

Climate Change Policy Challenges in 2026

—Weakening Policy Commitments and the Approaching GX-ETS—

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COP30: A Transitional Phase from Negotiation to Implementation

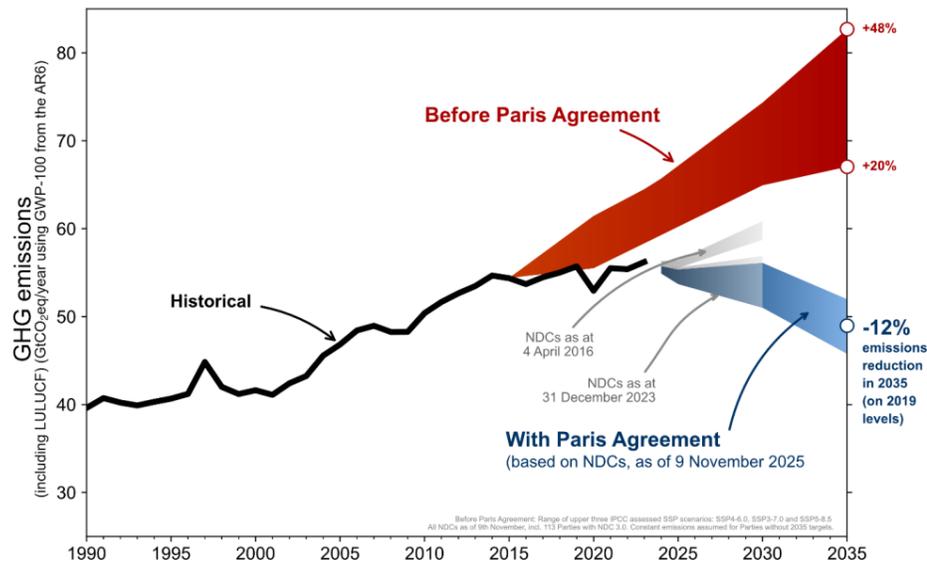
● Key Outcomes of COP30

- Marking ten years since the adoption of the Paris Agreement, Parties reaffirmed their political commitment to maintaining the 1.5 °C goal and to minimizing temperature overshoot.
- While acknowledging that a significant temperature gap remains under current Nationally Determined Contributions (NDCs), COP30 emphasized a strategic shift from a “**negotiation-centered**” approach toward an “**implementation-centered**” phase.
- **Global Mutirão Decision:** A comprehensive outcome document covering a wide range of issues beyond the formal negotiation agenda.
 - The decision does not explicitly refer to a transition away from fossil fuels. Instead, it notes that, in advancing the **Global Implementation Accelerator**—aimed at accelerating implementation to keep the 1.5 °C target within reach and to support the implementation of NDCs and National Adaptation Plans (NAPs)—due consideration should be given to prior outcomes, including the **UAE Consensus** adopted at COP28, which referenced the transition away from fossil fuels.
 - Parties called for efforts to at least triple adaptation finance by 2035, within the context of Decision 1/CMA.6 on the New Collective Quantified Goal (NCQG).

● Persisting Sources of Tension in the Negotiations

- **Transition Away from Fossil Fuels**
 - Brazil, as the COP30 Presidency, referred to the development of a roadmap for a just, orderly, and equitable transition away from fossil fuels.
 - This proposal faced opposition from oil-producing countries and some emerging economies, while several countries—including African states, Poland, and Japan—did not express support (with divergences also over sequencing).
 - Although the final outcome document did not include explicit references to fossil fuels, Colombia and the Netherlands are scheduled to co-host an international conference on this issue in April next year.
- **Climate Finance**
 - With regard to the implementation of the New Collective Quantified Goal (NCQG) agreed last year, a high-level ministerial roundtable is planned.
 - Negotiations also addressed climate–trade linkages, with BRICS and other countries seeking to include unilateral trade measures—such as the Carbon Border Adjustment Mechanism (CBAM)—on the COP30 agenda.
 - Dialogue involving the International Trade Centre (ITC), UNCTAD, and the WTO will be advanced, with a high-level event scheduled for 2028.

- As of 18 November 2025, 121 countries and regions had submitted updated Nationally Determined Contributions (NDCs) that include 2035 targets.
- Among major economies, the United States is scheduled to withdraw from the Paris Agreement in January 2026, while the European Union has presented only indicative targets, without full alignment in ambition or scope.
- China, in line with statements made at the Climate Summit in September, has submitted targets aimed at reducing emissions. In contrast, South Korea, India, and Saudi Arabia have not yet submitted updated NDCs.
- According to UNFCCC analysis (covering 113 countries and 86 NDCs), current pledges imply a 12% reduction in emissions by 2035 relative to 2019 levels. By comparison, the outcome of the Global Stock Take (GST) indicates that a 60% reduction is required to remain consistent with the 1.5 °C goal.



	2030	2035	2040
Japan	46% below 2013 levels	60% below 2013 levels	73% below 2013 levels
EU	55% below 1990 levels	66.25-72.5% below 1990 levels (Indicative target)	90% below 1990 levels
UK	68% below 1990 levels	81% below 1990 levels	---
US	50-52% below 2005 levels	61-66% below 1990 levels	---
China	Peak out before 2030	7-10% below peak year	---
Korea	40% below 2018 level	---	---
Brazil	53.1% below 2005 levels	59-67% below 2005 levels	---

Source: Nationally Determined Contributions Synthesis Report – Update
https://unfccc.int/sites/default/files/resource/message_to_parties_and_observers_ndc_synthesis_report_update.pdf

Source: NDC submitted by the courtiers

US: revising climate change policy under the Trump administration

● U.S. Federal Policy Developments and Implications

- In January 2025, the United States announced its intention to withdraw from the Paris Agreement, with formal withdrawal scheduled for January 2026.
- The federal government also announced that it would not dispatch an official delegation to COP30, stating that no senior official representatives would be sent.
- At the same time, independent participation by members of Congress and subnational actors—such as America Is All In, Climate Mayors, and the U.S. Climate Alliance—has continued.

● Rollback of Clean Energy Support under the One Big Beautiful Bill Act (OBBBA)

- Under the OBBBA, clean energy support measures introduced through the Inflation Reduction Act (IRA) have been scaled back.
- Major tax credits for clean hydrogen, renewable energy, and batteries (e.g., Sections 45V and X) are being phased down or terminated.
- In contrast, tax credits for carbon capture and storage (CCS) and carbon capture and utilization (CCU) under Section 45Q have been expanded, including higher credit values for enhanced oil recovery (EOR).
- Overall, policy orientation has shifted from constraining fossil fuels to actively promoting them.

● EPA Policy Revisions

- In **March**, the EPA Administrator announced a review of regulations based on the **endangerment finding**.
- In **July**, the EPA released a proposal to **revoke the endangerment finding**, which classifies greenhouse gases as posing a threat to public health and welfare, and published draft rules to **repeal related regulations**, including **CO₂ emission standards for automobiles**.
- In **June**, the EPA proposed the **full repeal** of the **Carbon Pollution Standards (CPS)** for fossil fuel-fired power plants.
- In **September**, the EPA issued a proposal to **abolish or suspend reporting requirements** for nearly all sectors covered by the **Greenhouse Gas Reporting Program (GHGRP)**.

● Regulatory Uncertainty and Emerging Concerns under the Trump Administration

- Revisions to foundational regulatory instruments—such as the **endangerment finding**—are widely viewed as significantly increasing **regulatory uncertainty**, not only for the power and fossil fuel sectors but also for **financial institutions and investors**, thereby reinforcing calls for a **predictable and stable policy framework**.
- The proposed dismantling of the **GHGRP** has also raised concerns among **industry, financial institutions, and state governments**, who argue that it would undermine the **data infrastructure** underpinning power sector investment decisions, corporate non-financial disclosures, and the verification of **tax credits and other climate-related incentives**.

EU: 2040 target and industrial competitiveness

● Failure of Intra-EU Coordination over the 2040 Climate Target

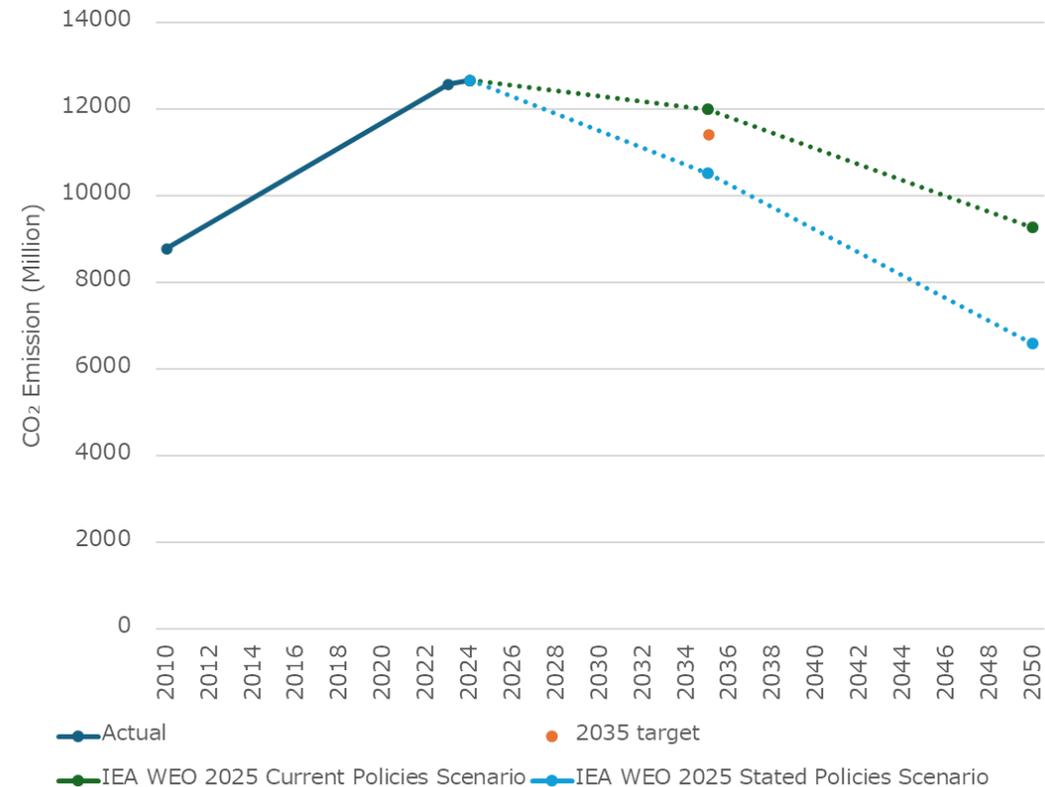
- **February 2024:** The **European Commission** presented a proposal to amend the EU Climate Law, setting a **90% reduction target by 2040 relative to 1990 levels, with no use of international offset credits.**
(March 2024–June 2025: European Parliament elections, reappointment of the President of the European Commission, German federal elections, etc.)
- **2 July 2025:** The European Commission **re-proposed** the **90% reduction target for 2040**, this time allowing for the **use of international offset credits up to 3%.**
- **5 November:** The **European Council** agreed on a **common position** regarding a **66.25–72.5% reduction range by 2035 relative to 1990**, and submitted an **indicative NDC**. Deliberations on the **2040 target** were deferred, with several Member States—including **Belgium, Bulgaria, Hungary, Poland, and Slovakia**—maintaining their opposition.
- **13 November:** The **European Parliament** adopted its **negotiating position**, endorsing a **90% reduction by 2040 relative to 1990**, of which **5% could be met through international offset credits** (votes: **379 in favor, 248 against, 10 abstentions**).
- **10 December:** Following negotiations between the European Parliament and **EU Member States**, a **provisional agreement** was reached on a **90% reduction target relative to 1990, combined with the use of international offset credits up to 5%.** Once formally adopted by the European Parliament and the **EU Council**, this will constitute the EU's official emissions-reduction target.

● Rebalancing Industrial Competitiveness and Environmental Regulation

- Following the **Draghi Report** published in **September 2024**, the **Clean Industrial Deal** unveiled in **February 2025** emphasizes reconciling **industrial competitiveness within the EU** with **decarbonization objectives**. A proposal for an **Industrial Accelerator Act** is expected in the **fourth quarter of 2025**.
- Concurrently, steps are being taken to **simplify and narrow the scope** of major environment-related regulatory frameworks, including the **Corporate Sustainability Reporting Directive (CSRD)**, the **Corporate Sustainability Due Diligence Directive (CSDDD)**, and the **Carbon Border Adjustment Mechanism (CBAM)**.

China: Will the 15th Five-Year Plan incorporate an absolute emissions target?

- An **updated NDC** has been submitted that includes an **absolute emissions target**, defined as a **7–10% reduction from the peak year**.
 - Assuming the **peak year is 2024**, the implied target level would lie **between the CPS and STEPS scenarios** in the *IEA World Energy Outlook 2025*.
- **Transition from the 14th to the 15th Five-Year Plan**
 - **From the 14th Five-Year Plan (2021–2025) to the 15th Five-Year Plan (2026–2030)**
 - **14th Five-Year Plan: Risk of Underachievement**
 - (Planned) Energy intensity: **–13.5% relative to 2020**
 - (Planned) CO₂ intensity: **–18% relative to 2020**
 - **15th Five-Year Plan: Dual Control of Intensity and Absolute Emissions**
 - Introduction of a **“dual control” system** for carbon emissions, with **emissions intensity as the primary control metric** and **absolute emissions caps as a supplementary instrument**.
 - Promotion of **carbon emissions budget management systems** at the **ministerial and municipal levels**.
 - **ETS-covered sectors**—power generation (launched in **2021**), and steel, cement, and aluminum (to be launched in **2025**)—will continue to receive allowances **based on benchmarking**.



Source: IEA *World Energy Outlook 2025*, supplemented by the Institute of Energy Economics, Japan (IEEJ), with estimates of China’s target level (a **10% reduction by 2035 relative to a 2024 peak**).

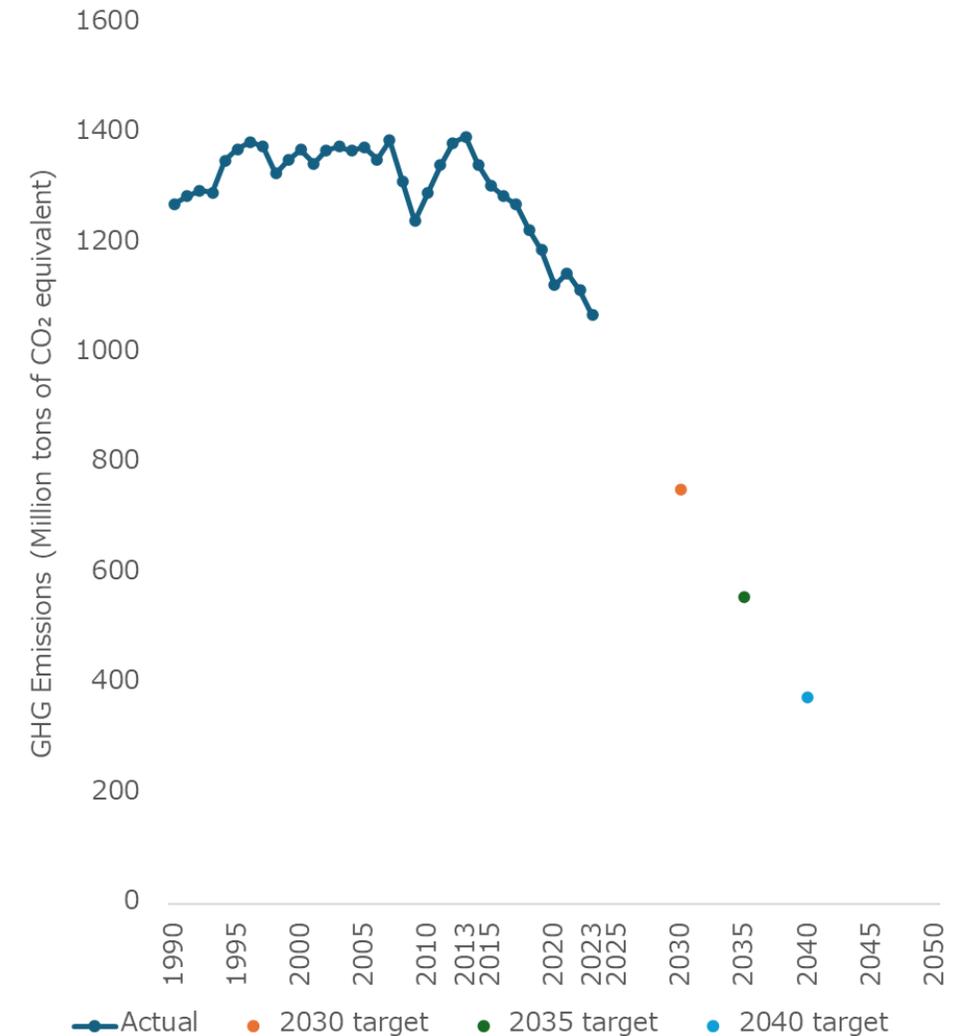
Note 1: Energy-related CO₂ emissions include **industrial process emissions and flaring**.
Note 2: China’s official **2035 NDC target** is defined as a **7–10% reduction from peak-year GHG emissions**, which is **not identical** to the estimated level presented here.

East and Southeast Asia: diffusing carbon pricing

- **Expanding Adoption of Carbon Pricing in East and Southeast Asia**
 - **Republic of Korea:** An **emissions trading system (ETS)** has been in place since **2015**.
 - From **2026**, during the **fourth compliance phase**, reforms are planned, including the **expansion of auctioning**, **revision of benchmarks**, and **adjustments to the treatment of indirect emissions**.
 - Due to **restrictions on banking**, allowance prices have remained **subdued**.
 - **China:** A **national ETS** was launched in **2021**.
 - Coverage will be expanded to **steel, cement, and aluminum** from **2025**.
 - As in Korea, **banking restrictions** have contributed to **persistently low allowance prices**.
 - **Singapore:** A **carbon tax** has been in place since **2019**.
 - **Indonesia:** Since **2023**, an **ETS combined with a carbon tax** has been introduced for the **power sector**, although the **carbon tax component has not yet been implemented**.
 - **Viet Nam:** A **pilot ETS** will commence in **2025**, with **full-scale implementation planned from 2029**.
 - **Thailand:** In **December 2025**, the Cabinet approved a **Climate Change Act** that includes the **full introduction of an ETS**.
- **AZEC: Emissions Accounting, Carbon Pricing, and the Development of High-Quality Carbon Markets**
 - Promotion of **emissions measurement and carbon pricing**, alongside **front-loaded investment**, within the framework of **AZEC**.
 - **Knowledge sharing** on carbon pricing instruments and the **advancement of emissions accounting systems** across participating countries.
 - With the objective of establishing **high-integrity carbon markets in line with Article 6 of the Paris Agreement**, discussions are underway on **registry development**, **prevention of double counting**, and **enhancement of transparency**, as well as on expanding **Japan–ASEAN credit creation**, building on the **Joint Crediting Mechanism (JCM)**.

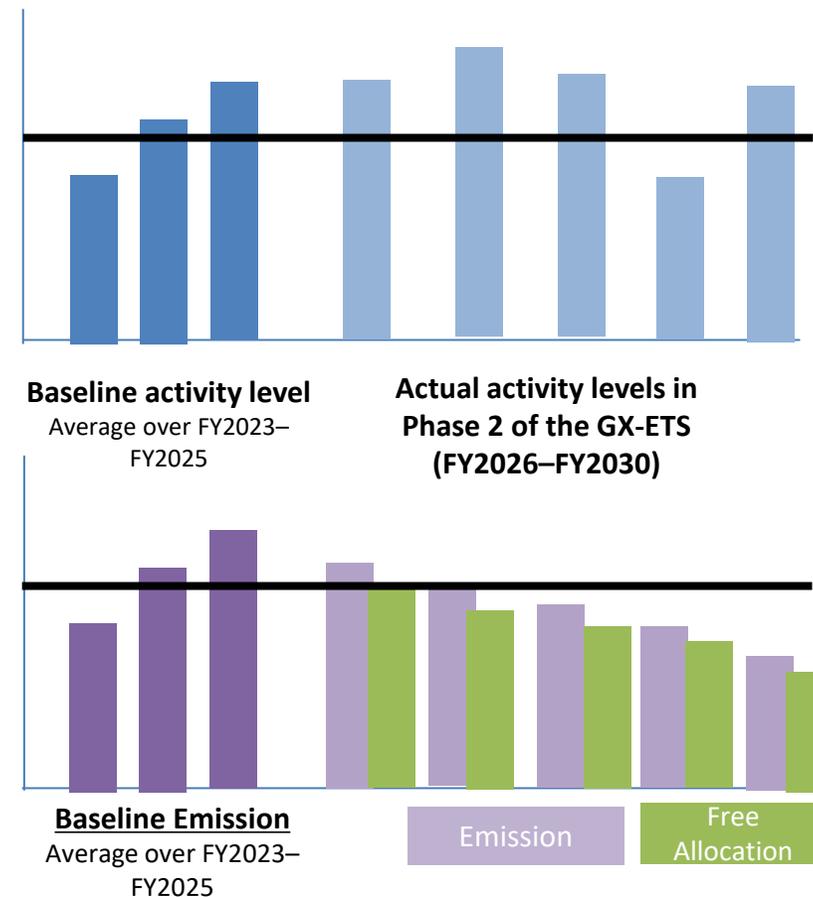
Japan: NDC targets for 2035 and 2040

- The **Strategic Energy Plan** was revised, **emissions-reduction targets for 2035 and 2040** were set, and an updated **NDC** was submitted.
 - **Emissions-reduction targets: 60% below 2013 levels by 2035, and 73% below 2013 levels by 2040.**
 - **GX 2040 Vision:** transformation toward a **GX-oriented industrial structure**, support for **GX industrial locations**, and the pursuit of a **realistic transition pathway**.
- **Amendment of the GX Promotion Act** (*Operationalization of the growth-oriented carbon pricing framework*)
 - **Legal institutionalization of the GX-ETS** and transition to a **mandatory scheme**, with **full-scale operation from FY2026**.
 - From **July onward**, a **Subcommittee on Emissions Trading (ETS Subcommittee)** was established under the **Industrial Structure Council**, advancing the **detailed design** of the system.
 - On **9 December**, the **6th ETS Subcommittee** presented an **interim summary** of detailed design elements; however, **price ceilings and floors** remain **undetermined**, as do the **final benchmark levels**.
- **Reconfiguration of the GX League** (*Study Group on Supply-Chain Initiatives within the GX League*)
 - In addition to **Scope 1 and Scope 2 emissions reductions**, the **creation of demand for GX products and services** is positioned as a **core function** of the GX League.
 - Companies are asked—on a **voluntary, menu-based basis**—to commit not only to **emissions accounting and disclosure**, but also to **early procurement of GX products, support for suppliers (including SMEs)**, and **financial initiatives**.
 - Rather than relying on regulation, the framework seeks to balance **GX investment recovery and corporate growth through markets**, using **visibility, evaluation, and incentives** (e.g., subsidies and financial assessments).



Japan: approaching the GX ETS

- For entities with **annual emissions of 100,000 t-CO₂ or more**, obligations include **emissions reporting, application for free allocation, and surrender of allowances equal to verified emissions. Penalties apply in cases of non-compliance.**
- **Free Allocation**
 - **CO₂ intensity benchmarks:** Defined as the **average of the top 50% performers** for FY2023–FY2025, to be **progressively tightened to the top 32.5% by 2030.**
 - **Manufacturing Benchmark Review Working Group:** Development of **sector-specific benchmarks for 17 manufacturing sectors.**
 - **Power Generation Benchmark Review Working Group:** **Fuel-specific benchmarks** for electricity generators.
 - **(MLIT) Subcommittee on Allocation Methodologies:** Benchmarks for **truck freight transport, domestic aviation, and coastal shipping.**
 - **Grandfathering:** An **annual reduction factor of 1.7%** is applied.
- **Price Controls (Ceiling and Floor)**
 - **Reference Upper Transaction Price:** If the **average market transaction price** persistently exceeds the **reference upper price** for a period specified by **METI ordinance** (within a maximum duration of one year), entities may be **deemed to hold allowances by paying the reference upper price.**
 - **Adjustment Reference Transaction Price:** The price at which the **GX Promotion Agency** purchases allowances from the market through **reverse auctions.**
- **Timeline**
 - **April 2026:** Full-scale operation of the GX-ETS.
 - **From April 2027 onward:** **Emissions reporting** (including **third-party verification**) and **applications for free allocation** (including **third-party verification**).
 - **31 January 2028:** **Compliance deadline** for surrendering allowances covering **FY2026 emissions.**



Calculation of Free Allocation

Baseline activity level × Benchmark (BM)

Baseline activity level × Grandfathering (GF) reduction factor

Adjustment of the Baseline Activity Level

- Adjustment is triggered when the average activity level over the previous two fiscal years has increased or decreased by 7.5% or more relative to the baseline year.
- Adjustments may also be made during statutory inspections, natural disasters, or similar exceptional circumstances.

International Policy Developments and the Outlook for Climate Policy in 2026

As the initial **climate-policy boom subsides**, there is a growing **shift back toward more pragmatic and implementation-oriented climate policies**.

United States

- Developments within the **Democratic Party in the next midterm elections** will serve as a key **litmus test for post-Trump climate policy trajectories**.
- Companies facing **litigation risks arising from the revision of environmental regulations** have expressed **diverse views**, encompassing both support and opposition.

Europe

- Attention is focused on the **European Commission's preparations for the policy package** expected to follow agreement on the **2040 climate target**.
- Discussions are advancing toward **key decisions**, including the future design of **major policies such as the ETS** and the **role of offset credits**.
- The formulation of **directives and regulations to secure financing for industrial competitiveness** is also drawing close scrutiny.

East and Southeast Asia

- Particular attention is being paid to the **target levels in China's 15th Five-Year Plan** and their relationship with the **emissions trading system**, especially the **potential linkage to absolute emissions targets**.
- Across East and Southeast Asia, **carbon pricing frameworks are becoming more concrete**, supported in part by **regional cooperation initiatives such as AZEC**.

Japan

- In **April 2026**, the **GX Emissions Trading System (GX-ETS)** will enter **full-scale operation**, and as a **statutory scheme**, its **practical impacts on domestic firms will become increasingly visible**.
- As a core component of Japan's **GX strategy**, the imminent launch of the GX-ETS establishes a framework that **anchors continued domestic climate action**, even in a context where **climate policies may retreat in other jurisdictions**.