

ISAP 2016

Parallel Session 1



Operationalizing the Paris Agreement Article 6 through the Joint Crediting Mechanism (JCM)

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Note

This material was prepared for the International Forum for Sustainable Asia and the Pacific (ISAP) 2016 as an executive summary of the IGES Discussion Paper DP1601:

Koakutsu, K., Amellina, A., Rocamora, A.R. & Umemiya, C. (2016): Operationalizing the Paris Agreement Article 6 through the Joint Crediting Mechanism (JCM) - Key Issues for Linking Market Mechanisms and the Nationally Determined Contributions (NDCs). IGES Discussion Paper. Hayama, Japan: Institute for Global Environmental Strategies.

Available at: <https://pub.iges.or.jp/pub/operationalizing-paris-agreement-article-6>.

Executive Summary

The 21st session of the Conference of the Parties (COP 21) held at the United Nations Climate Change Conference in Paris in December 2015 became a major milestone in the climate policy history for adopting the Paris Agreement, a universal agreement to tackle climate change. Unlike the Kyoto Protocol regime, where only some developed countries made a common commitment on climate action, the new Paris Agreement regime requires contribution from all signatory Parties, incorporated in self-established mandatory national climate strategies known as INDCs. INDCs are set to become NDCs from the next round of submissions after the entry into force of the Agreement.

Judging from the majority of the INDCs submitted by the Parties that claim use of international, regional, and bilateral market mechanisms, the role of market mechanisms in realizing the contributions intended by Parties is significant. Under the Article 6 of the Paris Agreement, three new market mechanisms are visible to support Parties achieve their mitigation objectives under the NDCs; cooperative approaches, a mechanism for mitigation and sustainable development, and a non-market approach.

The JCM, a bilateral mechanism initiated by the Government of Japan, fits in the cooperative approaches. The JCM facilitates diffusion of leading low carbon technologies, products, systems, services, and infrastructure as well as implementation of mitigation actions, and contributes to sustainable development of developing countries. In its inception, the JCM intends to use its GHG emission reductions or removals, known as the JCM credits, to achieve Japan's emission reduction target described in Japan's INDC. Moreover, bilateral agreements between Japan and 16 partner countries also stated that the JCM credits may be used for partner country's mitigation pledges, such as INDCs. Under the cooperative approach, the JCM credits can be considered as ITMOs.

As of 1 April 2016, 75 projects are in implementation stage and 21 MRV methodologies are approved. The current design and lessons from the JCM operation, including project development, practical and robust MRV methodologies, registry and accounting framework to avoid double counting of the JCM credits will be useful for the development of international guidance for cooperative approaches. Reciprocally, those international rules on transparency and accounting will be used as a basis and common framework for the development of new market mechanisms, or the adoption of improved rules for existing mechanisms.

This paper offers inputs from the JCM experience to enhance integration of the NDCs and market mechanisms to operate effectively, enhancing mitigation activities while promoting sustainable development to achieve common objectives under the new climate regime.

Key Findings

Market mechanisms will play a significant role in the new climate regime

- **The potential of market mechanisms is greater than its role claimed in INDCs**

A majority of countries claim using market mechanisms in their INDC, but the real role and potential of market mechanisms is greater than mentioned. Future NDCs should include use of all market mechanisms for a complete understanding of the climate actions planned through these instruments.

- **International finance and market mechanism will be a key element for enhancing climate mitigation in developing countries**

As many developing countries' INDCs clearly mention the amount of financial support they need to achieve higher climate mitigation and the Paris Agreement officialises the pledge for international support, developed countries should effectively deliver on the commitment to ensure ambitious mitigation in developing countries.

- **The Article 6 of Paris Agreement will be significant for Parties to achieve their NDCs**

As efficient and cost effective mechanisms are necessary to enhance the ambition of the NDCs and actual implementation of the Paris Agreement, Article 6 of the agreement will be of high significance.

The JCM experience provides inputs for development of Article 6 and new market mechanisms

- **The JCM is an example of a mechanism under the Article 6**

The Article 6 consists of the three important components: cooperative approaches, a mechanism for mitigation and sustainable development, and a non-market approach. The JCM is one of the cooperative approaches under the Paris Agreement as it meets its important criteria, namely involvement of ITMOs towards NDCs.

- **Supported projects under JCM have been increasing, but enhanced matchmaking and local stakeholder engagement to develop local project initiatives are still needed**

More than 70 financed projects are under implementation and 10 JCM Projects are registered. However, initiatives from partner countries, especially those underrepresented remain for support. Enhanced matchmaking process and mobilization of companies are necessary to support priority programs such as those mentioned in INDCs.

- **Technical guidance based on experience could be useful for methodology development**

The JCM has set an example of practical and robust methodological framework referring to approved standards and conservative calculation methods shown in 21 approved methodologies. It can provide useful inputs for the technical discussions under Article 6.

- **Local stakeholders capacity and contribution in MRV is essential for environmental integrity**

Technical simplicity, time efficiency, as well as cost efficiency attract participation of JCM stakeholders. It is important, however, to ensure that efficiency does not trade off with rigor

in ensuring environmental integrity. Strengthened capacity of the partner country in MRV and transparent public consultation process are important factors.

Experience from implementation of the JCM accounting framework can provide inputs for the international rulemaking on transparency

- **Lessons from JCM accounting framework are important for development of transparency rulemaking under Article 6 of the Paris Agreement**

The JCM is going to generate credits as ITMOs for achieving both Japan and host country's NDCs under robust accounting guidelines for avoidance of double counting. The lessons from JCM accounting framework provides crucial insights for the international rulemaking on environmental integrity and double counting for market mechanisms.

- **Domestic policy to prevent double counting risks at the national level are needed**

The JCM rules, guidelines, and the JCM registry established in Indonesia appear to reduce the double counting risks within the scope of the JCM. Beyond this scope, domestic policy and procedures may still be necessary to prevent double counting at the country level as there will be more than one mechanism and registry that involves use of units towards NDCs.

- **At the national level, clear definition of how the JCM and its units link to the country's INDC and NDC is needed to fully utilize market mechanisms**

Japan will account accumulated emission reductions or removals through the JCM covering all the GHGs. A clear accounting policy of credits towards the NDCs is still needed in the communication of subsequent Indonesia's NDCs to support full utilization of market mechanisms potential while ensuring environmental integrity.

- **Parties need to prevent disconnection between multiple years contribution and single-year target**

Unless Indonesia's future NDCs contain the contribution for multiple years, there is a risk of disconnection between JCM credits for years outside the single target year of the contribution and the NDCs. A Party's intention on how to utilize the credits generated outside the target year for the NDCs needs to be clarified.

- **A virtuous cycle of transparency and accountability rule development could foster effective INDC and market mechanisms development**

Adoption of international transparency and accountability rules under Article 6 and Article 13 will be essential for the effective implementation of INDCs, notably concerning market mechanisms, and its improvement under review cycle. Rules under existing market mechanisms should serve as reference for the international rules under the new climate regime.

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This paper has been prepared for discussion at
the International Forum for Sustainable Asia and the Pacific (ISAP2016).

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