

Submission by Japan
**on a mechanism operating under the guidance and authority of the Conference of
the Parties (paragraph 85 of section E, chapter 2 of Outcome of the work of the
AWG-LCA)**

Japan recognizes the importance of the decision adopted at the COP17 to define a new market-based mechanism, operating under the guidance and authority of the Conference of the Parties, which is guided by decision 1/CP.16, paragraph 80. Japan would like to submit its views on this decision to contribute to the elaboration of modalities and procedures for the mechanism.

With regard to the mechanisms which operate under the guidance and authority of the COP, the COP itself should decide standards. The CDM, a representative example of such mechanisms, 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.

Japan understands that the sectoral crediting mechanism (SCM) and the sectoral trading mechanism (STM) are being proposed as one of the new market-based mechanisms which operate under the guidance and authority of the COP, and that these mechanisms will focus on the emission reductions as aggregate from identified sectors, instead of focusing on the emissions reductions from individual projects like the CDM. In establishing sector-based mechanisms such as the SCM and the STM, there are several issues to be addressed. Among those, Japan would like to raise the following three issues, especially for the SCM in this paper, with possible measures to deal with them.

The first is 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. Therefore, 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.

The second is how to secure appropriate incentives among individual entities in the identified sector. 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 (or the facilities which exceed certain amount of GHG emissions) 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. In order to address this issue, it should be required for a host country which introduces the SCM to ensure proper incentives for each entity to undertake ambitious reduction activities.

The third is how to secure credibility of existing project-based mechanisms. For example, 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.

Japan firmly believes that new market-based mechanisms should allow wide spectrum of approaches, including project-based and sector-based approaches to fulfill its function as a whole. And those two types of mechanisms should not exclude each other where necessary. Japan is willing to contribute to addressing the issues including above mentioned ones in a constructive way.