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Recent Developments in Japanese/Global Climate Change/Carbon Credit Regulations

Focusing on Japanese ETS (GX-ETS) and other developments

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Contents

1. Introduction
2. Recent developments in Japan
3. Recent developments outside of Japan
4. Final remarks

1. Introduction

With the inauguration of the Trump administration in the United States in January 2025, the ideas of prioritizing carbon net-zero (carbon neutrality) and emphasizing fossil fuels have once again become intertwined. However, if we view carbon net-zero (carbon neutrality) and green transformation (GX) not as narrow climate change measures, but as part of a medium- to long-term growth strategy, the trend toward carbon net-zero is likely unstoppable, particularly in the EU and Japan. For instance, the Amended GX Promotion Act of 2025 (as discussed below) will introduce a variety of mechanisms to promote corporate decarbonization loans and investments. With the inauguration of the Takaichi administration in Japan in October 2025, the Takaichi administration has endorsed the importance of the GX policies at the GX Implementation Committee (GX-jikkou-kaigi) (chaired by the Prime Minister) at 16th GX Implementation Meeting on December 22, 2025 while it has published new policies to introduce more regulations over mega solar projects. On the international stage, at forums such as COP30, China is leading the global debate on climate change. While the existing fossil fuel-based economy may persist in the short term, the medium- to long-term outlook points to the expansion of a carbon net-zero

economy (green economy) centered on renewable energy. Japanese companies may therefore consider expanding their market share in the carbon net-zero economy (green economy) within and/or outside of Japan as one of their growth strategies.

In this newsletter, we will provide an overview of climate change and carbon credit regulations in Japan and abroad, and highlight some of the issues that both Japanese and international players should be aware of.

2. Recent developments in Japan

2.1. Japanese ETS (GX League Phase 2)

On May 28, 2025, the Act on the Promotion of Smooth Transition to a Decarbonized Growth-Oriented Economic Structure was amended (the "Amended GX Promotion Act of 2025"), and it has been decided that the Japanese ETS (GX-ETS), a mandatory Cap & Trade scheme similar to the EU ETS, will be implemented beginning April 1, 2026. This section provides an overview of the GX-ETS under the Amended GX Promotion Act of 2025, a summary of discussions on the GX-ETS details held by the GX-ETS Subcommittee (*haisyutsuryoutorihiki-shou-iinkai*) (the "GX-ETS Subcommittee"), and an outline of deliberations by the Working Group on Financial Infrastructure for Carbon Credit Transactions (Financial Services Agency).

2.1.1. An overview of the GX-ETS under the Amended GX Promotion Act of 2025

The Amended GX Promotion Act of 2025 (in 2.1.1, the "Amended GX Promotion Act (2025)") requires Japanese companies emitting greenhouse gases ("GHGs") above a certain threshold (approximately 300-400 companies) to participate in the GX-ETS, as is the case under the EU ETS. The GX-ETS is expected to cover nearly 60% of Japan's GHG emissions. An outline of the GX-ETS is shown in the table below (please note, however, that the relevant cabinet office orders and government guidelines have not yet been published, and the details thereof remain to be determined):

Item	Details
(i) Compulsory participation in the GX-ETS	<ul style="list-style-type: none">Business operators whose average direct GHG emissions (Scope 1 Emissions) over the most recent three years are 100,000 tons or more annually (CO₂ equivalent) ("Large Emitters" or "Carbon-Net-Zero-Focused Growth Investment Companies") will be required to participate in the GX-ETS (Article 33, etc. of the Amended GX Promotion Act (2025)).
(ii) Allocation of Allowances free of charge	<ul style="list-style-type: none">The Minister of Economy, Trade and Industry will allocate to Large Emitters emissions allowances (<i>haishutsu-waku</i>) ("Allowances") free of charge in accordance with the allocation policy (<i>jisshi-shishin</i>) ("the "Allocation Policy") that takes industry characteristics into account (Article 34 of the Amended GX Promotion Act (2025)).

Item	Details
(iii) Trading of emissions allowances	<ul style="list-style-type: none"> ■ Emissions allowances may be traded on the market (Article 38 of the Amended GX Promotion Act (2025)). ■ The GX Accelerating Agency (<i>GX-suishin-kikou</i>) will administer the allowance trading market (<i>haishutsuwakutorihiki-shijou</i>) to ensure its fair and stable operation (Articles 77 and 111, etc. of the Amended GX Promotion Act (2025)). ■ To enhance the predictability of investment decisions by Large Emitters and to prevent excessive impacts on the national economy, the maximum and minimum prices for emissions allowances will be determined by the government (Articles 39, 40 and 117, etc. of the Amended GX Promotion Act (2025)).
(iv) Obligation to pay compensation for unamortized emissions allowances	<ul style="list-style-type: none"> ■ If a Large Emitter exceed its GHG emissions allowances, it will be obligated to pay compensation for unamortized emissions allowances (Article 41 of the Amended GX Promotion Act (2025)). ■ The amount of compensation for unamortized emissions allowances will be calculated using the following formula (Article 41 of the Amended GX Promotion Act (2025)): $[\text{Volume of unamortized emissions allowances} \times \text{Reference maximum trading price} \times 1.1]$
(v) Other	<ul style="list-style-type: none"> ■ Ownership of emissions allowances will be determined based on the records in the emissions allowances account book (Article 46 of the Amended GX Promotion Act (2025)). ■ The transfer of emissions allowances will not take effect unless increased emissions allowances are credited to the transferee's account through book-entry transfer (Article 51 of the Amended GX Promotion Act (2025)). ■ A corporate account holder (<i>houjintou-hoyu-kouza-meiginin</i>) or the GX Accelerating Agency to whom increased emissions allowances are credited may acquire such emissions allowances in good faith, except in cases of bad faith or gross negligence (Article 54 of the Amended GX Promotion Act (2025)). ■ The Amended GX Promotion Act (2025) currently contains no provision prohibiting the creation of pledges over emissions allowances.

As described above, if a Large Emitter emits GHGs in excess of emissions allowances allocated free of charge, it has to bear certain economic burdens, such as procuring emissions allowances on the market (item (iii) in the table above) or paying compensation for unamortized emissions

allowances (item (v) in the table above). These burdens may make it easier for Large Emitters to justify providing loans to, or making investments in, carbon-net-zero technologies and services that reduce GHG emissions, compared with the economic consequences of continuing their existing business model.

2.1.2. GX-ETS Subcommittee

The details of the Allocation Policy are crucial for Large Emitters since the Allowances shall be allocated to Large Emitters in accordance the Allocation Policy. In this regard, the GX-ETS Subcommittee has been discussing the details of the Allocation Policy and published its suggestions to the GX Implementation Meeting on December 19, 2025 on (a) the details of the Allocation Policy and (b) the suggestions of price floor/price ceiling of Allowances for the fiscal year of 2026. Based on materials published as of the time of writing this newsletter, the main points of the GX-ETS Subcommittee's discussions are as follows:

- There are two methods for calculating emissions allowances: (i) the benchmark method, the principal approach under which industry-specific benchmarks, particularly in energy-intensive sectors where there is a greater need to consider industry characteristics, are established, and emissions allowances for individual companies are calculated based on those benchmarks; and (ii) the grandfathering method, permitted only for "industries where benchmarks are difficult to set."
 - (i) Benchmark method: a method under which the top X% emission intensity within the same industry is set as the benchmark.
 - (ii) Grandfathering method: a method under which the benchmark is set based on each company's historical emissions.
- In formulating "Guidelines for Allocation of Emissions Allowances," the following matters will be taken into consideration:
 - (i) Early reduction efforts: Allocations will be increased to reflect emission reductions achieved prior to the start of the scheme that exceed the base reduction rate.
 - (ii) Risk of overseas relocation of manufacturing bases: For business operators manufacturing goods with potential for overseas relocation (i.e., tradable goods), additional emissions allowances will be allocated, taking into account the cost of procuring emissions allowances as a percentage of revenues.
 - (iii) Status of research and development investment: Allocations will be increased in proportion to the amount invested in GX-related research and development activities in the previous fiscal year.
 - (iv) Fluctuations in activity levels: Allocations will be adjusted in the event of establishment or closure of offices, or significant changes in production volumes (approximately \pm 7.5%).
- Under the GX-ETS, Large Emitters that emit GHGs in excess of their emissions allowances will be permitted to use external offsetting credits, such as J credits and JCM credits, for up to 10% of their actual GHG emissions.
- The suggested price floor/price ceiling of Allowances for the fiscal year of 2026 are JPY 1,700 for the price floor and JPY 4,300 for the price ceiling.

2.1.3. Working Group on Financial Infrastructure for Carbon Credit Transactions

The Working Group on Financial Infrastructure for Carbon Credit Transactions (the "Financial Infrastructure Working Group") discussed the direction for establishing trading infrastructure related to carbon credits. The results were published as the "Report from the Working Group on Financial Infrastructure for Carbon Credit Transactions" on June 20, 2025 (in 2.1.3, the "Report"). The Report's summary is as follows:

"Carbon credits," in the broadest sense, are understood to mean "instruments that add economic value to GHG emission reductions, etc." This concept may include (i) emissions allowances under the GX-ETS, and (ii) external credits such as J credits, JCM credits, and voluntary carbon credits (VCCs). When companies engage in "carbon credit transactions," they may be involved in various phases, such as structuring, selling, brokering, purchasing, and offsetting their GHG emissions against carbon credits. In light of the above Report, businesses should take sufficient measures while keeping the following points in mind, especially when involved in structuring, selling, or brokering carbon credits:

- Information disclosure: It is important that information that may influence the decision-making of transaction participants be fully disclosed across all aspects, including (i) criteria setting, and information disclosure by registry administrators, (ii) information disclosure on trading platforms, (iii) explanations by sellers to buyers, and (iv) information disclosure by buyers regarding offsets.
- Conflict-of-interest prevention: It is essential that relevant parties take appropriate measures to prevent conflicts of interest, particularly when a single party plays multiple roles.
- Accountability: Appropriate explanations must be provided not only about the carbon credits themselves but also about how credits are incorporated and the merchantability of incorporated credits when offering related products, tokens, or services incorporating carbon credits.
- Standardization of transactions: To overcome market fragmentation and to expand and scale up the market, transaction standardization (including standardized contracts) is required.
- Information disclosure: Based on existing disclosure standards, appropriate information disclosure regarding carbon credits used for offsets is recommended.

2.2. Disclosure regulations

The Financial System Council of the Financial Services Agency established the "Working Group on Sustainability Disclosure (Reporting) and Assurance" ("Disclosure WG") to discuss the disclosure of sustainability information and how it should be verified based on the proposed standards disclosed by the Sustainability Standards Board of Japan on March 29, 2024. Below is the summary of the discussions at the Disclosure WG:

- From fiscal 2027, companies listed on the Tokyo Stock Exchange Prime Market with market capitalization of 3 trillion yen or more will be required to disclose total GHG emissions. The roadmap disclosed by the Disclosure WG is shown below:

Application of Disclosure Standards	<p>□ Prime market-listed companies, promoting constructive dialogue with global investors, will be required to prepare annual securities reports in accordance with the SSBJ Standards, starting from companies with larger market capitalization.</p> <p>□ Application schedule based on market capitalization of prime market-listed companies:</p> <ul style="list-style-type: none"> i. ¥3 trillion or more: Fiscal year ending March 2027 ii. Between ¥1 trillion and ¥3 trillion: Fiscal year ending March 2028 iii. Between ¥500 billion and ¥1 trillion: Fiscal year ending March 2029 <p>The timing for companies in category iii. may be further discussed, while considering domestic and international developments.</p> <p>(Note1) Application for other prime market-listed companies will be determined later, based on disclosure practice and investor needs.</p> <p>(Note2) Market capitalization will be determined including the average of the last five fiscal year-ends, subject to further review.</p> <p>□ As a transition relief, an entity is allowed to report sustainability disclosures after the financial statements for two years.</p> <p>□ The extension of the submission deadline for annual securities reports will continue to be discussed at the working group.</p>
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Source: Disclosure WG Interim Discussion Summary "Roadmap on Sustainability Disclosure and Assurance" (Financial Service Agency, July 7, 2024)

- Safe harbors need to be reviewed in particular for disclosure of Scope 3 Emissions in addition to the statements regarding the liability for false statements concerning future information in the Guideline for the Disclosure of Corporate Affairs 5-16-2, which were added by the amendment that came into effect on January 31, 2023.
- A third-party assurance system will be established to ensure the accuracy of sustainability information disclosure. For smooth introduction of the third-party assurance system without imposing excessive burdens on companies, the level of assurance will be limited assurance, and transition to reasonable assurance will not be considered.

2.3. Practical issues on carbon credit trading

2.3.1. Legal nature

On June 27, 2024, the Financial Law Board published the "Summary of Discussion: The Status of Carbon Credits under Private Law, Focusing on Their Legal Nature and the Legal Principles of Attribution and Transfer" to address issues under civil laws concerning external credits other than emission allowances (baseline & credit-type credits such as J-Credit). While the discussions are summarized as below, it may be difficult to conclude legal discussions due to their legal nature; hence, unified laws are sought for various emissions allowances and carbon credits.

- It is reasonable to view the nature of carbon credits under private law as a type of proprietary rights other than those explicitly set forth under law, such as real rights (*bukken*) and claims (*saiken*).
- With regard to transfer of carbon credits, it is in line with previous trading practices to consider recording of accounts as a requirement to validly effect the transfer of rights.
- It is considered difficult to create a pledge (*shichiken*) over carbon credits since currently, there is no public notice system for it. Nevertheless, it is considered possible to create a security by way of assignment (*joto tanpo*).

2.3.2. Overview of offset carbon credit markets in Japan

After implementation of GX-ETS, it is likely that Large Emitters will be able to sell and/or purchase offset carbon credits (including Allowances) by way of transactions as set out below, which are subject to details of cabinet orders of the Amended GX Promotion Act (2025) and/or rules of relevant platforms which will be published during 2026.

- Market Trading: Offset carbon credits can be traded at (a) GX Acceleration Agency (GX-*suishin-kikou*) in respect of Allowances and (b) Tokyo Stock Exchange in respect of J-credits.
- OTC Trading: Offset carbon credits can be traded outside of the trading platform as set out above since they are currently **not** regulated products (such as, financial products), provided that it shall be subject to on-going discussions concerning prohibition of OTC transactions (i.e., obligations to centralize trading at exchange only) in connection with Allowances. In this regard, it is scheduled that offset carbon credit OTC trading settlement services are scheduled to be provided by Tokyo Stock Exchange in March 2026 which are expected to activate OTC trading.

2.3.3. Contract templates

For carbon credit trading outside Japan, the International Emissions Trading Association (IETA) and the International Swaps and Derivatives Association (ISDA), for example, have published contract templates (in English) to help expedite transactions and reduce transaction costs. As carbon credit trading in Japan is expected to become more popular, contract templates written in Japanese and governed by Japanese law are desired.

2.3.4. Dealing with greenwashing risk

Greenwashing (i.e., claiming an environmental improvement effect where no such effect actually exists) by a company may give rise to risks that consumers and investors are unable to make appropriate consumption and investment decisions, thereby exacerbating environmental problems, and that the company may lose the trust of consumers and investors.

In Europe, regulations targeting greenwashing has been developing. In March 2023, the European Commission published a “proposal for Green Claims Directive,” which requires that environmental claims be based on recognized scientific evidence and latest technology, that the impact be assessed throughout the entire life cycle of the product or service, and that it be clearly stated whether the claim applies to the entire product or only to a part of it. In September of the same year, the EU Council and the European Parliament reached a provisional agreement on amendments to the Unfair Commercial Practices Directive (UCPD) and the Consumer Rights Directive (CRD).

While Japan has not currently established any comprehensive regulations on greenwashing as in Europe, in the case of advertisements claiming “carbon neutral,” for example, it will be necessary in light of the Act against Unjustifiable Premiums and Misleading Representations, Guidelines for Environmental Representations (Ministry of the Environment, March 2013), and other laws and regulations, to take certain measures such as establishing objective evidence for claiming “carbon neutrality” before making advertisements.

3. Recent developments outside of Japan

3.1. Paris Agreement/COP30

The 30th meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP30) was held in Belém, Federative Republic of Brazil, from November 10, 2025. This year marked the 20th anniversary of the Kyoto Protocol's entry into force and the 10th anniversary of the adoption of the Paris Agreement, making COP30 discussions a focal point of global attention.

On November 6, just before the opening of COP30, the Tropical Forest Forever Facility (TFFF), a fund aimed at protecting forests in developing countries, was launched at the COP30 Leaders' Summit.

It was agreed to strengthen efforts to curb methane emissions, primarily in the fossil fuel sector, under the Global Methane Pledge (GMP). The updated report on methane emissions was also released, highlighting both the progress and remaining challenges toward achieving the GMP's goal of reducing emissions by 30% by 2030.

At the conclusion of the session, the Belém Political Package was adopted, having the Global Mutirão Decision at its core. The Global Mutirão Decision urges countries that have not yet submitted their NDCs or long-term strategies to do so promptly. Furthermore, the "Global Implementation Accelerator" and the "Belém Mission to 1.5" frameworks were launched to support the acceleration of NDC implementation among member states.

The Belém Political Package also addressed the adoption of a just transition mechanism and included the convening of a high-level round table to promote discussions on Article 2.1(c) of the Paris Agreement, which mandates aligning financial flows with the policy toward low-emission and climate-resilient development. However, the agreement document did not include explicit obligations regarding the phase-out of fossil fuels, which drew criticism from a number of countries.

Another notable development was the launch of the Open Coalition on Compliance Carbon Markets ("OCCCM") proposed by Brazil. The OCCCM aims to promote trading of mutually usable credits between the emissions trading systems (ETS) of each country. It is expected to enhance the liquidity in the carbon credit market through establishment of common standards across different systems to ensure greater transparency and reliability.

At the 29th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP29) held in Baku, the Republic of Azerbaijan in November 2024, the Parties agreed on the detailed rules for the operation of Article 6 of the Paris Agreement and realized the complete operation of the mechanism under Article 6. At COP30, the institutionalization of international cooperation under Article 6 returned to the forefront, with agreement reached on the development of a framework for the implementation and operation of Article 6.2 (the transfer of emission reductions between countries) and Article 6.4 (the UN-managed market mechanisms). These developments further strengthened the foundation for a new global carbon market mechanism to replace the previous Clean Development Mechanism (CDM). It was also decided to that the functions of the CDM would be phased out by stages.

3.2. Developments in the United States (under the second Trump administration) and their impact on Japanese companies

3.2.1. U.S. developments (under the second Trump administration)

On January 20, 2025, the second Trump administration assumed office. This represents a marked shift from the previous Biden administration's approach, which prioritized climate change initiatives. The current administration has been systematically eliminating climate-related regulations and promoting policies aimed at increasing fossil fuel production.

(a) The second withdrawal from the Paris Agreement

Although the initial Trump administration withdrew from the Paris Agreement in November 2020, the United States re-joined the Paris Agreement in February 2021 under the subsequent Biden administration. On January 20, 2025, the day of President Trump's second inauguration, the President signed an executive order directing the United States' withdrawal from the Paris Agreement once again.

(b) Deregulation and promotion of fossil fuels

The second Trump administration has consistently placed a high priority on achieving "energy independence" through the use of fossil fuels, actively pursuing significant relaxation of environmental regulations. In January 2025, it declared a "national energy emergency" and implemented measures to bypass environmental review procedures to accelerate oil and gas production, including expediting drilling on Federal lands. It has also issued numerous executive orders aimed at relaxing regulations on fossil fuel extraction and restricting clean energy initiatives.

(c) Attacks on clean energy

The second Trump administration has adopted a critical stance toward clean energy initiatives, such as reducing vehicle emissions and promoting the adoption of electric vehicles (EV). It is also moving to reduce or eliminate federal tax credits and subsidies for renewable energy projects, including wind and solar power. Furthermore, the Trump administration has intensified pressure against offshore wind power. Nine already permitted projects with a total generating capacity of approximately 12.5GW (equivalent to power for nearly 5 million households and with the potential to create about 9,000 jobs) are under investigation or have been halted or paused.

(d) Censorship and weakening of climate science

The second Trump administration has been the subject of criticism regarding its alleged efforts to censor and undermine climate science. Just one month after taking office, the administration implemented massive layoffs at the U.S. Environmental Protection Agency ("EPA") and the National Oceanic and Atmospheric Administration ("NOAA"), reduced budgets for key projects, and appointed Mr. Lee Zeldin, who prioritizes "Energy Dominance," as EPA Administrator. The Trump administration also deleted a website that had posted major U.S. government reports on the climate crisis.

- (e) State-level climate-related legislation also being targeted

The second Trump administration has also targeted state-level climate-related laws. In May 2025, it sued four states led by the Democratic party to prevent them from enforcing climate change legislation and pursuing lawsuits against the fossil fuel industry over the harms caused by climate change.

3.2.2. Impact on Japanese companies

A significant number of withdrawals from the Net-Zero Banking Alliance ("NZBA") and the Net Zero Asset Managers ("NZAM"), primarily in the United States, began in early December 2024, prior to the inauguration of the second Trump administration. However, companies that withdrew from the NZBA or NZAM have not ceased all activities aimed at achieving a decarbonized society. The second Trump administration's environmental regulatory review is expected to have an impact on Japan's automotive industry. The EV tax credit, which was established under the previous administration's Inflation Reduction Act ("IRA") was eliminated at the end of September 2025. Furthermore, penalties for noncompliance with carbon dioxide (CO2) emissions or zero emission vehicles (ZEV) regulations have effectively been lifted.

As discussed above, while actions running counter to climate change measures continue at the U.S. federal level, the voluntary carbon market remains active. This is evidenced by continued investment in voluntary carbon credits (VCCs) by major U.S. tech companies, the advancement of RE100, and the ongoing and expanded activities of Verra, a major U.S.-based VCC provider. Japanese companies making new climate-related investments or financing in the United States should closely monitor regulatory developments, while also assessing the U.S. market from multiple perspectives, including investment opportunities presented by the growing voluntary carbon market.

3.3. Developments in EU

3.3.1. Climate change deregulations in general

In the EU, deregulation of climate change measures is becoming apparent. The EU had previously aimed for net-zero GHG emissions by 2050 under the European Green Deal ("EGD") formulated by the European Commission (EC) in December 2019.

Nonetheless, the "Future of European Competitiveness" (also referred to as Draghi Report), which was announced in September 2024, argues the need for prioritizing enhancement of the EU's competitiveness. In addition, the "Competitiveness Compass", which was announced in February 2025, presented specific initiatives to boost competitiveness, and in particular, promote simplification of regulations and support for industries, while implementing the EGD policies. Furthermore, in March 2025, the "Clean Industrial Deal" was announced, focusing more on balancing competitiveness enhancement and decarbonization. These moves seem to reflect the growing global concerns over the impact of rising decarbonization costs on industrial competitiveness and over energy security.

In July 2025, a proposed amendment to the EU Climate Law was announced. Notably, it sets a new 2040 GHG emission target of 90% reduction compared to the EU's 1990 GHG emission levels

and contains proposals to allow the use of CCS and carbon credits. While Article 6 of the Paris Agreement permits transfer of emission reductions (credits) between nations, the amendment proposes permitting up to 3% of the EU's 1990 GHG emission levels to be offset by non-EU carbon credits under the said article.

Such moves to promote climate change deregulations extend further, and the EU, in July 2025, began a discussion meeting aimed at simplifying procedures and reporting obligations under its environmental legislation framework. Points for discussion included narrowing the scope of companies subject to reporting obligations and a feedback process was carried out until September 2025. The legislation to embody the proposed simplifications will be discussed taking into account the feedback provided.

3.3.2. Simplification of CBAM

A CBAM (Carbon Border Adjustment Mechanism) is a mechanism to put a price on imported goods in the target sectors (six items: steel (including downstream products such as bolts, nuts, and screws), cement, electricity, fertilizer, aluminum, and hydrogen) based on the amount of carbon emitted during their production process. It aims at preventing carbon leakage resulting from the tightening of regulations under the European Union Emissions Trading System ("EU-ETS").

Similar to the trend of prioritizing competitiveness enhancement as mentioned in Section 3.3.1. above, there have been discussions on simplification of the CBAM rules with the view of boosting the competitiveness in the EU and stimulating economy and investments. On October 17, 2025, the amended rules to simplify the CBAM were announced in the Official Journal of the EU and entered into force on October 20, 2025.

A particularly noteworthy point of the amended rules is the adoption of a new CBAM exemption threshold. More particularly, entities importing less than 50 tons of goods subject to the CBAM (excluding hydrogen and electricity due to a difficulty to measure their amount) in aggregate on an annual basis will be exempt from the CBAM. This is expected to exempt approximately 182,000 importers, including SMEs, while still covering 99% of GHG emissions from imported goods in scope even after the amendment.

Additionally, the amended rules include simplification of deductions of carbon prices paid by covered entities in data collection processes or in countries outside of EU. The obligation imposed on covered entities to hold CBAM certificates covering 80% of emissions by the end of each quarter has been relaxed to 50%. Furthermore, sale of CBAM certificates, which was initially scheduled to begin in January 2026, has been postponed to February 2027. Hence, covered entities will be able to purchase CBAM certificates applicable to their imports in 2026 in and after February 2027.

3.4. Voluntary Markets

Voluntary carbon credits ("VCCs") issued by private organizations are a form of privately issued credit that quantifies GHG emission reductions and removals. The American Carbon Registry ("ACR"), a private organization established in the United States in 1996, pioneered the baseline-and credit mechanism, a form of emission trading system. It was followed by the Verified Carbon Standard (VCS) and the Gold Standard, targeting projects outside the United States. This

mechanism has been implemented in the context of corporate Scope 1-3 mitigation and other measures. VCCs are now conditionally accepted not only for use in corporate voluntary initiatives but also under the Carbon Offsetting and Reduction Scheme for International Aviation (see 3.4.2), emission trading systems in California, USA, and the carbon tax regimes in Colombia and South Africa. This favorable circumstance has also led to an increase in issuance volume and price since around 2017. The global carbon credit market size reached USD 114.8 billion in 2024.

At the COP29 held in November 2024, the detailed provisions of Article 6 of the Paris Agreement, which stipulates market mechanisms for the international transfer of GHG emission reductions, were agreed upon by the signatory countries and became fully operational. International VCCs certified and issued by overseas NGOs have already been actively traded in international markets. However, concerns regarding their quality and reliability, as well as criticism against VCCs as greenwashing (false solutions to environmental issues) are mounting, raising questions about the market's soundness. "Voluntary market" refers to the segment of the carbon market where private companies voluntarily purchase VCCs and other credits based on private initiatives such as RE100 and CDP. In contrast, "compliance market" refers to the segment of the carbon market where companies purchase emission allowances and eligible carbon credits based on legal obligations under the EU ETS, GX-ETS, or other systems. Please note that the following explanation is based on this classification.

Below are some of the initiatives to ensure the quality of international VCCs in the voluntary markets.

3.4.1. ICVCM

The Integrity Council for the Voluntary Carbon Market ("ICVCM") is one of the governing bodies in the voluntary markets. ICVCM is an independent private organization that establishes a quality requirement for carbon credits, especially for international VCCs. ICVCM has published the Core Carbon Principles (the "CCPs") which set out detailed requirements for "high quality" international VCCs.

The CCPs published by ICVCM may only be regarded as one of the standards for high-quality VCCs provided by private institutions. However, they possess a certain degree of authority within the voluntary market. VCCs that comply with these CCPs will be recognized as "CCP-Eligible," thereby gaining a certain level of credibility.

According to materials disclosed by ICVCM, crediting programs certified by Verra and Gold Standard, which have a large market share in international VCCs, have been approved as "CCP-Eligible." As of the end of 2024, six issuers have been recognized as qualified and 12 methodologies have been CCP-approved, including afforestation projects, methane recovery from waste disposal sites, ozone-depleting substance emission reductions, and Reducing Emissions from Deforestation and Forest Degradation (REDD+). Credits issued by these eligible issuers using approved methodologies may be labeled as "CCP-Eligible."

In the future, attention will be paid to the amount of trading costs for CCP-eligible international VCCs and the availability of an adequate supply of CCP-eligible VCCs.

3.4.2. CORSIA

The Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA") is a framework operated by the International Civil Aviation Organization ("ICAO") to decarbonize the

international aviation sector. In addition to technological innovation, operational improvements and the use of sustainable aviation fuels, the organization aims to reduce the GHG emissions from the international aviation sector through an offsetting scheme. Since it is difficult to ascertain the status of international aviation operating across national borders based on the Paris Agreement, the CORSIA was established to directly bind large international airlines.

CORSIA divides the period from 2021 to 2035 into three phases with different participation obligations and scope. The three phases consist of (i) the pilot phase (2021-2023), (ii) the first phase (2024-2026), (iii) the second phase (2027-2035), and it currently stands in the first phase. In the first phase, large international airlines are obliged to reduce GHG emissions on flights between the countries that voluntarily participate, and are allowed to offset their emissions through qualified carbon credits (Phase 1) as described in (a) below. It is expected that there will continue to be strong demand for credit to enable leading airlines to meet their CORSIA offsetting requirements.

CORSIA is a regulation that exclusively applies to the international aviation sector. However, similar to the ICVCM's CCPs, it can be said to influence the entire voluntary markets as a standard for ensuring the quality of VCCs.

At the time of publication of this newsletter, 129 countries participate in CORSIA, indicating that a large portion of international routes and flights are subject to CORSIA. In the second phase, all ICAO member countries will be required to participate in CORSIA.

(a) CORSIA eligible carbon credits (CORSIA-eligible Units)

Many carbon credits including Verra and Gold Standard have traditionally been certified as eligible carbon credits (pilot phase). In October 2024, Verra and Gold Standard were newly certified as CORSIA-eligible carbon credits (Phase 1). As in the case of CCP-Eligible, attention will be paid to the amount of trading costs for CORSIA-eligible international VCCs and the availability of an adequate supply of CORSIA-eligible international VCCs.

(b) CORSIA Eligible Fuels

For aircraft operators to claim a reduction in their offsetting requirements through the use of sustainable aviation fuels (SAF) and lower carbon aviation fuels (LCAF), these fuels must be certified as CORSIA-eligible. Fuels will be certified as CORSIA-eligible if they receive the Sustainability Certification Scheme (SCS) certification by (i) RSB (Roundtable on Sustainable Biomaterials) or (ii) ISCC (International Sustainability and Carbon Certification) standards.

3.4.3. SBTi

Science Based Targets initiative ("SBTi") is one of major voluntary initiatives which have been signed up by large number of companies in and outside of Japan. In March 2025, SBTi published a draft Version 2 of its Corporate Net-Zero Standard which contains, among others, necessity of GHG reduction target in each of Scopes 1, 2 and 3. Discussions around such Version 2 shall be carefully watched.

3.5. Latest developments in international climate change lawsuits/Greenwash-related lawsuits

There has been a notable surge in lawsuits, disputes, and recommendations related to climate change and greenwashing (false solutions to environmental issues) in the international arena, particularly in the United States and European countries. Such lawsuits help Japanese companies to anticipate and examine potential litigation risks and policy developments related to climate change. Some recent examples are listed below.

3.5.1. Germany | A farmer v. Electricity producer

In November 2015, a Peruvian farmer residing in Huaraz filed a lawsuit against RWE, Germany's largest electricity producer. He asserted that RWE, having knowingly contributed to climate change by emitting a large amount of GHGs, bore some responsibility for the melting of mountain glaciers near Huaraz. In May 2025, while dismissing the claim, the court held that major GHG emitters can, in principle, be held accountable for the impacts of their emissions under German Civil Code. Specifically, if an impairment of property appears imminent, a CO2 emitter may be obligated to take preventive action. This ruling has attracted attention as the first case to establish a legal principle that could potentially hold private companies liable for climate change damage.

3.5.2. Verra/Kariba scandal

In September 2025, Verra, a U.S.-based international carbon credit verification body, announced the completion of an in-depth review of the carbon accounting of the Kariba REDD+ Project in Zimbabwe and the cancellation of excessively issued carbon credits equivalent to approximately 15.22 million tons of CO2. Verra has also indicated its policy to seek compensation from the project proponent, Carbon Green Investments ("CGI").

The Kariba project attracted attention as a large-scale initiative that utilizes REDD+ (Reducing Emissions from Deforestation and Forest Degradation) mechanism, which generates CO2 reduction benefits by avoiding deforestation. However, the project's certification has been suspended since October 2023 due to allegations of irregularities reported by the U.S. magazine *The New Yorker*.

Verra's reviews found that the Kariba project had initially verified approximately 41.96 million tons of emission reductions or removals ("ERRs"), of which approximately 26.82 million tons were issued as Verified Carbon Units ("VCUs") and used for corporate carbon offsetting. However, the carbon accounting review revealed that actual deforestation observed in the project's reference area was significantly lower than the initially estimated deforestation. It has come to light that as a result of this discrepancy, ERR credits representing approximately 15.22 million tons, or about 57% of the issued credits, were overissued.

Verra will be implementing corrective actions against CGI, including requesting compensation for the excess credits for approximately 15.22 million tons. In addition to the carbon accounting review, Verra will conduct a quality control review to assess multiple issues, including transparency and governance of benefit-sharing arrangements with local communities.

3.5.3. Advisory opinion on climate change by the International Court of Justice

On July 23, 2025, the International Court of Justice ("ICJ") issued an advisory opinion on the obligations of states in respect of climate change, as read by ICJ President Judge Yuji Iwasawa. In this advisory opinion, the ICJ determined that states have an obligation to protect the environment from GHG emissions and that, to fulfill this obligation, they must exercise due diligence and cooperate in their actions. This obligation includes the duty stipulated in the Paris Agreement on climate change, which aims to limit the global temperature increase to 1.5°C above pre-industrial levels. Furthermore, the ICJ determined that if states violate these obligations, they may be held legally liable and could be required to cease the unlawful acts, provide guarantees to prevent non-repetition, and, depending on the circumstances, provide full compensation. The ICJ based this judgment on the commitments made by Member States of the United Nations to various environmental and human rights treaties.

The advisory opinion is based on the stated intention of the Pacific Island nation of Vanuatu in September 2021 to seek an advisory opinion from the ICJ on climate change. This initiative of Vanuatu was influenced by the young group "Pacific Island Students Fighting Climate Change," which advocates for the proactive response of island nations to climate change.

António Guterres, the Secretary-General of the United Nations, has expressed his support for the advisory opinion, welcoming it as "a victory for our planet, for climate justice, and for the power of young people to make a difference." Just the day before the advisory opinion was released, the Secretary-General delivered a special address to United Nations Member States, emphasizing that the global transition to renewable energy is irreversible. Meanwhile, climate action is inextricably linked to the political landscape of various nations, with certain governments, such as the second Trump administration in the United States, expressing opposition to climate-related initiatives. It is hoped that international conferences such as COP30 will reach agreements to strengthen climate-related investment and financing in light of the ICJ advisory opinion.

3.5.4. Matters to be noted by Japanese companies

As stated above, there are increasing risks outside Japan related to climate change and greenwashing (false solutions to environmental issues). For example, when Japanese companies offer carbon neutral products or services in the overseas market, they should avoid these risks by using CCP-eligible or CORSIA-eligible international VCCs as evidence of "carbon neutrality."

4. Final Remarks

While there are various risks associated with countering carbon credit regulations, including the regulatory risks and litigation risks discussed above, they can help create new business opportunities by expanding loans and investments in GHG emission reduction technology and projects. Companies can attract ESG loans and investments by setting GHG reduction targets for 2030 or 2050 based on their own GHG emissions and those of their supply chains, and then presenting them to domestic and international investors. It is worth building proactive decarbonization strategies as a business opportunity before the commencement of the mandatory emission trading system in 2026.

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