

Explanation of the Guidance Document for Development of Private- Sector JCM Projects*

(JCM projects invested and implemented by private companies
without any governmental financial supports)

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Ministry of the Environment
Ministry of Economy, Trade and Industry
Ministry of Foreign Affairs

Outline of the "Guidance for the development of Private-Sector JCM projects "

(March 2023, Ministry of the Environment, Ministry of Economy, Trade and Industry, Ministry of Foreign Affairs)

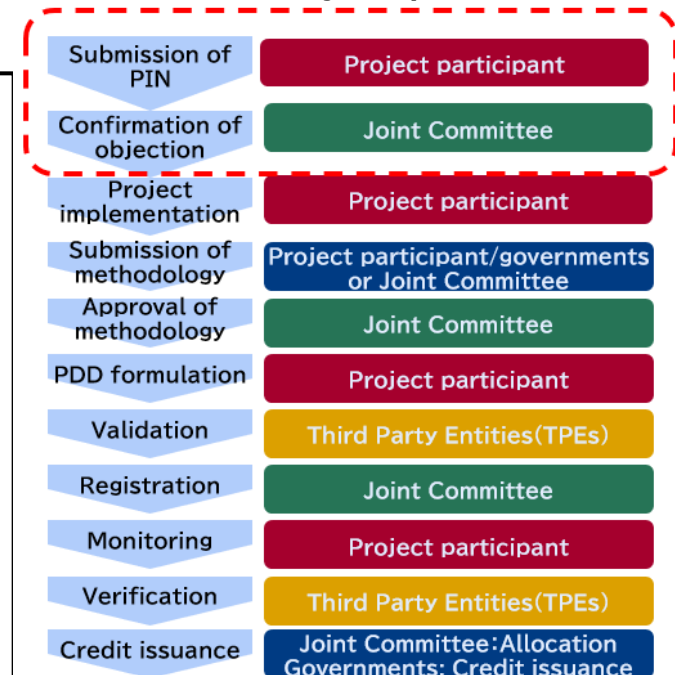
<Background>

- In order to achieve the JCM target of "cumulative international emission reduction/removal of approximately 100 million t-CO2 by 2030 through public-private partnership" based on the Global Warming Countermeasures Plan (approved by the Cabinet in October 2021), in addition to the conventional JCM project formation using financial support from the government, there is a need to promote the formation of JCM projects invested and implemented by private companies without any governmental financial supports for the purpose of obtaining JCM credits (private sector JCM), in light of the growing interest in the use of JCM credits on the part of private-sector companies in recent years.
- In FY2021, the "Study Group on Measures to Promote the Use of JCM by the Private Sector" released "Recommendations" including the following.
 - Significance of utilization of private-sector JCM and expectations from the private sector for the development of the system: Necessity of developing specific procedures for the JCM system, etc.
 - Promotion of partner countries' understanding of the concept of credit allocation, etc.: Importance of improving foreseeability through the advance inquiry process, etc.

Promotion through the formulation of "Guidance on the development of Private-Sector JCM projects invested and implemented by private companies without any governmental financial supports"

- Introduction of the following new procedure, which is under discussion with each JCM Partner country:
 - Making an advance inquiry to the partner countries on the "Project Idea Note (PIN)" which includes the project contents and credit allocation plan
 - Confirming whether there are any objections at the Joint Committee prior to the implementation of a JCM project.
- Explanation of matters to be considered when proposing a private-sector JCM project by PIN and requesting credit allocation (e.g., the concept of financial and non-financial contributions).
- Support measures for implementation of private-sector JCM projects, points to keep in mind when dealing with human rights, etc., and introduction of the support desk.
- This guidance will be updated as necessary based on future revisions of JCM rules with JCM partner countries and the status of private-sector JCM projects.

<JCM Project Cycle>



Newly added process (under discussion with partner countries)
 ※To be implemented for all JCM projects

Basic concept of JCM

- Japan establishes and implements the **Joint Crediting Mechanism (JCM)** in order to achieve the following.
 - Facilitate diffusion of leading decarbonizing technologies and infrastructure, etc., in partner countries.
 - Evaluate contribution of Japan to GHG emission reductions and removals quantitatively.
 - Use such contributions to achieve Japan's NDC.
- Japanese companies implement projects in partner countries to reduce and remove GHG, and the realized GHG emission reductions/removals are quantified and converted into credits through the Joint Committee consisting of representatives from both countries.
- The government is promoting the JCM with the goal to **secure accumulated emission reductions and removals at the level of approximately 100 million t-CO₂** by fiscal year 2030 through public-private collaborations.
- As of March 2023, Japan has established the JCM with 25 partner countries.

Basic concept of private-sector JCM

- In the JCM projects that have been developed so far, the Japanese government has been providing financial support for decarbonization equipment installation, feasibility studies, project registration, and credit applications.
- In particular, the financial support by the Japanese government for decarbonization project implementation stage, as shown in the table below, has been recognized as one of the advantages of implementing JCM.
- There are some restrictions on the flexible implementation of JCM projects using governmental financial supports. (e.g. relevant regulation to use subsidies, schedule based on fiscal year)
- For further implementation of the JCM, it is important to promote the formation of projects invested and implemented by the private sector without any governmental financial supports (private-sector JCM).

Financial support by the Japanese government for project implementation stage

Ministry	Program
Ministry of the Environment	JCM Model Project
	F-gas Recovery and Destruction Model Project
	Japan Fund for the JCM (JF JCM) - managed by ADB
	JCM support programme by UNIDO
Ministry of Economy, Trade and Industry	JCM Demonstration Projects

New process for JCM: Advance inquiry of PIN

- Addition of two steps, “Submission of PIN(Project Idea Note)” and “Confirmation of objection” to the JCM Project Cycle is being discussed with the partner country governments.
- This will also apply for private-sector JCM.



Newly added

<Terminology>

- **PIN (Project Idea Note):** A document used by the project participant for advance inquiry on credit allocation, etc. before project registration.
- **PDD (Project Design Document):** A document that includes monitoring methods and estimated emission reductions. Required for project registration.
- **Joint Committee:** Committee composing of representatives of the governments of Japan and the partner country to approve the proposed methodology, register the project, determine the amount of credits to be issued, and development/revision of the rules and guidelines and hold discussions on the implementation of the JCM.
- **Third Party Entities (TPEs):** Institution designated by the Joint Committee to validate of projects and verify the amount of GHG emissions reduction or removal.

Note: For the latest information on JCM rules and guidelines, including the above PIN procedures adopted with each Partner Country government, please refer to each partner country page on the JCM website.

Increasing business foreseeability

- When developing a project, it is important for the project participant to increase business foreseeability on whether the project can be registered as a JCM project and how much the credits will be allocated.
- Therefore, it is expected that at the beginning of the JCM process, there will be a step for the Joint Committee of the two governments to review the Project Idea Note (PIN), which describes the project.
- The PIN also includes a column for the project participant to indicate the assumed credit allocation percentage, and any objections can be checked in advance.

<Items to be included in PIN>

1. Basic project information

- Date, Partner country, Title of the planned project

2. Project participants and contact information

- Representatives in Japan and partner country and their contact information

3. Project information

- Project technology, Scale of investment, GHG reduction amount, Methodology, Schedule
 - An important part of PIN that includes contribution to the host country NDC, contribution other than GHG reductions, and assumed credit allocation percentage and its reasons.

4. Financial contribution

- Project financial support from the Japanese government
 - For private-sector JCM, select “Other” and explain the financial contribution.

5. Implementation structure

- Project structure

About the contents of PIN

- JCM credits generated from the JCM project are allocated according to each country's contribution, and Japan also receives a portion of the credits.
- So far, in JCM projects with government financial support, the Japanese government's financial support for the project is explained as the basis for "Japan's contribution".
- For private-sector JCM projects that do not utilize government financial support, **it is important to quantitatively explain the "contribution" of the private sector in terms of financial or other aspects.**

<Points to be mentioned in PIN>

- The existence of the JCM mechanism allows for the assumption of JCM credits acquisitions, leading to JCM project formation. As a result, leading decarbonization technologies etc. will be implemented in the partner countries.
- **Examples of "contributions" through the JCM:**
- Private sector financial contributions: Project cost borne by Japanese firms
- Private sector financial contributions(Contributions that may be recognized depending on the project): Other discounts (EPC costs, insurance premiums), preferential financing (lower interest rates, interest subsidies, subordinated loans), preferential treatment or waiver of rights in project participation (waiver of shareholder preferences, waiver of voting rights), etc.
- Provision of ancillary services(Contributions that may be recognized depending on the project): Activities for technology transfer related to the project, financial contributions for ancillary services such as provision of O&M services, etc., which are not normally provided.

Note: The contents of PIN document can be consulted with the JCM secretariat (info@jcm.go.jp) under the Japanese government in advance.

Potential use of JCM credits

- JCM credits are officially recognized by the Japanese government for their GHG reduction/removal value, and there are two types of uses for JCM credits: “Retirement” and “Cancellation”.
- By retiring JCM credits, **JCM credits can be used not only for carbon offsetting, but also for achieving Japan’s NDC and for the domestic calculation, reporting, and publication system (SHK system).**
- Retirement: Transfer of JCM credits to the Retirement Account, where such JCM credits cannot be transferred any further, for the purpose of evaluating own efforts to reduce GHG gas emissions.
- Cancellation: Transfer of JCM credits to the Cancellation Account, where such JCM credits cannot be transferred any further.

Note: The Government of Japan utilizes the JCM credits transferred from the account held by the government or corporation in to the national Retirement Account in the JCM Registry system to achieve Japan’s greenhouse gas emission reduction targets (JCM emission reductions and absorption realized on or after January 1, 2021).

- In the GX League, participating companies set their own ambitious reduction target levels and are now working to create a mechanism for voluntary emissions trading (GX-ETS) in order to achieve their targets.
- In the GX League, participating companies can use eligible carbon credits to achieve their voluntary targets. Initially, J-credits and **JCM credits will be eligible carbon credits.**
- For JCM credits, based on the decision on the implementation rules of Article 6 of the Paris Agreement, the Japanese SHK System is currently discussing a proposal that the JCM credits to be used shall be derived from emission reduction and removals after 2021. The treatment of JCM in GX League will be decided based on the discussion on the SHK system.

Source) https://gx-league.go.jp/aboutgxleague/document/%E5%8F%82%E8%80%83%E8%B3%87%E6%96%993_GX-ETS%E3%81%A%B%E3%81%8A%E3%81%91%E3%82%8B%E7%AC%AC1%E3%83%95%E3%82%A7%E3%83%BC%E3%82%BA%E3%81%AE%E3%83%AB%E3%83%BC%E3%83%AB.pdf

(Attachment) Merits of private-sector JCM

- For private companies, the merits of private-sector JCM are as follows:
 1. The flexibility of not having to follow the schedule or the rules/regulations related to receiving financial assistance
 2. The ability to receive a larger allocation of credits
 - So far, JCM credits have been allocated mainly based on the amount of financial contribution. Therefore, the Japanese government, which provides financial support, have been receiving the corresponding amount of credits. Under the private-sector JCM, private companies are expected to acquire more credits.

Project participants of private-sector JCM who don't use financial support by the Japanese government for decarbonization project implementation stage can still consult with Japanese government regarding **support for feasibility studies, development of JCM methodologies for calculating GHG emission reductions and removals and MRV.**