

# Decision on COP21 on Market Mechanism and the Recent Development of the Joint Crediting Mechanism

July 2016

Yuji Mizuno PhD  
Director for International Negotiation  
Office of Market Mechanisms  
Global Environment Bureau  
Ministry of the Environment of Japan

## Article on Market Mechanisms in the PA (Article 6)

1. Parties **recognize** that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for **higher ambition** in their mitigation and **adaptation** actions and to promote **sustainable development** and **environmental integrity**.

### cooperative approaches

- the use of internationally transferred mitigation outcomes (ITMOs) towards nationally determined contributions (NDCs)
- apply robust accounting to ensure the **avoidance of double counting**, consistent with guidance adopted by the CMA

### UN-backed mechanism

- A mechanism to contribute to the **mitigation of GHG emissions** and **support sustainable development** (SD) is established
- The CMA shall adopt rules, modalities and procedures for the mechanism

### non-market approaches

- including through, inter alia, **mitigation, adaptation, finance, technology transfer and capacity-building**, as appropriate.

## Article on Market Mechanisms in the PA (Article 6)

### cooperative approaches

2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA).
  3. The use of internationally transferred mitigation outcomes to achieve nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.
- Use of market mechanisms, including the JCM, is articulated under Article 6 which prescribes for the use of emission reductions realized overseas towards national emission reduction targets.
  - Japan is going to contribute to the development of the guidance for robust accounting including for avoidance of double counting to be adopted by the CMA<sup>3</sup>

## Article on Market Mechanisms in the PA (Article 6)

4. A mechanism to contribute to the mitigation of GHG emissions and support sustainable development (SD) is hereby established under the authority and guidance of the CMA for use by Parties on a voluntary basis. It shall be supervised by a body designated by the CMA, and shall aim:
  - (a) To promote the mitigation of GHG emissions while fostering SD;
  - (b) To incentivize and facilitate participation in the mitigation of GHG emissions by public and private entities authorized by a Party;
  - (c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution; and
  - (d) To deliver an overall mitigation in global emissions.
5. Emission reductions resulting from the mechanism referred to in para 4 of this Article shall not be used to demonstrate achievement of the host Party's NDC if used by another Party to demonstrate achievement of its NDC.
6. The CMA shall ensure that a share of the proceeds from activities under the mechanism referred to in para 4 of this Article is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
7. The CMA shall adopt rules, modalities and procedures for the mechanism referred to in para 4 of this Article at its first session.

## Article on Non-Market in the PA (Article 6)

8. Parties recognize the importance of integrated, holistic and balanced non-market approaches being available to Parties to assist in the implementation of their nationally determined contributions, in the context of sustainable development and poverty eradication, in a coordinated and effective manner, including through, inter alia, **mitigation, adaptation, finance, technology transfer and capacity-building**, as appropriate. These approaches shall aim to:
- (a) Promote mitigation and adaptation ambition;
  - (b) Enhance public and private sector participation in the implementation of nationally determined contributions; and
  - (c) Enable opportunities for coordination across instruments and relevant institutional arrangements.
9. **A framework for non-market approaches** to sustainable development is hereby defined to promote the non-market approaches referred to in paragraph 8 of this Article.

5

### The Joint Crediting Mechanism

- Facilitating diffusion of leading low carbon technologies through contributions from Japan and **evaluating realized GHG emission reductions or removals in a quantitative manner to use them for achieving Japan's emission reduction target.**
- Japan will address the high cost barrier of introducing advanced low-carbon technologies in developing countries through the JCM (GoJ implements several supporting schemes)



Waste heat recovery in Cement Industry



Eco-driving with digital tachograph



High efficient transformers in power distribution



Solar power plant for commercial facilities



Energy saving at convenience store



High efficient boiler for heating

6

## Statement by Prime Minister Shinzo Abe at the COP21 (Excerpt)



The second component of Japan's new set of contribution is innovation. The key to acting against climate change without sacrificing economic growth is the development of innovative technologies. To illustrate, there are technologies to produce, store and transport hydrogen towards realizing CO<sub>2</sub>-free societies, and a next-generation battery to enable an electric car to run 5 times longer than the current level. By next spring Japan will formulate the "Energy and Environment Innovation Strategy." Prospective focused areas will be identified and research and development on them will be strengthened. (snip)

In addition, many of the advanced low-carbon technologies do not generally promise investment-return to developing countries. Japan will, while lowering burdens of those countries, promote diffusion of advanced low carbon technologies particularly through implementation of the JCM.

7

## Japan's INDC (Excerpt)

### Japan's INDC

- Japan's INDC towards post-2020 GHG emission reductions is at the level of a reduction of 26.0% by fiscal year (FY) 2030 compared to FY 2013 (25.4% reduction compared to FY 2005) (approximately 1.042 billion t-CO<sub>2</sub>eq. as 2030 emissions), ensuring consistency with its energy mix, set as a feasible reduction target by bottom-up calculation with concrete policies, measures and individual technologies taking into adequate consideration, *inter alia*, technological and cost constraints, and set based on the amount of domestic emission reductions and removals assumed to be obtained. .

### Information to facilitate clarity, transparency and understanding

- The JCM is not included as a basis of the bottom-up calculation of Japan's emission reduction target, but the amount of emission reductions and removals acquired by Japan under the JCM will be appropriately counted as Japan's reduction.

### Reference information

#### GHG emissions and removals

#### JCM and other international contributions

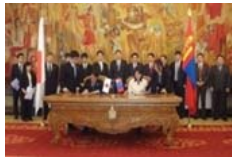
- Japan establishes and implements the JCM in order both to appropriately evaluate contributions from Japan to GHG emission reductions or removals in a quantitative manner achieved through the diffusion of low carbon technologies, products, systems, services, and infrastructure as well as implementation of mitigation actions in developing countries, and to use them to achieve Japan's emission reduction target.
- Apart from contributions achieved through private-sector based projects, accumulated emission reductions or removals by FY 2030 through governmental JCM programs to be undertaken within the government's annual budget are estimated to be ranging from 50 to 100 million t-CO<sub>2</sub>

8



## JCM Partner Countries

- Japan has held consultations for the JCM with developing countries since 2011 and has established the JCM with Mongolia, Bangladesh, Ethiopia, Kenya, Maldives, Viet Nam, Lao PDR, Indonesia, Costa Rica, Palau, Cambodia, Mexico, Saudi Arabia, Chile, Myanmar and Thailand.



Mongolia

Jan. 8, 2013  
(Ulaanbaatar)



Bangladesh

Mar. 19, 2013  
(Dhaka)



Ethiopia

May 27, 2013  
(Addis Ababa)



Kenya

Jun. 12, 2013  
(Nairobi)



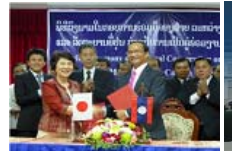
Maldives

Jun. 29, 2013  
(Okinawa)



Viet Nam

Jul. 2, 2013  
(Hanoi)



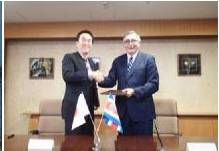
Lao PDR

Aug. 7, 2013  
(Vientiane)



Indonesia

Aug. 26, 2013  
(Jakarta)



Costa Rica

Dec. 9, 2013  
(Tokyo)



Palau

Jan. 13, 2014  
(Ngerulmud)



Cambodia

Apr. 11, 2014  
(Phnom Penh)



Mexico

Jul. 25, 2014  
(Mexico City)



Saudi Arabia

May 13, 2015



Chile

May 26, 2015  
(Santiago)



Myanmar

Sep. 16, 2015  
(Nay Pyi Taw)



Thailand

Nov. 19, 2015  
(Tokyo)

- In addition, the Philippines and Japan signed an aide memoire with intent to establish the JCM.

9

## Progress of the JCM in each partner country as of July 4<sup>th</sup> 2016

Partner countries	Start from	No. of JC	No. of registered projects	No. of approved methodologies	Pipeline (JCM Model & demonstration projects in FY13-16)
Mongolia	Jan 2013	3	2	2	5
Bangladesh	Mar 2013	3		1	6
Ethiopia	May 2013	2		1	1
Kenya	Jun 2013	2		1	3
Maldives	Jun 2013	2		1	2
Viet Nam	Jul 2013	4	4	5	17
Lao PDR	Aug 2013	1			2
Indonesia	Aug 2013	5	6	10	27
Costa Rica	Dec 2013	1			2
Palau	Apr 2014	3	1	1	3
Cambodia	Apr 2014	2		1	4
Mexico	Jul 2014	1			1
Saudi Arabia	May 2015	1			1
Chile	May 2015	1			
Myanmar	Sep 2015	1			3
Thailand	Nov 2015	1			10
Total	16	33	13	23	87

10

## JCM Model Projects by MOE

The budget for projects starting from FY 2016 is **6.7 billion JPY (approx. USD 56 million)** in total by FY2018

※Includes collaboration with projects supported by JICA and other governmental-affiliated financial institute.

Finance part of an investment cost (**less than half**)

**Government of Japan**

Conduct MRV and expected to deliver at least half of JCM credits issued

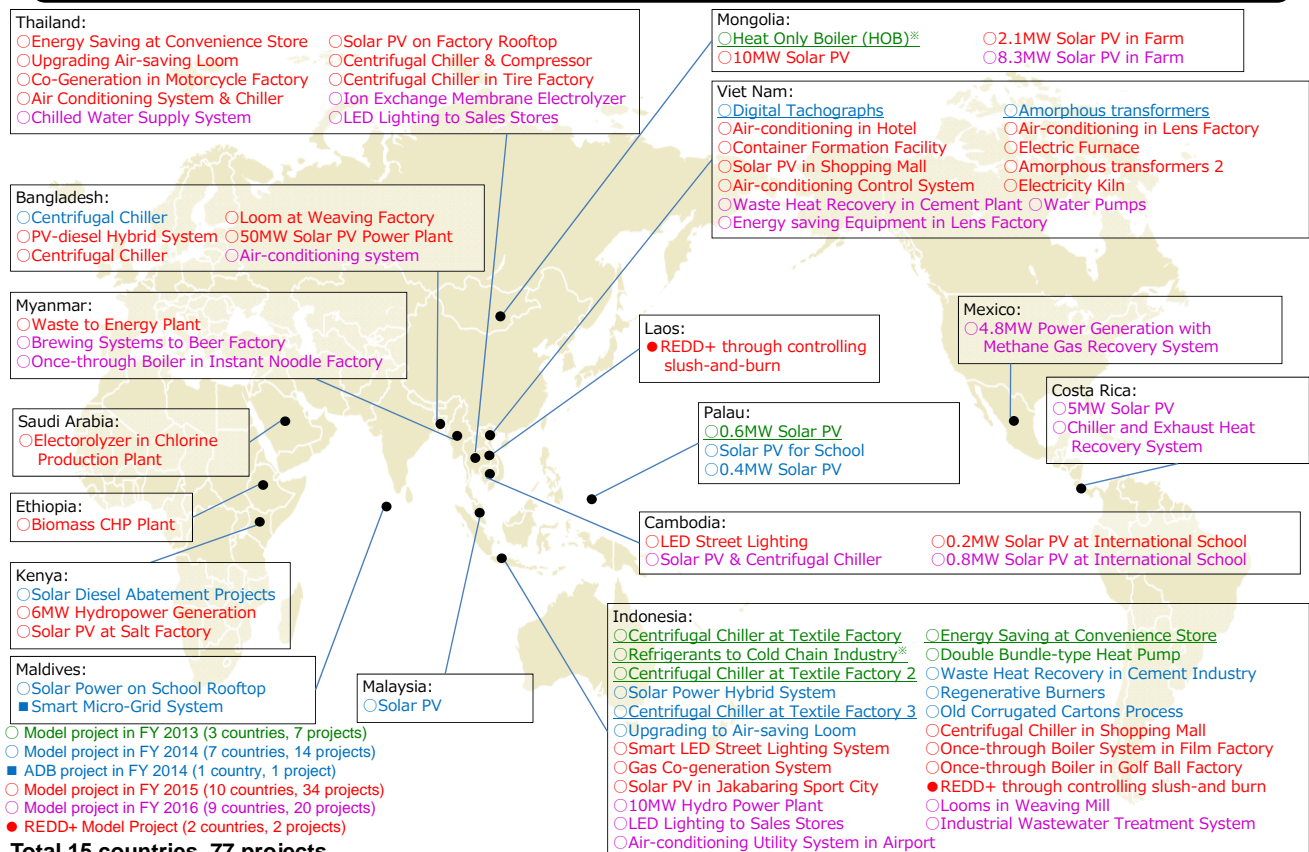
**International consortiums (which include Japanese entities)**



- Scope of the financing: facilities, equipment, vehicles, etc. which reduce CO2 from fossil fuel combustion as well as construction cost for installing those facilities, etc.
- Eligible Projects : starting installation after the adoption of the financing and finishing installation within three years.

11

## JCM Financing programs by MOEJ (FY2013~2016) as of June 27, 2016



12

# The First Issuance of JCM Credits on May 13th

*The JCM credits were issued for the first time in May 13<sup>th</sup>, under the JCM between Indonesia and Japan*

Energy Efficient Refrigerants to Cold Chain Industry  
MAYEKAWA MFG / PT Adib Global Food Supplier



Issued credit amount

**40 t-CO<sub>2</sub>**

for 6 months