

17 – Enforcing Sustainable Revenue-Based Cap-and-Trade Systems in a Post-Covid World: Evidence from Northeast Asia

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Initial allocation and revenue use design features in cap-and-trade schemes such as auctions and proceeds earmarking to energy efficiency projects are often used as a leverage to ease policy implementation. In Northeast Asia, greenhouse gas emissions trading schemes (GHG ETS) implemented (South Korea, China) or considered (Japan) do not deem full auctioning a worthwhile option, even if it would enhance the sustainability of the schemes. Anxiety to lose competitiveness and fears of harsh political opposition from industrial and corporate sectors covered by the scheme have prevented GHG ETS from generating significant revenue. However, the COVID-19 crisis raises the question on initial allocation and revenue use a new with two interdependent issues: (1) how to generate extra public revenues for financing the re-launch of affected economies, and (2) how to accelerate the energy transition.

Against this background, this paper raises the question whether the COVID-19 global shock represents a new opportunity to overcome national resistance to implement revenue-raising ETS in China, South Korea and Japan. We analyze how urgent post-COVID policy concerns such as industrial re-location, border carbon-adjustment, Green Deal relaunch plans, and the need to find additional public revenue sources influence existing political barriers to the implementation of sustainable design features in GHG ETS, particularly full auctioning and earmarking of revenues for environmental, economic, and social purposes. We compare the three Northeast Asian countries' national response to the COVID-19 crisis and the impact these responses could have on current domestic barriers to the implementation of auction-and-earmarking-based GHG ETS. Methodologically we use document analysis with respect to national responses to the COVID-19 crisis and semi-structured expert interviews on the domestic barriers to implementing sustainable GHG ETS. As a major result, we provide policy recommendation on how to exploit post-COVID-19 opportunities for enhancing Northeast Asian GHG ETS and for making them more sustainable.

Biographical note

Dellatte Joseph is a PhD Candidate at the Graduate School of Economics of Kyoto University in Japan. He has a background in Economics, History, International relations and Environmental policy and studies barriers to sustainability in connecting carbon market policies in the East-Asian region.