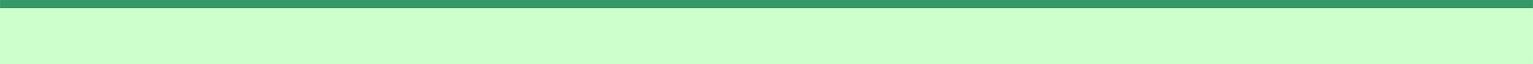


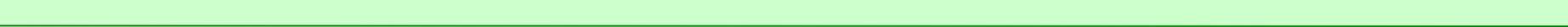


CDM High Level Policy Dialogue



May 2012

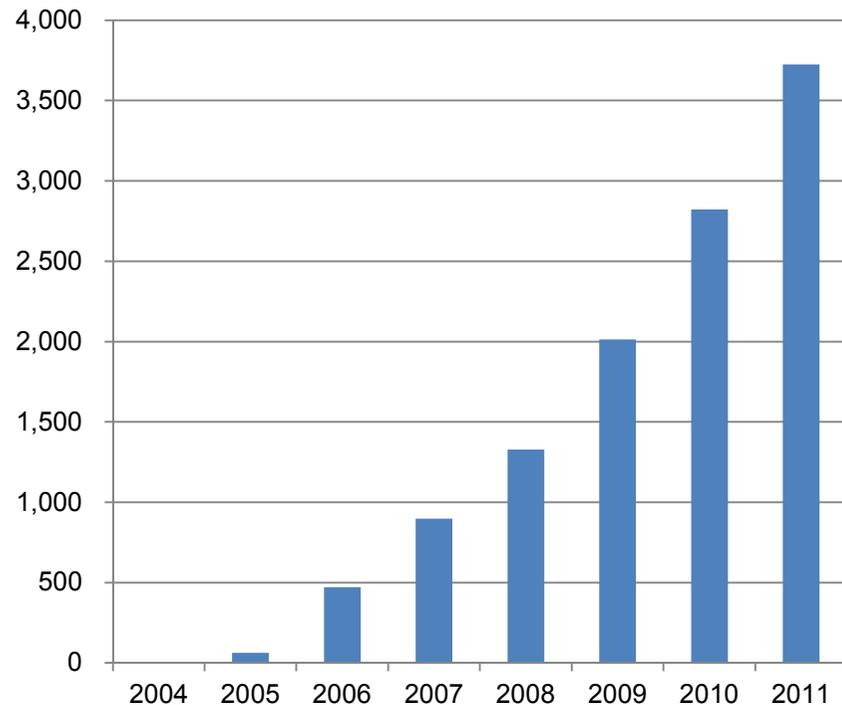
**Office of Market Mechanisms
Climate Change Policy Division
Ministry of the Environment, Japan (MOEJ)**



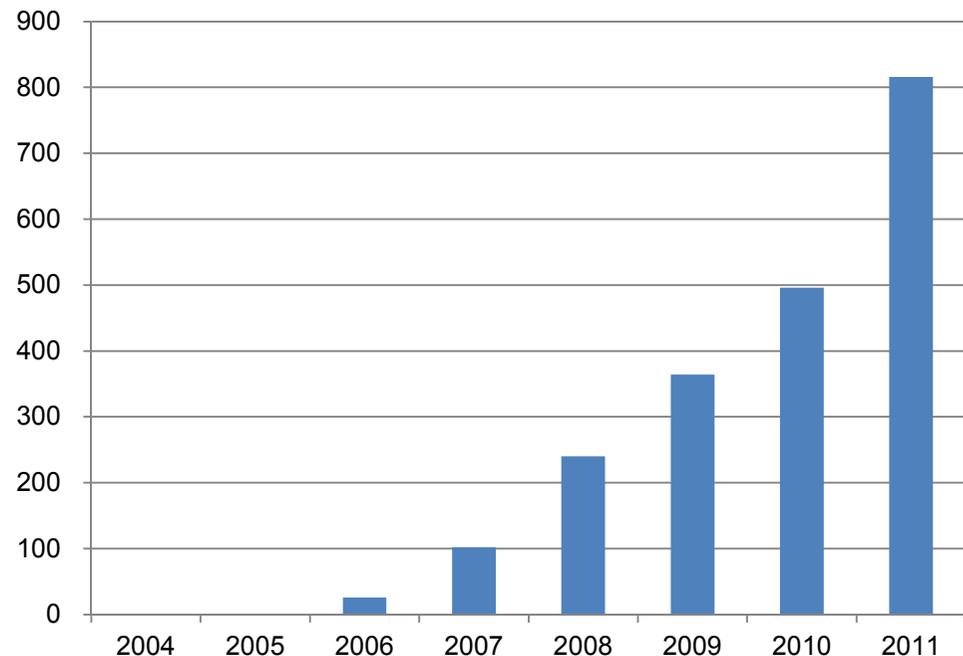
Current status of the CDM - Registration & CER issuance

- 3,725 projects have been registered and 820 million t-CO₂ of CDM credits (CERs) have been issued as of Dec. 31 2011.
- According to the World Bank report,[※] research institutions estimate 1,200 to 1,300 Mt-CO₂ of CERs by 2012 and 2,700 to 4,000 Mt-CO₂ of CERs by 2020 are to be issued cumulatively. [※]State and Trends of the Carbon Market Report 2011
- The CDM could be regarded as “the most successful flexibility mechanism” so far.

Numbers of registered projects (cumulative)



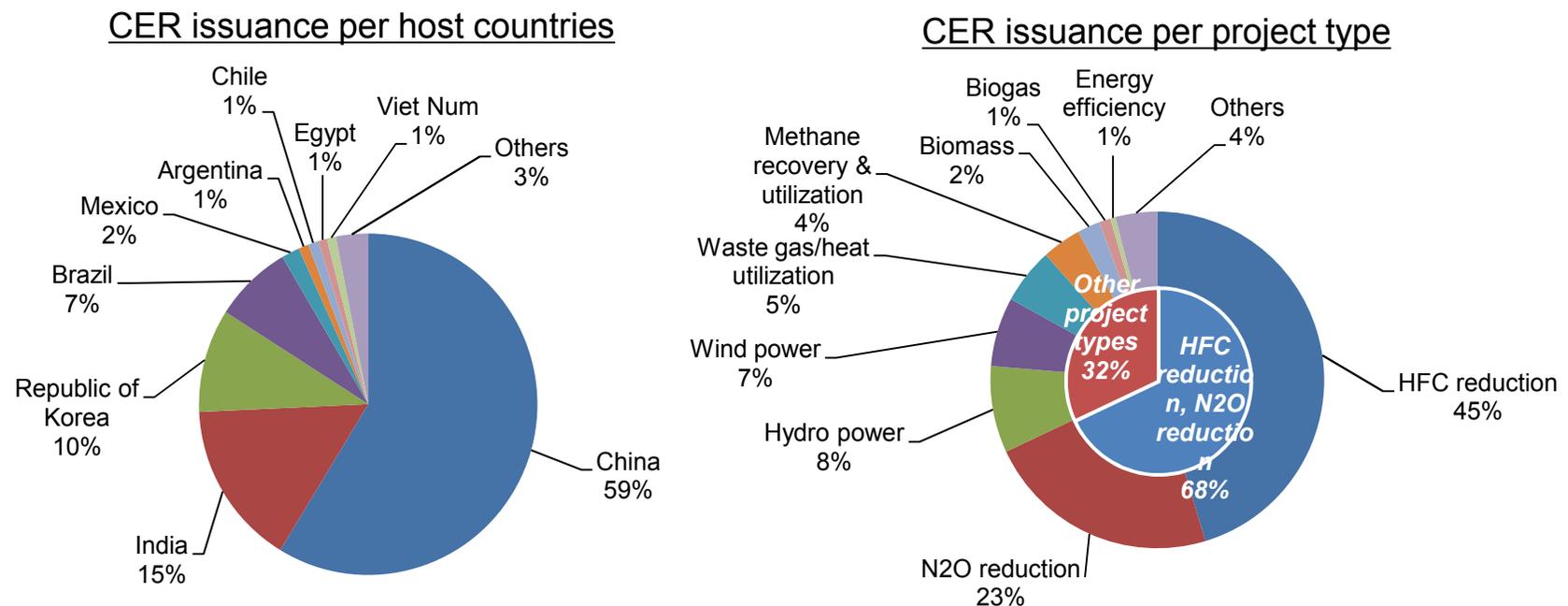
Amount of issued CER (cumulative) (unit: million t-CO₂)



(Source: IGES CDM Project Database & IGES CDM Monitoring and Issuance database (data by Dec 31 2012))

Current status of the CDM – CER issuance

- Specific countries have large share of CER issuance. China and India account for 75%, while no CER has been issued in some countries in Africa and Least Developed Countries (LDCs).
- Majority of CERs are generated from the industrial gas projects such as HFC and N₂O reductions, which consist of 70% among the total amount.



Total amount of CERs issued (as of 31 Dec 2011)
820 Mt-CO₂

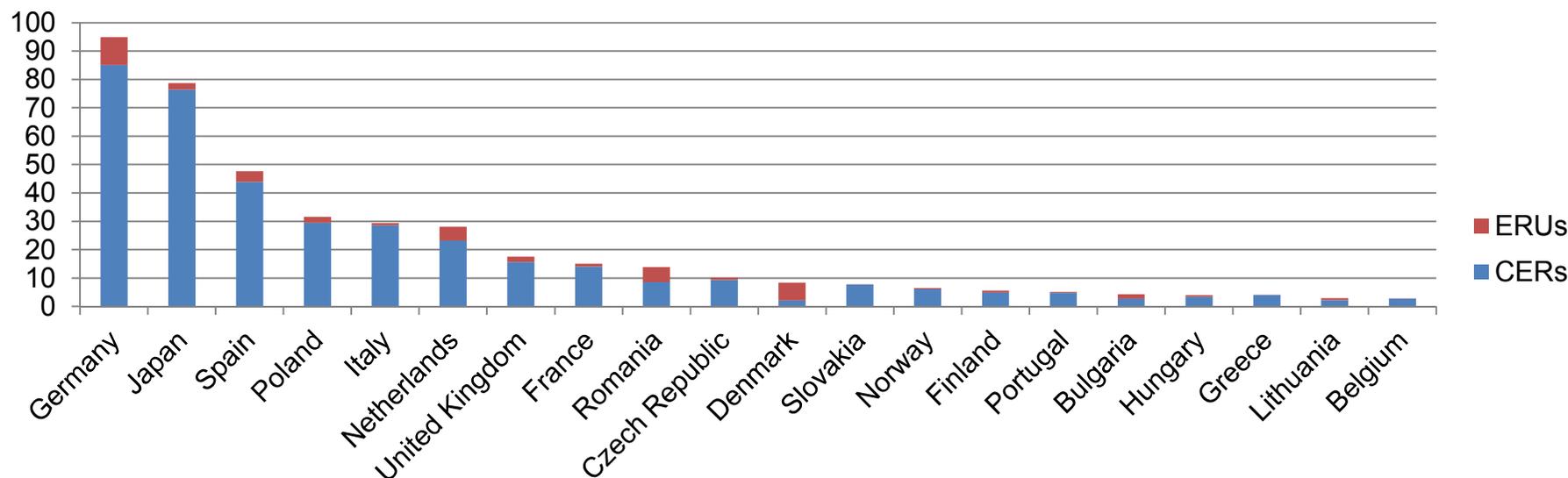
(Source: IGES CDM Project Database (data by Dec 31 2012))

Current status of the CDM – Use of CDM/JI by Parties

- As of the end of 2011, Japan (government and private) has procured 76 Mt of CERs. This is 20% of the total amount of CERs used globally, which is the second largest share as a single nation (In case of use of CERs and ERUs, it becomes 79 Mt which is 18% of the total amount).
- Under the EU-ETS, operators are allowed to use approximately 1,600 Mt of credits from the CDM and JI during the period from 2008 to 2020.
- According to the report by World Bank※, it is predicted that the demand from the developed countries for the international credits during 2013 to 2020 will be 516 Mt by Australia, and 77 Mt by New Zealand.

※State and Trends of the Carbon Market Report 2011

CERs & ERUs used by Kyoto Protocol Annex B countries (top 20) (data as of at end of reported year 2011, Unit: Mt-CO₂)



NOTE: "Used" is defined here as that the amount of CERs/ERUs in the retirement accounts and in the Party's holding accounts, which deems to be retired for the compliance of the Kyoto Protocol.

(Source)2012 Annex I Party GHG Inventory Submissions (Standard Electric Format)

Achievements by the CDM

■ Contribution to global emission reductions

- 800 Mt of reductions have already achieved and it is expected to achieve cumulative emission reductions nearly equal to the Japan's annual GHG emissions by 2012.

■ Contribution to sustainable development and co-benefits in developing countries

- According to the report by UNFCCC secretariat ※¹, the CDM contributed for sustainable development in host countries. Among 3276 registered CDM projects, 516 projects contributed for job generation, 374 projects contributed for reduction in noise, odours, dust or pollutions.
- According to the report by World Bank ※², the CDM is claimed to derive co-benefits in developing countries such as better health and increased quality of life through improved energy access, reductions of air pollution and water quality.

※¹ Benefit of the CDM 2011 ※² 10 Years of Experience in Carbon Finance

■ Promotion of awareness raising for emission reductions in developing countries

- Designated National Authorities (DNAs) which are required to establish in host countries to approve CDM projects, have been set up in 128 developing countries. The establishing process of such bodies in developing countries promoted awareness raising for emission reductions in those countries through the participation in the CDM,.

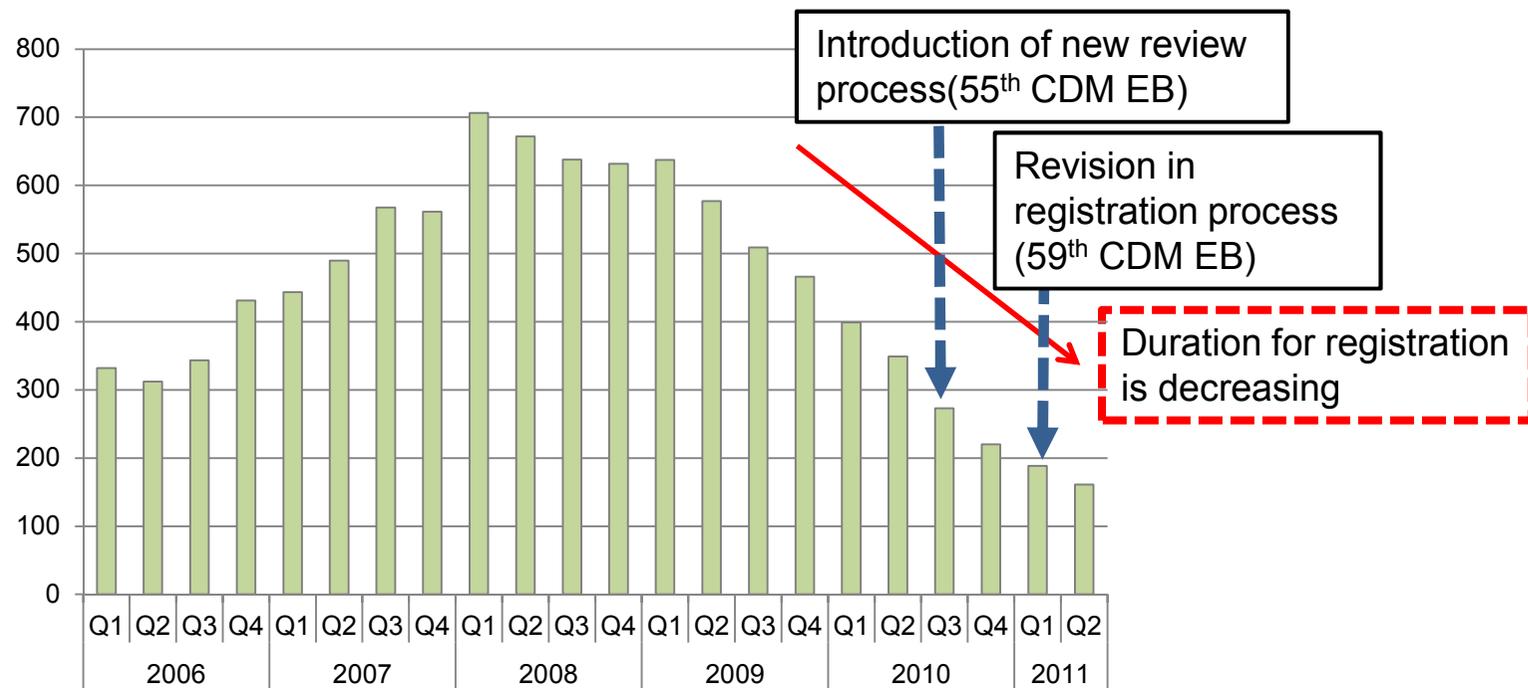
Challenges of the CDM

- **Oligopoly of CDM projects in terms of location and sector.**
 - Benefit of the CDM is not materialized in countries with smaller economy.
 - Industrial gas destruction project has the significant share of CER issued, while the share of the CO2 emission reduction projects is relatively small.
- **Approved methodologies are not fully utilized**
 - Among the 201 approved CDM methodologies, 82 methodologies are used as of 31 Dec. 2011, meaning that more than half of the approved methodologies are not utilized.
 - Methodologies are proposed for the approval based on the needs, however, in some cases the process of scrutiny makes methodologies more rigid, and consequently difficult to use in practice.
- **Registration and CER issuance processes take long time**
 - From the start date of “public comment” which is the initial process of the CDM project registration to the actual registration date was long. The maximum period required for the registration was about 2 years.
 - There were duplication of the roles among Designated Operational Entities (DOEs), UNFCCC secretariat and the CDM EB, which led to inefficiency.

Improvement of the CDM

- Several actions have been taken by the UN to improve the CDM.
- For example, “positive list” and “standardized baselines” have been introduced which enable CDM registration and CER issuance predictable.
- The registration process is improved recently and the required period for the registration is decreasing.

Days from the start of public comment to the registration



(Source: IGES CDM Project Database (data by Dec 31 2012))

Needs for new mechanisms complimenting the CDM

#1 Oligopoly of CDM projects in terms of location and sector

- Need for mechanisms from which each country can benefit
- Need for mechanisms under which wider types of project can be implemented

#2 Approved methodologies are not fully utilized

- Need for methodologies which better suit actual circumstances
- Need for methodologies under which each developing countries are able to use

#3 Registration and CER issuance process take long time

- Need for governance structure under which prompt response is possible
- Need for scheme under which decision can be made quickly



Establishment of new mechanisms

- In addition to the centralized scheme such as the CDM, there are needs for establishing de-centralized schemes which enable flexible and prompt responses and co-exists with the globally mutual approaches of CDM with complimenting their advantages each other.
- The scope of the project types and methodologies should be simple and easier to use with reflecting circumstances in developing countries while ensuring environmental integrity.

Ways forward

- Japan, in order to achieve its target of the first commitment period under the Kyoto Protocol, decided to acquire necessary amount of credits by the Kyoto Mechanisms with recognizing the use of credits should be supplemental, with a view to contribute to sustainable development of developing countries.
- In fact, Japan used the Kyoto Mechanisms and contributed for the facilitation of global mitigation activities to a certain extent.
- While Japan does not have intention to participate in the second commitment period of the Kyoto Protocol, Japan remains pursuing domestic mitigation actions and contribution to global emission reductions post 2012.
- Measures to contribute to global emission reductions could include the CDM which has contributed GHG emission reductions and sustainable development in developing countries, while its further improvement should be carefully considered, and the proposed Bilateral Offset Credit Mechanism (BOCM).