

**Workshop on
the new market-based mechanism operating
under the guidance and authority of the COP**

Challenges associated with implementation

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Government of Japan

Improvement of the CDM

- The CDM, a representative example of the mechanisms which operate under the guidance and authority of the COP, should maintain the project-based approach primarily, and the modalities and procedures for the CDM must be improved to increase its efficiency and transparency.
- Development and wider use of standardized baselines and positive lists may help to improve efficiency in a transparent manner, and also contribute to the further dissemination of technologies which are essential for sustainable development of developing countries.

New Market-based Mechanism (NMM)

- The sectoral crediting mechanism (SCM) and the sectoral trading mechanism (STM) are being proposed as one of the new market-based mechanisms.
 - ✓ These mechanisms will focus on the emission reductions as aggregate from identified sectors.
- In establishing sector-based mechanisms, there are several issues to be addressed. Among those, Japan would like to raise three issues, especially for the SCM, with possible measures to deal with them.

Issue 1: SCM-Data coverage

- The SCM requires monitoring on the emissions of all the facilities within an identified sector regardless of their size.
- In practice, the monitoring of GHG emissions is not easy to implement in developing countries, particularly for small facilities.
- ➡ It is realistic, for example, to cover not all the facilities, but to cover only those which emit GHGs above a certain amount in the identified sector under the SCM.

Issue 2: SCM-Securing appropriate incentives

- In the SCM, it has been explained that the tradable emission reduction credits would not be created if the identified sector as a whole does not reduce GHG emissions below the predetermined threshold level.
 - Thus, one entity which has accomplished its ambitious emission reductions would not be rewarded by emission reduction credits if the sector as a whole did not achieve the emission reductions below the threshold level.
 - The incentives for achieving ambitious emission reductions cannot be secured if the effort by one entity is offset by others' inaction.
-  It should be required for a host country which introduces the SCM to ensure proper incentives for each entity to undertake ambitious reduction activities.

Issue 3: SCM-Securing credibility of existing mechanisms

- In the cases where entities which belong to the sectors under the SCM had their projects registered under the CDM, how to treat the issuance of certified emission reductions (CERs) from the projects needs to be addressed.
- ➡ Since the project participants had made the investment decision on the CDM project premised on the expected income from CER selling, CERs from the CDM projects within the identified sectors under the SCM should be admitted.

Way forward

- New market-based mechanisms should allow wide spectrum of approaches, including project-based and sector-based approaches to fulfill its function as a whole.
- Those two types of mechanisms should not exclude each other where necessary.