Publishing, Paris, https://doi.org/10.1787/87bbd6bf-en.

3. Discussions on TrCMs at International Fora

While TrCMs are introduced or considered in various countries, there have been criticisms particularly from developing countries, that these measures are not only aimed at addressing climate change but also at protecting domestic industries, thereby having the nature of trade protectionism. For example, India criticized the EU CBAM at the meeting of the WTO Committee on Market Access in October 2023, stating that it "imposes excessive burdens on small and medium-sized enterprises that will not be able to handle the complexity of tracking, measuring, and reporting emissions," and that it "cannot help but see [EU CBAM] as a trade protectionist measure."[2] Additionally, at the WTO Committee on Trade and Environment (CTE) in November 2023, China submitted a paper raising various issues regarding carbon border adjustments from perspectives such as design, effect on trade, environmental effectiveness, and inclusivity.[3]

Amid this situation, efforts are emerging to identify new directions for discussion. At the CTE in April 2024, the United States proposed holding discussions to enhance consistency and interoperability among different TrCMs in order to reduce unnecessary costs and trade tensions caused thereby.[4] Additionally, at the CTE meeting in June 2024, China proposed sharing practices of the respective countries regarding TrCM design with the purpose of establishing guidance for TrCM design, and holding discussion regarding the enhancement of consistency and interoperability of different TrCMs.[5] These proposals aim to address the issue of fragmentation of TrCMs and discuss ways to enhance their interoperability; however, they have not indicated any concrete measures for ensuring such interoperability.

4. Japan's Proposal on Methodologies for Measuring Embedded Emissions at the CTE

Against the backdrop of increased activity regarding the introduction and consideration of TrCMs as well as discussions on the matter at international fora, Japan submitted a proposal at the CTE in October 2024 regarding the establishment of international guidance on measurement methods for embedded emissions, with the aim of preventing the fragmentation of TrCMs between countries and the imposition of unnecessary trade restrictions.6 The proposal is summarized below.

<Background and Premise of the Proposal>

- As various trade-related climate measures (TrCMs) are being considered and introduced in many countries and regions, there is a broad interest to **discussions technical issues related to TrCMs on a pragmatic basis**, **avoid unnecessary impediments to trade**, and **take into account challenges faced by developing countries**.
- **Methodologies for measuring embedded emissions** have been repeatedly mentioned as an **important area where members can cooperate to avoid fragmentation of trade-related climate measures**, and it would be useful to establish a WTO framework in this area.
- Japan proposes a framework to guide members' decision-making on such methodologies, given their potential effect on international trade, **without discussing the formulation or adoption of standards for measuring embedded emissions *per se***.

<Framework for International Guidance >

■Section 1: Confirmation of Cross-Sectoral Commitments

[2] See WTO web page (https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/G/MA/M79.pdf&Open=True)
[3] See WTO web page (https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/CTE/W258.pdf&Open=True)
[4] See WTO web page (https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/CTE/W260.pdf&Open=True)
[5] See WTO web page (https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/CTE/W263.pdf&Open=True)
[6] See WTO web page (https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/CTE/W264.pdf&Open=True)

- **Adopting international methodologies for measuring embedded emissions where available.**
- **Implementing non-discriminatory application** and **avoiding unnecessary trade restrictions** and **excessive administrative burdens and costs** (including for small and medium-sized enterprises) with regard to methodologies for measuring embedded emissions.
- **Setting a de minimis value** to exclude small-scale trade.
- **Using default values** when precise methodologies for measuring embedded emissions are not practical or would impose an excessive burden.
- **Protecting** corporate **confidential information appropriately**.
- **Promoting technical cooperation for capacity building** regarding methodologies for measuring embedded emissions of trading partners.
- **Clarifying the relationship** with relevant **WTO agreements**.

■Section 2: List of Sector-Specific Measurement Methods (Appendix)

- When members **adopt internationally recognized standards** that are consistent with the elements of Section 1 (Cross-Sectoral Commitments) for specific sectors, they may **notify their commitments to the WTO based on this guidance**.

Discussions regarding ensuring the interoperability of TrCMs are ongoing at the CTE, and Japan intends to contribute to these discussions based on its proposal submitted in October 2024 with a view to achieving practical results.