

Submission by Japan
on new market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions

Japan welcomes the decision adopted at the COP16 to consider the establishment, at its seventeenth session, of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions. Japan also welcomes the opportunity to submit its views on the new market-based mechanisms.

1. Importance of market mechanisms

- (1) Market-based mechanisms facilitate GHG emission reductions at a global level and contribute to sustainable development of developing countries by matching the needs for and supplies of low carbon technologies, products and services and by mobilizing technical and financial support for developing countries across borders.
- (2) Market-based mechanisms provide opportunities to reduce GHG emissions in the area where the abatement costs are relatively low. They contribute to GHG emissions reductions in a cost-effective manner.
- (3) Part of financial resources raised from market-based mechanisms can be used for financing adaptation actions in developing countries.

2. Basic principles of new market-based mechanisms

- (1) New market-based mechanisms should allow wide spectrum of approaches, including project-based and sector-based approaches to fulfill its function as a whole.
- (2) New market-based mechanism should promote transfer and dissemination of low carbon technologies, products and services to developing countries including LDCs and contribute to their sustainable development.
- (3) New market-based mechanisms should be flexible and efficient enough to be able to reflect specific circumstances of both developed and developing countries while ensuring environmental integrity.
- (4) In order to maximize the function of new market-based mechanisms in developing countries, sufficient institutional capacities need to be developed in the sectors where the mechanisms are utilized. To this end, developed countries should actively provide capacity building in developing countries.

3. Requirements for new market-based mechanisms

- (1) Efficient and facilitative nature

New market-based mechanisms need to be efficient and facilitative to facilitate GHG emission reduction activities by growing number of players and to scale up the

market-based mechanisms as a whole. For this sake, for example, new market-based mechanisms should be designed to be able to be combined with Nationally Appropriate Mitigation Actions to support their implementations.

(2) Technology neutrality

In order to achieve significant GHG emission reductions on a global level, it is essential to mobilize all available technologies. In this context, new market-based mechanisms should not preclude any technologies such as nuclear power and CCS.

(3) Ensuring flexibility to accommodate each country's circumstances and ensuring transparency

New market-based mechanisms should be built in a way that individual countries are also allowed to design, establish and implement their market mechanisms, reflecting their own national circumstances. Introduction of mechanisms not only with centralized governance schemes similar to the Kyoto Mechanisms but also with decentralized governance schemes should be considered. Under such governance structure, respective countries that establish their market mechanisms are responsible for designing, implementing and securing transparency of the mechanisms, following basic principles directed by the COP. It is beneficial for the purpose of ensuring transparency, that respective countries regularly report to the UNFCCC secretariat such information as what market-based mechanisms the country has developed and how they are actually used.

(4) Ensuring the environmental integrity

Environmental integrity has to be ensured in designing new market-based mechanisms. It is important that the COP directs basic principles on MRV as it is a key component in securing the credibility of new market-based mechanisms. The balance between efficiency and environmental integrity has to be adequately secured in developing the MRV for the new market-based mechanisms.

(5) Synergy with the existing market-based mechanisms

New market mechanisms should be designed to co-exist with the existing market-based mechanisms, such as the CDM, rather than replacing them. It is expected that this will create synergies. Measures to avoid double counting between different mechanisms have to be installed.

4. Outcomes to be achieved in COP17

Taking limited time available by COP17 into account, Parties should aim to adopting at the COP17 decisions which will provide directions on the new mechanisms, including basic principles and requirements that the new mechanisms are to meet, basic ideas for MRV and reporting methods which Parties need to follow in reporting their market related activities.