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Energy

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

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

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1. Introduction

The U.S. federal government under the second Trump administration has pursued policies emphasizing fossil fuels, reflecting a skeptical stance toward climate change policies, and in Europe, moves have also been seen toward easing certain aspects of the EU Emissions Trading System. On a global scale, there are signs that climate change measures are in retreat. In Japan, however, Japan's emissions trading system, known as the GX-ETS (as defined below) was launched in April 2026, and policies are being advanced that treat climate action not merely as an environmental issue, but as part of structural economic reform and growth strategies directed toward the transition to a circular society. Given recent global developments, including conflict in the Middle East, the local generation and consumption of energy through the use of renewables, storage batteries, and other resources also contribute to energy security. Japanese companies are well advised to continue advancing green transformation ("GX") initiatives, while remaining mindful of legal and regulatory compliance - an issue that has recently come to light in connection with mega-solar and other energy projects.

The following is an overview of major developments in climate change legislation and markets in Japan and abroad.

2. Japan

2.1. Overview of climate change-related legislation

Recent developments in climate change-related legislation have rendered Japan's legal framework governing climate change increasingly multilayered. Climate change issues in Japan must therefore be considered in light of the following major laws, together with related guidelines and other requirements:

(a) The Act on the Promoting Transition to the Decarbonized Growth Economic Structure (the "GX Promotion Act")

- The GX Promotion Act establishes the GX-ETS (for details, see Section 2(3) below).
- The GX Promotion Act will need to be examined in relation to the requirements for the transfer of Allowances (as defined below).

(b) The Act on Promotion of Global Warming Countermeasures (the "Global Warming Countermeasures Act")

- The Global Warming Countermeasures Act establishes the system for calculating, reporting, and disclosing greenhouse gas emissions (the "SHK system").
- The Global Warming Countermeasures Act will need to be examined in relation to the requirements for the transfer of JCM credits.

(c) The Financial Instruments and Exchange Act (the "FIEA") and related cabinet and ministerial orders (including the Cabinet Office Order on Disclosure of Corporate Affairs)

- The FIEA establishes the framework for the disclosure of corporate sustainability information in securities reports and other documents.
- When Financial Instruments Business Operators, etc. (*kinyuu shouhin torihiki gyousha*) and other relevant entities engage in carbon credit-related transactions, it is necessary to examine the restrictions on ancillary and other business activities.
- Any future amendments to the FIEA should be kept under close review in connection with the regulations applicable to carbon credit-related transactions (e.g., spot transactions and derivatives transactions).

(d) The Commodity Derivatives Transaction Act

- Any future amendments to the Commodity Derivatives Transaction Act should be kept under close review in connection with the regulations applicable to carbon credit-related transactions (e.g., spot transactions and derivatives transactions).

2.2. GX Implementation Council (*GX-jikkou-kaigi*)

As part of Japan's GX policies, meetings of the GX Implementation Council, chaired by the Prime Minister, have taken place since 2022 to examine the measures necessary to advance GX in Japan. At the 16th GX Implementation Council held on December 22, 2025, the current situation surrounding GX and future initiatives were on the agenda, and it was stressed that GX was the key issue in connection with each of (1) a stable energy supply, (2) the measures to combat surging prices, and (3) the growth strategy.

Since 2026, discussions have been underway on preparing roadmaps for green steel, hydrogen, and next-generation solar cells (perovskite solar cells) at the Expert Working Group for Realizing GX. In particular, against the backdrop of rising global electricity demand, bottlenecks in power grids, and growing consumer demand for decarbonized products, emphasis is being placed not only on strengthening energy supply capacity, but also on market-creation measures, including the visualization of GX value, public procurement, demand stimulation, and international standardization.

Taken together, these developments suggest that Japan's GX policies from 2026 onward are advancing while integrating multiple policy axes: (1) promoting GX-related investment, (2) developing roadmaps for individual technologies and industrial sectors, and (3) connecting GX with energy and economic security. For companies, one possible approach is to formulate their own GX investment plans while making maximum use of public support for GX-related investment, based on discussions held in forums such as the GX Implementation Council.

2.3. GX-ETS

2.3.1. Summary of GX-ETS

The GX Promotion Act was amended on May 28, 2025 and the Japanese ETS (GX-ETS) came into a full-scale operation on April 1, 2026 as a legally binding regime transitioning from a previous voluntary scheme (GX League Phase 1), provided that trading of Allowances (as defined below) is scheduled to be commenced in Autumn 2027.

2.3.2. Participants of GX-ETS

The GX-ETS applies to business operators ("Large Emitters") that have average annual direct CO2 emissions (i.e., Scope 1 Emissions) of 100,000 tons or more over the most recent three fiscal years. Under the current GX Promotion Act, it only covers direct CO2 emissions and does not cover indirect emissions (Scope 2) resulting from the use of electricity, heat, and steam supplied by other companies and supply chain emissions (Scope 3).

2.3.3. How to allocate Allowances

Under the current GX Promotion Act, subject to submission of various reports by Large Emitters, emissions allowances (*haishutsu-waku*) ("Allowances") shall be, in principle, allocated to Large Emitters free of charge. Allowances are calculated based on the industry-specific benchmark method, particularly in energy-intensive sectors where there is a greater need to consider industry characteristics. The Allowances for the benchmark activities are calculated by multiplying the predetermined emission intensity by the average activity level over the three years before the commencement of the regime (fiscal years 2023 to 2025), whereas for industries where benchmarks are difficult to set due to technological constraints or other reasons, the grandfathering method is to be used based on the average emissions over the three years before the commencement of the regime.

2.3.4. Price ceiling/price floor

The GX-ETS sets the ceiling and floor of trading price in order to enhance the predictability of the trading price of Allowances and promote decarbonization investments (under the GX Promotion Act, the price ceiling is referred to as "reference maximum trading price" and the price floor as "adjustment standard trading price"). The price ceiling and the price floor for the fiscal year of 2026 have been set at 4,300 yen/ton and 1,700 yen/ton, respectively by the public notice establishing the reference maximum trading price and the adjustment standard trading price pursuant to the GX Promotion Act. The reference maximum trading price and the adjustment standard trading price are to be raised gradually each fiscal year by applying to the previous year's prices a rate reflecting a real increase rate of 3% and the forecast domestic corporate goods price index for the current year.

2.3.5. Treatment of carbon credits

Under the GX-ETS, Large Emitters are permitted to offset a part of their Scope 1 CO2 emissions with J-Credits and JCM credits which are recognized as eligible carbon credits. However, since such eligible carbon credits can be used only up to 10% of Scope 1 CO2 emissions, eligible carbon credits can be used only after Large Emitters have reduced their Scope 1 CO2 emissions by their own actions. In the GX League Phase 1, the use of voluntary carbon credits ("VCCs") was permitted as long as certain strict requirements were met, so whether a similar treatment will also be permitted under the GX-ETS should be carefully watched.

2.3.6. Upcoming challenges for the GX-ETS and other offset carbon credit markets in Japan

The GX-ETS is useful for clarifying carbon costs (cost of emitting carbon dioxide) for companies and justifying GX investments, but the following issues have been identified in connection with the GX-ETS and other offset carbon credit markets in Japan. The EU ETS has also continued to evolve through system reforms based on the past operations, and future changes to the GX-ETS and related systems should be monitored as well.

- Buyers of Allowances and/or various offset carbon credits can purchase them via various methods as set out below. It is expected that regulations applicable to each of such methods would be developed in a harmonized manner.

  - Allowances: Buyers can purchase Allowances by way of market trading at GX Acceleration Agency from Autumn 2027.
  - J-Credits: Buyers can purchase J-Credits by way of (i) market trading at Tokyo Stock Exchange, (ii) auction and/or (iii) OTC trading, etc.
  - JCM credits: Buyers can purchase JCM credits by way of OTC trading, etc.
  - VCCs: Buyers can purchase VCCs by way of (i) market trading at various markets operated by private companies and (ii) OTC trading, etc.

- Detailed rules of GX-ETS: Detailed rules of GX-ETS (e.g., the scope of "permitted participants") will be discussed during 2026.
- Alignment with NDC (Nationally Determined Contribution): The GX-ETS does not set clear total Allowances (cap) of the entire regime. As such, in the public comment, there was a concern that an oversupply of Allowances may make it difficult to ensure the alignment with the NDC and the 1.5°C target under the Paris Agreement. In response, the Ministry of Economy, Trade and Industry answered that it would review whether the regime was contributing to the achievement of the NDC, while taking a careful stance toward introducing strict cap control from the outset.
- Possible undersupply of J-Credits and JCM credits: The GX-ETS permits the use of J-Credits and JCM credits as eligible carbon credits up to around 10% of the $CO2$ emissions of covered entities. However, based on their issuance records, an undersupply of J-Credits and JCM credits has been pointed out. This could be a business opportunity from the perspective of companies supplying J-Credits and JCM credits.

2.4. Legal issues relating to offset carbon credits and greenwashing

Parties engaging in (i) transactions involving Allowances, J-Credits, and JCM credits or (ii) advertising their products/services by referring to their environmental values should consider the relevant issues under Japanese law in light of publicly available materials, including the following:

(a) Legal issues relating to Allowances: The public law and private law issues relating to Allowances are examined in the *Draft Report on Legal Issues Relating to an Emissions Trading System Contributing to the Realization of GX and Approaches to Addressing Them* (Study Group on Legal Issues Relevant to the Development of an Emissions Trading System for the Realization of GX, on October 18, 2024);

(b) Legal issues relating to J-Credits: Private law issues relating to J-Credits are examined in the *Issues Paper on the Status of Carbon Credits under Private Law, Focusing on Their Legal Nature and the Legal Principles Governing Ownership and Transfer* (Financial Law Board, on June 27, 2024);

(c) Legal issues relating to intermediaries and other entities engaged in carbon credits transactions: *The Report of the Working Group on Financial Infrastructure for Carbon Credit Transactions* (Working Group on Financial Infrastructure for Carbon Credit Transactions, Financial Services Agency, on June 20, 2025) examined issues concerning intermediaries, particularly financial institutions, including the provision of relevant information and explanations to customers; and

(d) Directors' duties in relation to climate change: In recent years, there have also been views that actively recognize an obligation to implement climate change measures as part of directors' duty of due care and duty of loyalty, and further developments in this discussion are being carefully watched.

(e) Greenwashing risks (including legal and reputational risks) under Japanese laws and regulations should be carefully reviewed if a company would like to engage in advertising their products/services by referring to their environmental values, in the context of (A) Act against Unjustifiable Premiums and Misleading Representations and/or (B) Environmental Claims Guideline.

3. Overseas

3.1. Key discussions on the Paris Agreement/COP31

COP31 (scheduled to be held in Antalya in November 2026) is positioned by Turkiye, the host country, as an "Implementation COP," with a focus on the steady implementation of the matters agreed at recent COPs. The host country places importance on the submission and implementation of NDCs (Nationally Determined Contributions) by each country, the mobilization of climate finance, and the steady implementation of prior agreements, and COP31 is expected to serve as a forum for advancing these efforts.

Under this "implementation-oriented" policy, the following points are likely to be particularly important at COP31 from the perspective of moving recent agreements toward concrete implementation:

3.1.1. Implementation of NDCs for 2035 and transparent framework

The outcome report of the first GST (Global Stocktake) adopted at COP28 in 2023 confirmed that the current countries' efforts alone are insufficient to achieve the targets under the Paris Agreement. 2025 was a milestone year in which countries were expected to submit new NDCs targeting 2035 ("NDCs for 2035"), and new NDCs are now being submitted by countries.

3.1.2. Climate finance

At COP29, the NCQG (New Collective Quantified Goal on Climate Finance) was agreed as climate finance for developing countries. However, discussions are still ongoing regarding specific approaches to finance mobilization and improvement of access to finance in order to implement the NCQG. Although COP30 also had discussions toward implementation of the NCQG, concrete action plans regarding financing and allocation methods are still under consideration. At COP31, in addition to reviewing the status of NCQG implementation, the role of finance mobilization and specific approaches to implementation to ensure its effectiveness should be key issue.

3.1.3. Article 6 of the Paris Agreement and carbon credit market

Article 6 of the Paris Agreement establishes market mechanisms to promote greenhouse gas reductions through international cooperation. At COP29, implementation rules for Articles 6.2

and 6.4 were developed, marking a significant advance in the development of the market mechanisms under Article 6 of the Paris Agreement. Based on this, discussions continued at COP30 on the implementation and operation of the market mechanisms, and the international carbon market is in the process of shifting from the system design phase to the actual operation phase. At COP31, taking into account the status of implementation of these mechanisms and progress in their operation, key considerations are expected to include ensuring the environmental integrity of credits, properly operating corresponding adjustments, and enhancing market transparency.

3.1.4. Energy transition

At COP28, the targets were set to triple the global renewable energy capacity by 2030 and to double the annual rate of energy efficiency improvements, and the need for transitioning away from fossil fuels in energy systems was stated explicitly for the first time. At COP31, attention is expected to be paid to the progress made by countries towards achieving the targets for expanding renewable energy deployment and improving energy efficiency set out in their NDCs for 2035. At the same time, a key issue should be how to accelerate energy transition while balancing energy security and economic growth in consideration of the recent global situation.

3.2. Trends in major markets outside of Japan

<United States>

(a) The Trump administration and climate change policy

The second Trump administration, which took office in 2025, has moved to promote fossil fuel development and review environmental regulations. The United States has withdrawn from the Paris Agreement for a second time and has also initiated the process of withdrawing from the United Nations Framework Convention on Climate Change (UNFCCC). This has created uncertainty regarding the direction of federally led climate change and emissions reduction policies. In addition, reviews of climate-related regulations and ESG-related measures are underway, marking a significant shift in U.S. climate change policy.

At the same time, companies continue to pursue voluntary emissions reductions and initiatives aimed at achieving net-zero targets. In addition, demand for high-quality carbon credit continues to exist in the voluntary carbon market, which supports companies' voluntary climate action. In recent years, concerns regarding credit quality and environmental integrity have led to a focus on improving market credibility. Efforts are underway to develop quality standards and governance frameworks for credits.

Accordingly, while the federal government continues to review its climate change policies, voluntary decarbonization efforts by companies and the development of the voluntary carbon market are ongoing. The future of the U.S. carbon market is expected to be influenced not only by federal policy developments but also by voluntary initiatives undertaken by state governments and companies, as well as developments in institutional frameworks aimed at enhancing market credibility.

<Europe>

(a) European Union Emissions Trading System ("EU ETS") and review of the system aimed at

achieving the 2040 climate targets

As part of its efforts to develop a framework for achieving the 2040 climate targets, the EU has begun examining a legal framework for the use of high-quality international carbon credits. This initiative, based on the amended European Climate Law, aims to establish specific rules for the use of international credits to achieve the 2040 targets.

The EU has acknowledged that, to achieve climate neutrality by 2050, it must promote cost-effective decarbonization while balancing competitiveness and industrial policy. Therefore, to achieve the 2040 climate targets, the EU is considering a framework that would allow for more flexible and efficient target achievement through the limited use of high-quality international credits, while prioritizing emissions reductions within the EU. Furthermore, ensuring environmental integrity and high quality is considered essential when utilizing international credits.

Concurrently, EU ETS is also undergoing a review with due consideration being given to industrial competitiveness. The European Commission has published a proposal to take into account indirect emissions (emissions associated with purchased electricity, among others), which were not previously taken into account, in the calculation of free emission allowances for the industrial sector from 2026 to 2030. This would add approximately EUR 4 billion worth of free emission allowances. This measure aims to maintain the competitiveness of energy-intensive industries (such as steel, cement, and chemicals) against the backdrop of high energy prices and concerns about carbon leakage.

The development of a system for utilizing international credits and the review of the EU ETS represent important institutional reforms designed to reconcile the achievement of the 2040 climate targets with the maintenance of EU industrial competitiveness. Attention is focused on how the details of the future system design will impact practical operations.

(b) International cooperation on domestic carbon markets and carbon pricing policies

In May 2026, the EU, Brazil, and China established the “Open Coalition on Compliance Carbon Markets” with the objective of enhancing transparency, environmental integrity, and effectiveness in domestic carbon markets worldwide. This initiative was established based on a declaration endorsed by leaders from various countries (including the EU, Brazil, and China) at COP30, held in Belém, Brazil, in November 2025. The objective of the initiative is to provide a platform for cooperation, focusing on the development and reinforcement of each nation’s domestic carbon markets and carbon pricing policies to support the implementation of the Paris Agreement. Japan's approach to the Open Coalition on Compliance Carbon Markets is a focal point, particularly regarding the objective of enhancing liquidity of emission allowances, J-Credits, and other instruments.

(c) Revision of the CBAM system

The EU’s CBAM (Carbon Border Adjustment Mechanism) is a system designed to prevent carbon leakage and ensure a level playing field by balancing carbon costs between goods produced in the EU and equivalent imported goods and imported goods. It has become one of the key pillars of EU climate policy, alongside the EU ETS. The full implementation of the CBAM began in 2026 for iron/steel, aluminum, cement, fertilizers, and other products.

The EU is currently considering amendments to the CBAM Regulation to expand its scope and enhance its effectiveness. In February 2025, the European Commission published a draft amendment to the CBAM Regulation, and in June 2026, the Council of the European Union adopted the General Approach. This adoption demonstrates the Council's negotiating policy regarding the expansion of the CBAM's scope and the strengthening of measures to prevent circumvention of the system, while generally supporting the European Commission's draft amendment.

The proposed amendments are intended to strengthen the EU's ability to prevent carbon leakage by expanding the scope of the CBAM and tightening its operational requirements. As this is expected to have practical implications for Japanese companies, such as an expanded scope of products subject to the CBAM for exports to the EU and the need to establish emission data management systems across the entire supply chain, it is necessary to continue closely monitoring the progress of future trilogues (among the European Parliament, the Council, and the Commission) and the final design of the system.

3.3. Voluntary markets

3.3.1. Overview of the voluntary market — progress in rulemaking for high-quality VCCs

VCCs issued by private organizations are a form of privately issued credit that quantifies GHG emission reductions and removals. Markets based on voluntary participation by companies are generally referred to as the "voluntary markets." They are distinct from "compliance markets," where emission allowances and eligible credits are utilized to fulfill obligations under laws and regulations, such as the GX-ETS and the EU ETS.

In recent years, the voluntary markets have focused not only on expanding their size but also on improving market integrity.

3.3.2. Trends in ICVCM, CORSIA, and other initiatives — establishing standards for high-quality VCCs

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 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.

Additionally, CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), a decarbonization system for the international aviation sector established by the International Civil Aviation Organization ("ICAO"), also plays a significant role as a quality standard for high-quality VCCs.

For instance, when purchasing or selling VCCs, one might utilize the "CCP-Eligible" or "CORSIA Eligible" designations as a guarantee of the VCCs' quality.

3.3.3. VCMI Scope 3 Action Code — a new approach to Scope 3

Alongside the development of quality standards on the supply side, the "Scope 3 Action Code of Practice," officially announced by the VCMI (Voluntary Carbon Markets Integrity Initiative) on April 30, 2026, is drawing attention as a rule-making initiative on the demand side.
As Scope 3 emissions encompass indirect emissions generated across a company's supply chain, it can be difficult for each company to reduce them independently. At the same time, Scope 3 emissions frequently account for the majority of a company's total GHG emissions, making them a critical challenge in achieving net-zero emissions. Given these challenges, the Code establishes a best practice for companies to follow when using high-quality VCCs to close their Scope 3 emissions gap.

3.3.4. UK government initiatives to improve the integrity of voluntary markets

In March 2026, the UK Department for Energy Security and Net Zero (DESNZ) published "Voluntary Carbon and Nature Markets: Raising Integrity — Summary of Responses." This document summarizes views received during a consultation on raising the integrity of the Voluntary Carbon and Nature Markets, which was conducted from April to July 2025. This does not represent official government policy; rather, it outlines the responses received, ahead of the Government Response to be published in the future.

3.4. Climate change litigation

3.4.1. Adoption by the UN General Assembly of a resolution calling for compliance with the ICJ's advisory opinion

On May 20, 2026, the United Nations General Assembly adopted a resolution titled "Advisory opinion of the International Court of Justice (ICJ) on the obligations of States in respect of climate change" (A/80/L.65), with 141 countries voting in favor, 8 against, and 28 abstaining. This resolution welcomes the advisory opinion issued by the ICJ in July 2025 and calls on all States to comply with their obligations under international law regarding the protection of the climate system and the environment. While the resolution itself is not legally binding, it is noteworthy that it characterizes the ICJ's advisory opinion as an "authoritative contribution to the clarification of existing international law," requests the UN Secretary-General to prepare a related report, and provides for ongoing follow-up beginning with the 83rd session.

3.4.2. France | TotalEnergies case — corporate climate change liability regarding Scope 3 emissions and ongoing judicial oversight

On June 25, 2026, a Paris court of justice, in a lawsuit filed by environmental NGOs and the city of Paris, ordered oil major TotalEnergies to incorporate climate change risks, including Scope 3 emissions associated with the use of the oil and gas products it sells, into its vigilance plan. The case was based on France's Duty of Vigilance Law, enacted in 2017, and the court ruled that climate change risks arising from corporate activities fall within the scope of the law. However, the court did not uphold the claims to impose specific measures, such as the cancellation of new fossil fuel projects or the establishment of legally binding emission reduction targets.

This ruling is notable in that it demonstrates that, in respect of corporate responses to climate change, companies may be required to take certain actions not only regarding Scope 1 and Scope 2 emissions but also regarding Scope 3 emissions. The court has ordered TotalEnergies to revise its vigilance plan within six months, with a review scheduled for January 2027. The court will continue to assess the adequacy of the revised plan and may order additional measures as necessary. The key point to note is that the court will continuously oversee corporate climate governance, including Scope 3 emissions. Some observers have noted that this ruling marks another legal victory for climate activists, after the 2025 landmark advisory opinion by the International Court of Justice (ICJ) finding that nations can be held responsible under international law for breaching their climate change obligations, including by expanding fossil fuel production.

3.4.3. A new trend towards an integrated view of the environment — reflections on "Planetary Health" and "Nature Positive"

In recent climate change litigations outside of Japan, the prevailing approach has been to view climate change not merely as an environmental issue, but as a human rights violation. The 2025 advisory opinion of the International Court of Justice (ICJ) also indicated that living in a "clean, healthy, and sustainable environment" is closely related to human rights.

The rapid spread of the concept of "Planetary Health" in recent years is one of the factors behind this trend. Planetary Health is an interdisciplinary framework that recognizes human health as dependent on the health of the Earth's environment. It takes an integrated view of environmental changes, such as climate change, biodiversity loss, and pollution. As this concept has gained traction, climate change, which was traditionally perceived as a "distant problem," has come to be understood as a health issue directly linked to daily life. These include heat strokes caused by heat waves, respiratory diseases caused by air pollution, increased risks of infectious diseases, and impacts on mental health. Indeed, in recent climate change litigation, there has been an increase in cases where such health impacts are major issues of contention. In recent climate change litigations outside of Japan, litigations focusing on health impacts have garnered significant attention. For instance, in Switzerland, elderly women challenged the government's climate measures, citing health impairments affected by heatwaves. In the U.S. state of Montana, a group of youths sued the state government, alleging health damage caused by heat domes and other factors. These litigations focusing on health impacts are attracting significant attention.

In recent years, litigations outside of Japan have also emerged that view biodiversity conservation in terms of its relationship to human rights and health. For instance, in Germany in 2024, a constitutional complaint was filed, calling for the establishment of a comprehensive legal framework for biodiversity conservation. It argued that the lack of an adequate legal framework violates the right to life, health, and the rights of future generations. A concept closely related to this biodiversity debate is "Nature Positive." The Japanese translation for "Nature Positive" is "nature restoration," which means "halting biodiversity loss and reversing it toward recovery in order to put nature on a path to restoration." The "Kunming-Montreal Biodiversity Framework," adopted in 2022, establishes the global goal of achieving "Nature Positive" by 2030. In Japan, policies aimed at achieving this goal are being advanced under the "National Biodiversity Strategy 2023–2030."

As outlined above, recent developments in environmental law and climate change litigation are shifting towards a more integrated approach. They recognize climate change, biodiversity, and human health as interconnected challenges, rather than treating them as separate issues. In the future, integrated environmental governance, including GHG emissions as well as biodiversity, water resources, land use, and human health, is likely to receive even greater emphasis, not only in policymaking but also in the judicial arena.

3.4.4. Matters to be noted by Japanese companies

Following the ICJ's 2025 advisory opinion, Japan's first-ever climate change-related litigation seeking state compensation has been filed. A primary issue of contention in this case is the question of health damage resulting from increased risks of heatstroke, as well as from torrential rains and typhoons due to climate change. If discussions would evolve to incorporate a more comprehensive perspective on environmental issues, including health and biodiversity, as represented by the concepts of Planetary Health and Nature Positive, climate change litigation risks in Japan could increase. Japanese companies may also consider adopting a strategy of attracting ESG investment from overseas investors, particularly those in the EU, by taking proactive measures in relation to climate change, biodiversity, Nature Positive and other environmental issues.

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