

Seminar on the Joint Crediting Mechanism

- Recent developments in Article 6 of the Paris Agreement towards Carbon Neutral -

2021/2/16 16:00~18:15

Questions and Answers

The speakers will answer questions from the audience on the day.

Question 1

In the JCM, the cost effectiveness of CO₂ emission reduction is set at 4,000 yen/tCO₂ in principle. For advanced technologies such as hydrogen, I think the cost per ton of CO₂ emission reduction is still on the order of 10,000 yen. What do you think about the advanced technology project?

Answer

[Mr. Koakutsu] We have included hydrogen projects in our budget request for the next fiscal year, but we are considering different criteria for that from the criteria for financing programme for JCM model projects.

Question 2

What is diversification of finance?

Answer

[Mr. Koakutsu] Diversity of finance may include governmental finance, MDB (multilateral development bank) finance and private finance.

Question 3

I understood that Carbon Capture and Storage (CCS) is not included in the scope of JCM, but I found that CCS is included in Mr. Koakutsu's presentation document.

Does it mean that CCS has been added to the scope?

Answer

[Mr. Koakutsu] We would like to discuss with our counterparts on the basis of specific projects.

Question 4

Are there any conditions for becoming a partner country, or any process for doing so?

Answer

[Mr. Koakutsu] There are no specific conditions, but in principle, a formal request from the candidate country's government is the basis for consultation.

Question 5

What are the challenges in applying JCM to advanced technologies such as green hydrogen and ammonia? What kind of system changes are being considered to solve these challenges? As you mentioned strengthening collaboration with other organizations, is it possible to co-finance a single project with JCM, World Bank and European Bank for Reconstruction and Development (EBRD)?

Answer

[Mr. Koakutsu] We recognize that there are many issues that need to be addressed before full-scale commercialization, such as the price of the technology, development of infrastructure in developing countries, and the level of feasibility, but we would like to consider providing support in a collaborative manner, utilizing the support that JCM can provide and other subsidized projects. As co-financing with international organizations has become possible, we would like to realize financial support for various situations through the JCM.

Question 6

Regarding the presentation made by the Ministry of the Environment of Japan, "Guideline on Gender Equality for the Joint Crediting Mechanism (JCM)" is not clear about how they address Gender-specific issues regarding this matter aside from "considering" more female participation and representation. Could you elaborate?

Answer

[Mr. Koakutsu] Please kindly find below for more detail on the guideline.

<http://www.env.go.jp/en/earth/Guideline%20on%20Gender%20Equality%20for%20the%20Joint%20Crediting%20Mechanism%20%28JCM%29.pdf>

Question 7

Why has international initiative and advocacy for Art.6 remained so low? Any reason behind?

Answer

[Mr. Michaelowa] Some governments like EU are hostile to international carbon markets, as well as NGOs who think that CDM had low environmental integrity. Also, in many countries domestic interest groups do not want financial transfers to other countries. The last point is lack of political will to introduce carbon pricing and link that to international carbon markets.

Question 8

Could you describe the characteristics/advantage/disadvantage of the JCM compared with ETS Linking, KliK Foundation or others?

Answer

[Mr. Michaelowa] JCM has a strong foundation in host countries that the other activities still need to build up. The Joint Committee gives a lot of responsibility to the host country. A disadvantage is the relatively small scale of the activities and the lack of programmatic approaches to date.

Question 9

Are all the schemes (programmes) that you explained on page 3 of your presentation pilot projects? I think the JCM is not a pilot project. Please let me know how those schemes work in the whole system.

Answer

[Mr. Michaelowa] In Article 6 terms, the JCM is a pilot project to test Article 6.2 (bilateral cooperation). Of course, it is a very mature pilot with a 10 year history. For the detailed explanation of how the different Article 6 pilots globally relate to each other, and their characteristics see the Perspectives/Climate Focus study at https://www.perspectives.cc/fileadmin/user_upload/PCG_CF_Article_6_Piloting_Dec_2020.pdf

Question 10

- 1) We have a broad and a variety of experiences of CDM and JI. What kind of lessons-learned we are going to obtain from the pilot initiatives in addition to the pros-and-cons of CDM/JI?
- 2) Thank you for your thoughts on the difference between Paris Agreement Article 6 and CDM (/JI). I understand that more theoretical concept development is needed rather than actual pilot projects.

Answer

[Mr. Michaelowa]

- 1) CDM and JI excluded crediting from mitigation policy instruments. CDM also did not require corresponding adjustment, so the role of host country was much less relevant. Finally, CDM and JI are 'pure' offset mechanisms, whereas Article 6 wants to go beyond offsetting (concept of 'overall contribution to global emission reduction'). This means that baseline setting needs to be changed, as baselines need to be more strict than business as usual.
- 2) We need a lot of conceptual work on baseline methodologies, ideally funded by public sector, like in the early years of the CDM. I am currently working on dynamic approaches in line with net zero pathways.

Question 11

- 1) Will you share your expectation about the demand side of the credits (which is determined 'outside' of the Paris Agreement framework)?
- 2) We may need to learn from the lessons of CDM which was killed by the demand-side outside of the KP framework. Don't you think we need a regular dialogues between supply-side and demand-side?

Answer

[Mr. Michaelowa]

- 1) Demand is the 'elephant in the room'. So far, it is disappointingly low. But growing ambition through proliferation of net zero strategies hopefully enhances demand. Also voluntary market could play a role in the short term.
- 2) The CDM lessons are very pertinent here. If there is insufficient trust in / credibility of Article 6, then demand will not emerge. Therefore we need strict approaches regarding additionality, baseline setting and sustainable development co-benefits.

Question 12

- 1) The Antananarivo city in Madagascar has an action plan with a sustainable waste management which project in 2025 to reduce 435,806tEq CO₂. Can you guide us to know what procedure relies our project for your project?
- 2) The priority is to reduce the waste at source (composting and recycling plastic) and to reduce the waste in the landfill and landfill burning (we have just a project with JICA to implant a garbage center in the landfill and we must search over project with a 2 million tons (no treatment) in our landfill.
- 3) Do you suggest composting in source with garbage? How about the 2 million tons of non-treatment waste in the landfill?

Answer

[Mr. Michaelowa]

- 1) The most appropriate program depends on the technology used. It is important to understand the concrete elements of the action plan, e.g. whether it is leading to composting or collection of landfill gas.
- 2) Ideally you focus on composting or landfill, but do not do both. Good composting means that no organic waste will go to the landfill any more, and thus landfill will no longer generate methane. I would think that given conditions in Madagascar (I have worked in your country several times) composting would be preferable.
- 3) If you are successful in composting, no more organic waste will reach the landfill. Composting is relatively cheap, but landfill gas collection is quite expensive.

Question 13

For ITMOs and JCM, what is the approximate maximum for Yen/ton and CHF (Swiss franc) per ton of GHG reduced in terms of CapEx or approximate amount spent to acquire one ton of CO₂ eq ton reduction?

Answer

[Mr. Michaelowa] There are no transparent ITMO prices yet. They are matter of negotiation between the parties. I would expect prices significantly higher than those on the voluntary carbon market.

Question 14

If private companies use the carbon credits which transferred from other countries would it be applicable for corresponding adjustment?

Answer

[Mr. Michaelowa] This is currently under discussion and heavily contested. Verra and business associations are against, Gold Standard and Perspectives in favor. In my view, voluntary carbon markets can only work in a credible way with corresponding adjustments, otherwise one gets 'double counting' and undermines environmental integrity and credibility. Credits from removals (technical or biological) will be more attractive if there is corresponding adjustment.

Question 15

Is the World Bank's "Climate Market Club" for the credit suppliers only? Are there any demand-side players, esp., EU, ICAO, Japan, ... included?

Answer

[Mr. Michaelowa] The club involves key buyers, like Switzerland, Sweden, Norway...

Question 16

If we will fail to agree Article 6 again at COP26, how will Swiss manage to meet NDC without global credit mechanism?

Answer

[Mr. Brennwald] Countries will be able to transact even in the absence of Article 6 rules (para 77 of decision 1/CP.18 - at Katowice conference 2018) on transparency and national reporting)

Question 17

Would KliK foundation invest in flare gas utilization projects?

Answer

[Mr. Brennwald] Flare gas in oil industry is not viable. Use of landfill gas for power generation would be eligible.

Question 18

My question is related to capacity building for MRV of GHG emission for the host country. Robust MRV is a key to measure emissions. Would you provide any capacity building on this aspect? If so, please provide some information? If no, are you planning to provide any support on this?

Answer

[Mr. Brennwald] Yes, the MRV system is an important part of the further development of the individual program financed by the KliK Foundation.

Question 19

In the programme by KliK Foundation, do you have any schemes to promote project development by the private sector?

Answer

[Mr. Brennwald] Yes, we accept program proposals from private company and governmental institutions.

Question 20

Would you please provide why projects in REDD+ and LULUCF are not included in KliK program?

Answer

The KliK Foundation is a private compliance buyer regulated under Swiss law, under which we are not allowed to fulfil our compliance obligation with greenhouse gas reductions achieved through activities in biological sinks because of the non-permanence of the reductions achieved.

Question 21

I understand that Chile is trying to be a major green hydrogen producer by 2030. But, isn't 99% of hydrogen still made using fossil fuels, usually through a pollution-heavy process?

Answer

[Mr. Pedro] In our case, hydrogen will be produced entirely with renewable energy, the so called green hydrogen.

Question 22

What was the hardest challenge for introducing carbon budget? What is the best benefit for introducing carbon budget?

Answer

[Mr. Pedro] Challenge: to have robust data and methodologies to define the budget. Benefits: it is a good approach that gives a certain “control” to the emissions trajectory and provides space for corrections in advance if needed.

Question 23

For the developing countries that are in the initial stage of understanding carbon pricing and didn't participate in the PMR, does WB have a supporting program other than PMI?

Answer

[Mr. Sinha] The Climate Warehouse program supports countries at the early stages of consideration of carbon pricing. The PMI also has provision for support to a limited number of countries that are considering options for carbon pricing.

Question 24 (The question from the moderator in the seminar)

To Michaelowa, some companies in Japan have set a net-zero goal. What is the role of the voluntary market in corporate carbon offsetting?

Answer

[Mr. Michaelowa] The voluntary market has grown significantly around the world since 2019, but is smaller than the compliance market. With the establishment of the task force led by Mr. Mark Carney, the size of the voluntary market is expected to grow. So the question of whether or not there will be a corresponding adjustment becomes an issue, and there are two different opinions. Verra and offset suppliers are opposed to the corresponding adjustment, while Gold Standard and we are in favor of it from the viewpoint of reliability of credits. There are compromises, such as providing subsidies instead of credits for reductions, but I think they are not reliable. While the voluntary market has the potential to expand, there is also the possibility that the government will oppose it because of the impact on NDCs. Companies should understand these possibilities and risks depending on the type of credit in the voluntary market.

Question 25 (The question from the moderator in the seminar)

To Brennwald, how does the KliK Foundation measure the additionality of a program?

Answer

[Mr. Brennwald] Since the KliK Foundation cannot implement policies that are included in the host country's NDC implementation, we have confirmed with countries that have unconditional targets that we will not support policies that are included in the unconditional targets. Depending on the country, NDCs and related policies are surveyed to ensure that projects do not overlap. This research is carried out in parallel with the formulation of the project and in cooperation with the program owner, the host country and the Swiss government.

Question 26 (The question from the moderator in the seminar)

To Pedro, which ministries have signed the bilateral agreement with Switzerland?

Answer

[Mr. Pedro] Ministry of the Environment or Ministry of Foreign Affairs has signed. This is an important issue. It is related to the national policy on Article 6 of the Paris Agreement, but it is an issue that should be decided in the near future, with the possibility of signing with Switzerland and Sweden. Article 6 pilots should be promoted. There are no set rules, but if there are, the pilots can be adjusted to follow the rules.