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Climate Change Policy Challenges in 2026
- Weakening Policy Commitments and the Approaching GX-ETS -
< Summary >

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Outlook for 2026

1. A shift toward more pragmatic climate policies is becoming increasingly evident. In particular, in advanced economies, policies are expected to place greater emphasis on energy security and industrial competitiveness.
2. At the 31st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP30), the UNFCCC Secretariat published the results of its analysis of Nationally Determined Contributions (NDCs) from 113 countries. According to this analysis, global greenhouse gas (GHG) emissions in 2035 are projected to be only 12% lower than 2019 levels. This falls far short of the 60% reduction by 2035 required to be consistent with achieving the 1.5°C target under the Paris Agreement.
3. The status of climate policy implementation among major economies—including the United States, Europe, and China—is uneven. While climate policy momentum has slowed in the United States and Europe, carbon pricing initiatives continue to expand in China and other countries.

Country Developments

United States

4. In January 2025, the United States formally announced its withdrawal from the Paris Agreement, with withdrawal scheduled for January 2026. The federal government did not dispatch an official delegation to COP30.
5. The U.S. Environmental Protection Agency (EPA) announced a proposal to revoke the 2009 endangerment finding, which determined that greenhouse gases pose a threat to public health and welfare. As a result, major environmental regulations—including carbon emission standards for power plants and proposals to repeal the Greenhouse Gas Reporting Program (GHGRP)—have been rolled back.
6. Following the enactment of the One Big Beautiful Bill Act under the Trump administration, the large-scale tax credits introduced under the previous administration's Inflation Reduction Act are being phased down or terminated. In contrast, support for carbon capture and storage/utilization (CCS/CCU) has been retained, including increased tax credits for enhanced oil recovery (EOR) and related activities.

7. These revisions to environmental regulations have been criticized by power generators, financial institutions, and oil and gas companies, which argue that they increase uncertainty in investment decision-making.
8. The U.S. midterm elections in 2026 may prove decisive in determining the durability of climate policies under the Trump administration.

Europe

9. The political process to adopt a 2040 emissions-reduction target as part of the European Climate Law is ongoing. In July 2025, the European Commission proposed a 90% reduction relative to 1990 levels by 2040, but divisions among Member States could not be resolved in time for COP30. In December, a provisional agreement was reached between the European Parliament and EU Member States.
10. Triggered by the Draghi Report (September 2024), Europe has positioned the rebuilding of industrial competitiveness as a key policy priority. The Clean Industrial Deal announced in February 2025 presented a framework aimed at simultaneously pursuing decarbonization and industrial competitiveness. In addition, measures to simplify environmental regulations, such as the Carbon Border Adjustment Mechanism (CBAM) and the Corporate Sustainability Reporting Directive (CSRD), have been successively adopted.

China

11. Prior to COP30, China submitted an updated NDC that includes a new absolute emissions target of a 7–10% reduction from peak-year emissions, signaling a shift away from its previous focus on CO_2 intensity targets.
12. Under the 14th Five-Year Plan, China set targets of a 13.5% reduction in energy intensity and an 18% reduction in CO_2 intensity. While these targets are widely viewed as difficult to achieve, strengthened policy measures could bring emissions close to the targeted levels.
13. Under the 15th Five-Year Plan, beginning in 2026, supplementary absolute emissions targets are expected to be introduced at the provincial and municipal levels. For major sectors covered by the ETS—including power generation, steel, cement, and aluminum—benchmark-based allocation will continue.

East and Southeast Asia

14. The introduction of emissions trading systems (ETSs) and carbon taxes is accelerating. Korea launched its ETS in 2015, China in 2021, and Indonesia introduced an ETS and tax for coal-fired power generation in 2023. Viet Nam plans to launch a pilot ETS in 2025, with full-scale implementation in 2029, while Thailand and Malaysia are also advancing discussions on ETS adoption.

15. In addition, under AZEC, discussions are progressing on the enhancement of emissions accounting and the development of "high-quality carbon markets" aligned with Article 6 of the Paris Agreement, and institutional foundations across the ASEAN region are expected to be strengthened.

Domestic Developments (Japan)

16. Based on the Seventh Strategic Energy Plan, Japan submitted a new NDC to the United Nations, setting emissions-reduction targets of 60% below 2013 levels by 2035 and 73% below 2013 levels by 2040.
17. Amendments to the GX Promotion Act will bring the GX Emissions Trading System (GX-ETS) into full-scale operation as a mandatory scheme in April 2026. Within the ETS Subcommittee, an interim summary of detailed design elements—including allocation methodologies—has been prepared.
18. A total of 21 benchmarks covering manufacturing, power generation, and transport have been established. From April 2027 onward, actual procedures—including emissions reporting and applications for free allocation—will begin. From 2026, close attention will be paid to how GX-ETS price-stabilization measures (price ceilings and floors) function in practice, and to their impact on corporate behavior and emissions-reduction investment.
19. Amid a retreat in climate change policies internationally, Japan is advancing an emissions trading system (ETS) as a statutory framework. For firms, this represents a turning point at which domestic emissions-reduction actions become unavoidable.

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