

## Is Hatoyama Reckless or Realistic? Making the Case for a 25% Cut in Japanese Greenhouse Gases

Andrew DeWit, Iida Tetsunari

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The September 17 Nikkei Ecology (an ecology-oriented publication of Japan's business daily, the Nikkei) carries a Japanese article, "A 25% Cut is Both Possible and Desirable," (<http://eco.nikkei.co.jp/column/iida/article.aspx?id=MMECcm000015092009&page=1>) by Iida Tetsunari, head of the Institute for Sustainable Energy Policies ([http://www.isep.or.jp/e/Eng\\_isep.html](http://www.isep.or.jp/e/Eng_isep.html)) in Tokyo. Iida is an important figure in global climate change policy, being a contributor to the IPCC (Inter-Governmental Panel on Climate Change), REN21 (Renewable Energy Policy Network for the 21st Century), IRENA (the International Renewable Energy Agency), and other major international bodies. He is also a central figure in domestic policymaking networks, working on METI and Environment Ministry committees, advisory organs in Tokyo and Yokohama, and as a policy advisor to key

Diet members. His role is almost certain to be enhanced by Japan's recent "regime change" election, since the Democratic Party of Japan (DPJ) is eager to expand the share of renewables in Japan's energy mix. The DPJ's policy commitments in the environmental and energy fields are generally first-rank, and in sharp contrast to the weak and largely voluntary targets of the defeated LDP and its collaborators in the bureaucracy and big business.

Iida reports that when Japanese Prime Minister Hatoyama Yukio made his September 7 post-election reaffirmation of the DPJ commitment to slash greenhouse gas emissions 25% by 2020 relative to 1990 level emissions, it was at the Asahi World Environmental Forum 2009 (held in Tokyo). This international event featured talks by PM Hatoyama and Iida himself as well as such other notables as Yvo de Boer, Executive Secretary of the United Nations Framework Convention on Climate Change, and Rajendra Pachauri, Chair of the Intergovernmental Panel on Climate Change (<http://www2.convention.co.jp/asahi2009/en/speakers/index.html>). Hatoyama's commitment to

robust emissions reductions is a repudiation of former PM Aso Taro's much-ridiculed June 10 announcement of a 15% cut by 2020 (from 2005 emissions levels, or a mere 8% cut from 1990 levels). Hatoyama's target will become yet more formal on September 22 in New York, when he repeats it to the UN's first-ever formal meeting specifically devoted to climate change.



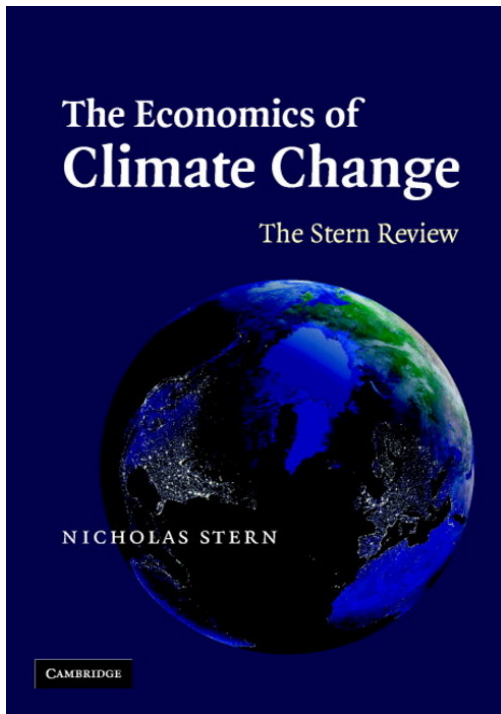
**Air pollution in Osaka**

The timing of Hatoyama's announcement was auspicious on a number of fronts. First, Hatoyama's statement is the strongest and clearest policy commitment of the new government. It is also a major break with prior policy that appears likely to help reshape policymaking in general. The DPJ seems ready to use energy and environmental policy to transform policymaking institutions as well as relations between elected politicians and some of the most powerful elements of the bureaucracy and business community, forcing the latter to understand that they are under new political leadership rather than facing yet another team of representatives with rubber-stamps in hand.

At the international level, the attentive public's response has been ecstatic. Danish Climate Minister Connie Hedegaard, who is slated to chair the December 7-18 UN Climate Change Conference in Copenhagen, perhaps summed it up best when she declared that "For a long time, everybody has been waiting for everybody else to move . . . the strong message from Japan is exactly what is needed." Japan's new leadership is acting at an especially critical time for the global community, as vested interests such as the coal lobby in America threaten to leave that country and the world rudderless at a point where the world desperately needs an effective post-Kyoto agreement.

Naturally, Japan's conservative business press has been wailing that the sky will fall. As Iida notes, bureaucrats, business and their allies in academe as well as the press opposed the DPJ targets during the campaign, predicting dire economic consequences. It was in fact a rather bizarre show to watch, with the past several years in mind. The Japanese press had largely given Koizumi and other LDP regimes a pass on their often slavish cooperation with the US Bush Administration's agenda of climate change denial and obstructing international agreement. Few remarked on Koizumi's spring 2001 readiness to toss the Kyoto Treaty if Washington so desired. And most of the Japanese press simply ignored the October 30, 2006, release of the Stern Review on the economics of climate change and the

global debate on costs that it engendered.

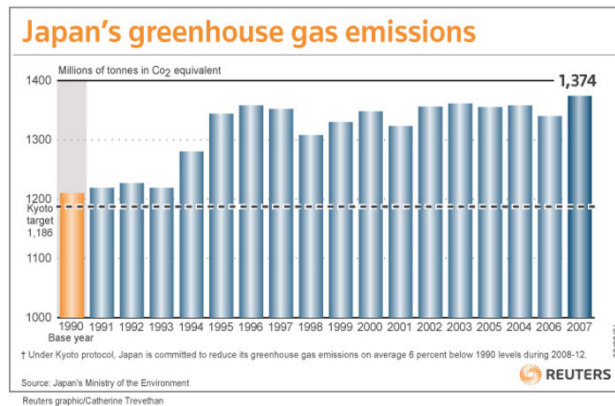


The party line, reflecting the militant patriotism of an LDP rotting from within, was that Japan was the global leader in energy efficiency, renewables, recycling, and virtually any other relevant field. But then in the spring of 2007, perhaps because the evidence simply became overwhelming, the Nikkei turned away from its previous boosterism and started warning that Japan was dangerously behind on climate change policymaking. Japanese readers began to learn of German and other successes in growing their green economy through feed-in tariffs, renewable portfolio standards, carbon taxes, emissions trading and the other public policies that are scarce in Japan but are reshaping other industrial economies (and this is now especially true of China, the dark horse of solar and wind, and

probably much else). Some of the best coverage of climate change and renewable energy initiatives started coming from the determinedly, and at times rabidly, right-wing Sankei newspaper - although on the night the DPJ won the election a Sankei "tweet" announced that the paper was going into "opposition" mode.

During the election campaign, most papers tacked back again, publicizing leaks from Kasumigaseki (the "foggy bottom" of the Japanese bureaucracy) and elsewhere, and ganged up on the DPJ's election promise of more aggressive emissions targets. Iida concisely points out the inadequacies of the disinformation that was deployed in this effort. The central thrust of the disinformation was the claim that Japanese companies had already invested hugely in efficiency and lower emissions, and would thus be unfairly penalized by higher targets. These claims were gross exaggerations and distortions on several fronts. Japanese firms slowed their efficiency and other clean investments in the 1990s as they fell into the long balance-sheet recession and deleveraging that followed the land- and stock-price bubble. Japan's energy efficiency, per-capita carbon emissions and other indices are among the best in the big OECD countries, but they are not keeping pace with leaders such as Germany. And since the Japanese economy was growing so slowly during the "lost decade" or "two lost decades" after 1990, with the population flattening out and

now shrinking, one has to wonder why all this alleged business effort has not seen Japan easily achieve its relatively light emissions targets under the Kyoto agreement. Japan is required to cut 6% by 2012 over its 1990 emissions levels, but as Iida points out, by 2007 Japan's emissions had grown by 9.2%.



### Japan's performance in reducing carbon dioxide emissions in recent years

Surely much of the problem is rooted in the LDP emphasis on making moral suasion of the public the centre of public policy, rather than adopting the kinds of targets and rules for industry that made Japan an environmental leader during the 1970s and 1980s. The business community was largely left to voluntary programmes and self-regulation. The monopolistic utilities and heavy emitters (steel, cement and the like) who dominate corporate Japan's peak business associations, particularly Keidanren, largely controlled the LDP, and thus virtually wrote this policy, need to understand that Detroit's dictation of fuel efficiency standards and related policies is perhaps the main reason the US

automotive sector is now a basket-case. Regulatory capture often simply greases an industry's road to ruin, with compliant regulators and paid politicians in hand.

Virtually none of the press let voters know that Germany and others have had stunning successes in using public policy to cut their emissions and build robust renewable sectors. And on the central point of emissions cuts, few saw fit to point out that the EU, in its entirety, stands ready to cut emissions 20% by 2020 (relative to 1990 levels) and will increase that to 30% if there is international cooperation. And as long ago as June of 2007, the German Environment Minister announced that Germany was ready to boost that cut to 40% by 2020. Indeed, Germany has already cut its emissions by about 21% relative to 1990 levels.

Contrast that with the inability of the United States to announce any real emissions target before the critical Copenhagen meeting in December. With the Obama administration embroiled in the backlash from caving in to Wall Street, the prospects for climate change leadership from the US look slim. The timing could not be worse. If no deal is struck in 2009, the international community may lose its best opportunity for a comprehensive agreement on emissions cuts and how to incorporate new and massive emitters such as China and India.

The DPJ's bold commitment not only reduces the

number of powerful nations lined up to engage in mere finger-pointing to excuse themselves from failure; it also means that one of the world's most innovative manufacturing sectors now has the political leadership that will be required to pioneer the technology necessary to lead the green revolution.

"A 25% Cut is Both Possible and Desirable"

Iida Tetsunari, Executive Director, Institute for Sustainable Energy Policies ([http://www.isep.or.jp/eEng\\_isep.html](http://www.isep.or.jp/eEng_isep.html))

Via Hatoyama's commitment to cut Japan's emissions 25% by 2020, and the accompanying DPJ policies that make it achievable, Japan has turned from being a laggard and a skeptic on climate change to being a leader. That bears repeating: Japan has abruptly and officially shifted from being a country that regularly received "fossil-fuel awards" at climate change meetings, due to its stalling tactics in the face of our extraordinary collective challenge, and is now a country from which much can be expected.

Why was Japan such a laggard in its approach to climate change? The key problem was the strength of an institutionalized bureaucratic ideology. International negotiations are the province of the Foreign Ministry, the Ministry of

Economy and Industry (METI) and the Ministry of the Environment. But METI's dominance has been and - for the present - remains extraordinary. As a result of METI's role, Japan's strategy in international negotiations that deal with climate change has stressed a very narrow focus on national interest as opposed to a wider effort at cooperating to create international norms. This approach was, moreover, grounded in the particular interests of METI as well as the vested interests of the industries it represents. This focus on emphasizing narrow sectoral interests forfeited the opportunity to build a larger national consensus around vigorous reduction of carbon emissions.

What has changed is Japan's new and serious political leadership. Suddenly, the retreat from the 1990 base-year approach through shifting the focus to 2005 is gone. So are all the other ploys, such as sector-based targets, to delay and distract international efforts on broad emissions reductions. The new Foreign Minister, Okada Katsuya, a strong proponent of tackling climate change, stresses that Japan's embarrassingly low targets must go back to the drawing board. In short, Japan finally has political leadership that understands the gravity of the climate-change challenge and is prepared to act.

In response to this principled activism by the new political leadership, on the same day PM Hatoyama made his announcement, METI's vice minister sought yet again to scupper it by

insisting that Japan was embarking on a very difficult road. Likewise, the business establishment has amplified criticisms through its various associations. Climate change and energy policy may very well become main battlefields of the new leadership's fight to wrest control of policymaking from the outmoded bureaucratic fiefdoms and the vested interests they represent.

On August 25, in the midst of the election campaign, the Sankei newspaper ran an article containing details from what appears to have been a leak from Tokyo's bureaucratic district, Kasumigaseki. The article referred to a METI assessment suggesting that the DPJ environmental program would impose extra costs of YEN 190 trillion (USD 1.7 trillion). In addition, the per-household cost for Japan would allegedly increase by YEN 360,000. These were in fact leaks from the previous government's "Study Group on Mid-term Targets" and should have been treated with deep skepticism.

Let us first give the DJP's bureaucratic opposition the benefit of the doubt, and assume that the figures are in fact correct. If so, the extra cost of YEN 190 trillion would represent investment and consumption that would grow the green economy by about 3% of GDP per year. In addition, the per-household cost of YEN 360,000 was used to give the impression of impending poverty, but that is hardly realistic.

One needs to look at the full study to see the game the leakers were playing. The study sketched the economic impact, over the 2005 to 2020 period, from various emissions reductions targets. The study concluded that with only a 4% emissions cut the economy would grow by over YEN 650 trillion between 2005 and 2020. The study also projected that former PM Aso's policy of cutting 15% by 2020 (relative to 2005 levels) would cost YEN 17 trillion in lost growth, compared to the 4% cut. And it concluded that a 25% cut (by 2020, and relative to 1990 emissions) would cost YEN 97 trillion in economic growth.

But even if we accept these calculations as correct, the study still expects YEN 630 trillion in economic growth from 2005 with a 25% cut in emissions. That means that even with the Hatoyama regime's cuts, per capita disposable income would rise by YEN 760,000, or about USD 6000. The media failed to mention that aspect of the study.

Now let's suspend the benefit of the doubt conferred in the previous discussion. Economic studies are only as credible as the data and assumptions they are based on, and hence deserve close scrutiny. Like most others, especially the press, the bureaucrats neglected to consider various problems with the data used and the design of the studies. For one thing, the question of whether or not the national economy will grow or contract is treated without any international context. But as we know from the

October 2006 Stern review on the economics of climate change, failure to take action threatens the viability of every national economy as part of the global system.

Second, as we saw above in the 2005 to 2020 assessments of costs, one of the assumptions in the modeling is that cutting emissions necessarily results in lower GDP over the ensuing years. But this is not at all how economies adapt and evolve to price changes. It is, rather, based on a groundless assumption that the industrial and social structure remains unchanged. In contrast to this surprisingly reductionist perspective, consider the work of mainstream and highly respected scholars like Michael Porter, who in 1995 wrote with a colleague "Toward a New Conception of the Environment-Competitiveness Relationship." They argued persuasively that dealing with the costs of negative externalities can spark innovation that leads to economic growth rather than economic loss.

To be sure, it will certainly not be easy to achieve the target of a 25% cut by 2020. Due to the lack of an effective policy since the Kyoto Accord, Japan's 2007 emissions rose, relative to 1990 levels, by 9.2%. But a 25% emissions cut can be achieved. What sort of policies and what sort of processes need to be put in place to achieve the target? The new coalition has to revise midterm targets, set up a basic law on emissions, facilitate the diffusion of renewable energy, and the like. Essential means to these ends include an

environmental tax, an emissions trading scheme, incentives for green technological innovation, and a comprehensive feed-in tariff.

And what of the process? It is essential to transform the cozy domains of bureaucratic leadership and move towards political leadership in the environmental and energy policy fields. We can learn from the Obama regime in the United States, through its appointment of a global warming "dream team." In the Japanese context, one critical institutional change might be setting up a climate change and energy strategy committee on the new national strategy commission.

Among the first tasks of the new leadership will be to temporarily freeze the feed-in tariff that METI drafted and that is to take effect on November 1 of this year. Feed-in tariffs are enormously important devices for supporting the uptake of renewable energy technology through subsidizing household and other production for the electrical grid. The tariff pays an increment above the base price of electricity to foster a stable, long-term market for renewable power and thus accelerate technological improvement and its dissemination. The scheme currently in place was adopted with incredible haste and only seven days of public comment. It sorely needs fixing.

One of the reasons for freezing the scheme is that it conflicts with the election promises of the new

administration. The METI scheme is essentially limited to solar energy. But the Democratic Party promised a comprehensive feed-in tariff for all renewable energy sources (i.e., solar as well as wind, biomass, marine and the like). Allowing the feed-in tariff to go ahead as is would be to allow vested interests in the bureaucracy and energy sector to retain control over policymaking in this strategic area.

It is ironic, perhaps, that I should call for a freeze of the feed-in tariff policy I have been advocating for over a decade. But it is essential to get a real, comprehensive feed-in tariff rather than accept the half-baked scheme cooked up by METI's internal politics and client-list of vested interests.

As the preceding discussion makes clear, I believe that it is critical to take issue with a number of economists seeking to raise doubts about the reality of global warming and discredit policies to deal with it. For example, Ikeda Nobuo, in the November 10 Japanese edition of Newsweek, insists there is no real reason to believe that global warming is actually occurring. Ikeda also claims that the costs of cutting carbon emissions are being overlooked, and that Japan will lose 1% of its GDP through attempting to fulfill robust carbon reduction targets. He warns that massive costs will be visited on the public through reduced employment and the like. He even depicts the carbon reduction promise as cheap populism, backed up with an agenda for a controlled economy. This kind of nonsense

should be ignored. There is certainly healthy debate in the scientific community over the mechanisms and other aspects of global warming. But this scientific debate is quite far removed from the kinds of cheap imitations of so-called scientific scrutiny that still pour forth from some economists and others who really do not understand the debate. The important point from the perspective of a public policy framework is the precautionary principle, which cautions us to err on the side of caution. Gambling with the future of the human species and the earth is not wise. When intellectuals seek to advance policy studies in this critical area of climate change they are well advised to understand the consensus that has developed within the scientific community and use its insights to ground their assertions within policy studies. At the very least, those who aspire to the role of policy intellectuals have a duty to acquaint themselves with the full body of evidence.

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