

The Joint Crediting Mechanism (JCM): Achievements and current progress of projects implementation Side Event Report

Overseas Environmental Cooperation Center, Japan (OECC)
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- Title : The Joint Crediting Mechanism(JCM):Achievements and current progress of projects implementation
- Date : 13:15 - 14:45, Wednesday, May 18, 2016
- Organizer(s) : Ministry of the Environment, Japan (MOEJ), Overseas Environmental Cooperation Center, Japan (OECC), Institute for Global Environmental Strategies (IGES)
- Venue : Lounge, Art-and Exhibition Hall (Kunst-und Ausstellungshalle), Bonn, Germany
- Presenter(s) : Mr. Niclas Svenningsen (UNFCCC), Mr. Naoki Torii (MOEJ), and Mrs. Chisa Umemiya (IGES)
- Panel discussants: Dr. Thanasit Thamsiriroj, Thailand Greenhouse Gas Management Organization (TGO), Mr. Albert Magalang, Environmental Management Bureau, the Philippines, Mr. Pham Van Tan, DMHCC, Ministry of Natural Resources and Environment (MONRE), Viet Nam
- Abstract: Japan and 16 partner countries are cooperatively developing and implementing the JCM, which is one of international market based mechanisms in active operation. The recent progress, achievements and expectations on the implementation of the JCM has been reported and discussed.

Summary

1. Mr. Niclas Svenningsen (UNFCCC): “Updates on UNFCCC discussion on market mechanism”

- The adoption of the Paris Agreement has been one of the greatest achievements obtained last year. The agreement is ambitious, flexible, durable (as it was designed for the long run), and is inclusive.
- This agreement is very good for market-based approaches. Before Paris, we had the

Kyoto Protocol (CDM, JI) and since Bali (2007) additional market approaches have been introduced. In the last few years we have been discussing a framework for various approaches (FVA) and non-market approaches. Although negotiations have been very difficult, what it allowed is to have a very clear idea of what parties want in relation to markets.

- Article 6 of the agreement establishes three things: 1) parties are allowed to work together and transfer mitigation outcomes (cooperative approaches), 2) new mechanisms that are supposed to support mitigation and sustainable development, and 3) non-market approaches.
- Cooperative approaches states that parties may voluntarily cooperate in implementing their NDCs, so that they can achieve higher ambition. If these cooperative approaches result in internationally transferred mitigation outcomes (ITMOs) they need to follow robust accounting rules. SBSTA is in charge of preparing guidelines in relation to this accounting rules subject to guidance by the CMA. We are here in Bonn trying to develop this guidance for a robust accounting.
- Article 4 (para 13) says that parties have to account for their NDCs. It also says that it shall promote environmental integrity, transparency, accuracy, completeness, comparability and consistency, and ensure the avoidance of double counting. The guidance will be developed by the Ad-hoc working group for the Paris Agreement (AHP).
- The second issue of Article 6 [Article 6.4] is supposed to be a mechanism that will contribute to mitigation and sustainable development. It also says that it should be supervised by a body designated by the CMA, it should facilitate participation by public and private entities, and it should result in emissions reductions that can be used by other parties. The COP decision says that SBSTA will develop the rules and modalities for these mechanisms on the basis that it should be measurable and to that reductions are additional.
- As for the framework for nonmarket approaches, it has the aim to assist the implementation of NDCs in the context of sustainable development and poverty eradication in a coordinated and effective manner, including through mitigation, adaptation, finance, technology transfer and capacity-building. It shall promote ambition for cooperative approaches and for non-market approaches through mitigation and adaptation, it should facilitate participation in the implementation of NDCs and enable coordination across institutions.
- There are also some changes coming from the agreement. Under the Kyoto Protocol you have annex 1 and non-annex 1 countries but that distinction is not included in the

Paris Agreement, so any country can make use of these mechanisms. Approaches can be country-driven mechanism, such as the JCM. Whatever ITMOs or emissions reduction generated by one country and transferred to another, it has to avoid double counting.

- As for Kyoto Protocol mechanisms, CDM will run until the end of the second commitment period and it can go until 2023. CDM still works outside the Kyoto Protocol in voluntary markets, in that sense, CDM might continue working in some form depending on how the negotiations evolve.
- The Paris Agreement is coming into force when parties representing 55% of global emissions will ratify the convention. That it is expected to happen this year or the next one. In any case, we don't think that we need to wait until 2020 for this to happen, and after that the operation phase starts.

2. Mr. Naoki Torii (MOEJ): "Progress in the JCM"

- The objective of the presentation is to inform some development made with the JCM. Firstly, the first issuance of credits has been concluded with the Indonesian colleagues in a project in the cold chain industry. The amount of credits issued is only of 40 tons, which is not big, but it is an big achievement since this is the first time that the JCM project cycle has been completed from methodology development to project design, validation, implementation, monitoring, verification and credit issuance. Currently, there are more projects in the pipeline.
- While the amount of credits is small this is also a proof of conservativeness of JCM methodologies complying with environmental integrity. For example, the the applied methodology to the project doesn't count the emission reductions due to a possible leakage of HFC refrigerants while it introduces natural refrigerant.
- There are several projects in the pipeline. For example, waste heat recovery in Indonesia, highly efficient transport in Vietnam, solar power in Palau, efficient boilers in Mongolia, etc.
- Currently the JCM is operating in 16 countries. Many of the countries have already conducted their Joint Committee meetings, and Chile is organizing their first JC in a couple of months. Additionally, there are 12 registered projects, 23 methodologies, and 67 projects in the pipeline at the moment. The graph also shows a less number of days taken in each of the steps of a JCM project procedures compared to the CDM. The methodologies are mostly for energy efficiency projects since they were made reflecting actual project development to make methodologies be more user friendly.
- Another slide explains what the JCM methodologies are. Methodologies are aimed at

reducing the monitoring burden and also realizing net emission reductions. These can be achieved by setting conservative default values.

- Potential of emissions reduction achieved through the JCM is also shown. In Indonesia waste heat recovery is not commonly introduced in a cement factory, and this project provides a big potential of emission reductions. It is also expected to expand this type of project to other neighboring countries.
- The merit for JCM partner countries gained through JCM model project which is one of the financing programmes by Ministry of the Environment is that initial cost of advanced low carbon technologies will be reduced since up to the half of initial investment cost is covered under the programme. In exchange, once the project is registered, Japan will acquire at least half of the credits issued from the project. The projects under the programme are implemented through the partnership between entities in a partner country and Japan.

3. Mrs. Chisa Umemiya (IGES): “Methodology development for facilitating the implementation of the JCM”

- IGES has been involved with the JCM particularly through the development of methodologies. This presentation summarizes some key concepts of JCM methodologies.
- The JCM is one of the mechanisms which is actively in operation in the world that actually can achieve emissions reductions. To achieve the net emission reductions, the JCM methodology has 3 key features: Eligibility criteria for technology projects, setting of reference emissions in a conservative way, and simplified monitoring method.
- The overall process of the JCM is quite similar to that of the CDM. Project participants have to propose a methodology that has to be approved by the Joint Committee, then write the project design document (PDD) which needs to be validated by a third party entity. Then the project needs to be registered. The results are monitored, and when verified it can be translated into credits afterwards. Validation and verification can also be done simultaneously.
- The key concept under the JCM is to generate net emission reductions. This is possible by setting the reference emissions which are set below business-as-usual emissions. The difference between reference emissions and project emissions is the amount that will be credited under the JCM. The reference emissions are smaller compared to BAU emissions which is why the JCM is conservative. This is how JCM ensures net emissions reduction.
- Currently there are 23 approved methodologies which are constantly updated in the

IGES data base. The majority of the methodologies are in the energy efficiency sector.

- The first element of the JCM methodology is the eligibility criteria which defines the requirements to apply the methodology to a JCM project. In average 4 eligibility criteria have been included in each JCM methodology. An example of this criteria can be the type of technology and device installed in the project, detailed technical requirements, status before project implementation, etc.
- As for reference emission determination, according to the IGES data base, 13 out of 21 methodologies already approved use current situation and performance method. It is important to choose a parameter to be conservative, while considering limitation of data availability.
- As for monitoring, the JCM emphasize the simplicity of its method. The number of monitoring parameters are kept minimum, usually not more than a few parameters which have to be monitored ex-post. So, project participants do not have to do a lot as compared to the CDM.
- Reference emission setting is key under the methodology development of the JCM. Eligibility criteria provides technical specificity. Replication of already approved methodologies will facilitate implementation of similar projects in the future.

■ Q&A

Q. Suh-Yong Chung (Korea University):

Can you comment on potential concerns on double counting of the JCM and the response from the Japanese side.

A. Torii (MOEJ):

Japan is taking the issue of double counting very seriously. Under the Paris Agreement this is an issue and we are going to discuss it in negotiations of article 6 as well as transparency related articles, but this is a post-2020 issue. The government of Japan is actually concerned about what is going to happen pre-2020. At least, COP decisions says that the parties has to report internationally transferred mitigation outcomes. The issue of double counting needs to be taken due consideration even pre-2020 period and it is something that always needs to be discussed in the international fora.

Q. Tadashi Shimizu, TAC International Inc.:

Regarding financial viability of feasibility, scale and transaction costs are something to consider. While it seems the projects under the JCM is financed by government, I would



like to know if they can be financed through private sector.

A. Naoki Torii (MOEJ):

At this point the JCM projects are implemented mainly by financial support from the government, but we are not limiting over possibilities. There might be contributions from the private sector as well while this needs to be discussed and understood by both partner countries and Japan. Any proposal would be welcome on what kind of contributions there might be to scale-up projects under the JCM.

■ Panel Discussion

The facilitator invited discussants to join the panel and posed 4 guiding questions.

Q1. What have you learned about implementation of the JCM?

A1. Tan (Vietnam):

I have been involved with the development of JCM since its early stages. Vietnam has signed the JCM in 2013, and through these years, the most important achievement is our capacity to manage reduction of greenhouse gases have been improved. We have learnt a lot from Japan's experiences and practices, and so far we have quite a big team to work on this issues in Vietnam.

Q2. What do you think is beneficial to start the JCM?

A2. Magalang (Philippines):

The most urgent thing that we are working on right now are NDCs. We are currently revisiting the mitigation options or any other options that can be accounted in order to attain the target. We are looking at the JCM as something that can provide important contributions in general. For example, access to technologies and interaction with other countries that have already the JCM experience. For us it will be easier to replicate this experiences. Of course in the long term we expect the benefit of sustainable development, capacity building in terms of training of experts, etc. so we really have a lot of expectations.

A2. Thamsiroj (Thailand):

There are benefits on the country level and also project level. For the country level, there are benefits through the nationally appropriate mitigation actions (NAMA) as it will contribute to emissions reductions especially in the transport sector. Emission reductions under the JCM can be accounted for the achievement of the emission reduction target at the national level. And at the project level, the benefit is seen in the amount of the finance provided by Japan



which will enhance the cost effectiveness and demonstrate that it is viable, which is the most important for business enterprises. At the same time we can learn on how to conduct emission reductions in the project so that we can increase our experience.

Q3. What is needed to enhance the development of JCM projects in your country?

A3. Thamsiroj (Thailand):

Aside from the financial scheme provided by Japan, already explained by my colleague, I think dissemination of information is quite important, including funding available, project procedures, methodologies, etc. Still, there are many issues that can be confusing, such as the payment to the Japanese consortium member, so capacity building and information sharing with Thai companies will also be key for a successful implementation of the JCM. The channel of communication between government to government also needs to be improved, as many administrative issues needs to be discussed.

Q4. What do you expect for initiatives such as the JCM beyond 2020 in the context of Article 6 of the Paris Agreement?

A4. Magalang (Philippines):

I believe some countries don't see the architecture of article 6 yet. As for me, I believe that the JCM can help us to follow article 6 as a mechanism which is already working. So this raises the expectations on collaborative approaches, implementation, etc. Communication between other JCM countries and Japan also is expected to increase and this can benefit the whole process to elaborate article 6.

A4. Tan (Vietnam):

I totally agree with what has been said. The JCM and new mechanisms can support each other. The world is in the process of learning experience on conduction of new mechanisms under article 6. As for Vietnam, our commitment through our NDCs is composed in two parts: one is conditional and the other is unconditional contributions. When signing the MOU with Japan on JCM we expected that the new global agreement on climate change will enter into force in 2020. However, with the adoption of the Paris Agreement and the current ratification efforts by Parties, the agreement may enter into force very soon. Implementing the Agreement in Vietnam will focus on implementation of our INDC. The unconditional contributions, we can do by our own resources. The conditional contributions, we will lean on supports from outside of Vietnam and JCM will be one of the important channel to help Vietnam to raise our ambition.



A4. Thamsiroj (Thailand):

For us, everybody has expectations for the JCM for the conduction of mitigation goals. Article 6 will allow the international transfer of mitigation outcomes, and for developing countries it will be possible to raise ambition and mitigation actions beyond NAMAs and this can be an incentive for post-2020. Maybe this is an issue but Japan needs to consider on how to maintain or even increase the amount of support that will be prepared for the JCM. Maybe we can also suggest that Japan might find developed countries that would be interested to buy ITMOs in the future. For us, we need to analyze our administrative costs especially considering that any cooperative agreement might have hidden costs, and since there are many countries that want to work with us for post-2020.

A4. Naoki Torii (MOEJ):

As it was mentioned by Niclas, use of market mechanisms are already included under article 6. When we signed the JCM we looked the timeline until the new agreements enters into force, but of course Japans wants to extend its duration. Implementation of the JCM is also included in our NDC. What is important now is to scale-up projects implementation, because project implementation is the most important part of the JCM including realization of emission reductions. The JCM can be an example of an active mechanism that can be operated in post-2020, and Japan wants to continue negotiations of article 6 with the experience gained through the JCM.

■ Q&A

Q1. Ritika Tewari (NCI):

To Mr. Torii, I understand that the first credit issuance is just the tip of the iceberg that Japan has been working in the last few years. My question is related to accounting aspects of the JCM. According to your presentation, at least the half of credits will be issued to Japan under the financing programme. What will happen to the other types of projects?

A1. Naoki Torii (MOEJ):

Under the JCM model scheme, at least half of the credits will be issued in Japan while in general the share of credits will be discussed and decided among project participants. So if there are other type of projects under the JCM, the share of the credits will be decided by project participants. But of course this projects needs to be explained and understood in terms of the contribution from Japan as well as the benefit for the host country.



Q2. Gautam Jindal (National University of Singapore):

When the new agreement enters into force, will there be a situation where host countries can sell credits to other countries? Will this option be there in the future?

A2. Chisa Umemiya (IGES):

Credits will be shared among project participants of both countries. For the proportion of credits that the host country is receiving, how they are going to use it is up to them. If they want to sell credits, it is possible, but the question is who is going to buy them.

Q3. Kosaku Onaka (Forestry Agency of Japan):

This is not a question but a request from the Forestry Agency of Japan. I would like you to study the potential of projects in the forestry sector and REDD+ sector in developing countries.

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