

Rules of Implementation for The Joint Crediting Mechanism (JCM)

The Joint Committee of the JCM, mentioned in “Memorandum of Cooperation on Carbon Reduction Partnership between the Government of Japan and the Government of the Republic of Palau”, hereby establishes the rules of implementation for the JCM as follows:

A. Purpose of the JCM

1. The JCM has the following purposes:
 - (a) To facilitate diffusion of leading low carbon technologies, products, systems, services, and infrastructure as well as implementation of mitigation actions, and contributing to sustainable development of developing countries;
 - (b) To appropriately evaluate contributions to greenhouse gases (hereinafter referred to as “GHG”) emission reductions or removals from developed countries in a quantitative manner, through mitigation actions implemented in developing countries and use those emission reductions or removals to achieve emission reduction targets of the countries involved;
 - (c) To contribute to the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC) by facilitating global actions for emission reductions or removals.

B. Scope

2. GHG are those gases of carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).
3. Credits are issued based on quantified amount of GHG emission reductions or removals achieved by the contribution of project participants in the implementation of GHG emission reductions or removals project activities under the JCM (hereinafter referred to as “JCM projects”).
4. The JCM starts its operation as the non-tradable credit type mechanism. The Japanese side and the Palauan side (hereinafter referred to as “both sides”) continue consultation for the transition to the tradable credit type mechanism and reach a conclusion at the earliest possible

timing, taking account of implementation of the JCM.

C. Joint Committee

5. Both sides establish the Joint Committee which consists of the representatives from both sides.

6. The Joint Committee may develop or modify the Rules of Implementation and other rules and guidelines necessary for the implementation of the JCM, including, but not limited to:

- (a) rules of procedures of the Joint Committee;
- (b) guidelines for the development of methodologies;
- (c) methodologies;
- (d) guidelines for the designation of third-party entities;
- (e) guidelines for the validation;
- (f) monitoring guidelines;
- (g) guidelines for the verification of GHG emission reductions or removals;
- (h) common specifications for registries;
- (i) formats for project design document (hereinafter referred to as “PDD”), request for registration of JCM projects, monitoring report, request for verification of emission reductions or removals, etc.

7. The Joint Committee designates the third-party entities.

8. On the basis of a request for registration of JCM projects submitted by project participants, the Joint Committee registers JCM projects which were validated by the third-party entities.

9. On the basis of a request for notification to each side for issuance of credits submitted by project participants, the Joint Committee notifies both sides to issue the credits which were verified by the third-party entities.

10. The Joint Committee develops reports on the status of the implementation of the JCM and, where necessary, discusses issues related to the operation and management of the JCM.

11. In conjunction with meetings of the Joint Committee, both sides conduct policy consultations about the relevant policy measures of the JCM.

12. The Joint Committee establishes its secretariat for the implementation of the JCM.

D. Each Side

13. Each side, based on the rules and guidelines as developed by the Joint Committee and/or in accordance with relevant domestic laws and regulations in respective countries for the implementation of the JCM:

- (a) Prepares draft methodologies and submits them to the Joint Committee;
- (b) Establishes and maintains a registry in line with the common specifications for registries, as developed by the Joint Committee;
- (c) On the basis of notification for issuance of credit by the Joint Committee (including for allocation of credits among participants), issues the notified amount of credits to its registry.

14. Each side promptly informs the Joint Committee on the issuance of credits under the JCM.

15. Each side takes necessary measures to ensure transparency in the implementation of the JCM.

16. Neither side uses any mitigation projects registered under the JCM for the purpose of any other international climate mitigation mechanisms to avoid double counting.

E. Third-party Entities

17. A third-party entity that is designated by the Joint Committee:
 - (a) On the basis of requests from project participants, validates the project as described in a PDD prepared by the project participants, in line with the guidelines for the validation as developed by the Joint Committee, and informs the validation result to the project participants;
 - (b) On the basis of requests from project participants, verifies GHG emission reductions or removals achieved by the JCM project as described in the monitoring report prepared by the project participants, in line with the guidelines for the verification of GHG emission reductions or removals as developed by the Joint Committee, records the verification result in a

verification report and sends the report to the project participants.

F. Project Participants

18. Project participants:
 - (a) Prepare a draft methodology and submit the draft to the Joint Committee for its approval;
 - (b) Prepare a draft PDD and submit the draft to a third-party entity for validation and notify the Joint Committee;
 - (c) Submit the PDD that was validated by the third-party entity to the Joint Committee for its registration of the project;
 - (d) Implement the JCM project and conduct monitoring in line with the PDD;
 - (e) Prepare a monitoring report and send the report to a third-party entity for verification;
 - (f) Submit a verification report prepared by the third-party entity to the Joint Committee, and request notification to each side for issuance of credits under the JCM.

G. Development of Methodologies

19. Each side or project participant prepares a draft methodology and submits it to the Joint Committee. The submitted draft methodology, after its completeness being checked, goes through public inputs process.

20. The Joint Committee determines either to approve or reject the draft methodology, taking account of, among other things, inputs received and notifies the result to each side or project participant, as applicable. The Joint Committee makes publicly available the relevant information on the approved methodologies through a website.

H. Designation of Third-party Entities

21. Upon receiving an application for designation of a third-party entity submitted by a candidate, the Joint Committee designates a third-party entity in line with the guidelines for the designation of third-party entities, and makes publicly available the relevant information on the designated third-party entity through a website.

22. The Joint Committee may suspend or withdraw the designation of a third-party entity if it has found fraud, malfeasance or incompetence of the entity.

I. Validation

23. Validation is the process of independent evaluation of a proposed JCM project by a third-party entity against the validation guidelines as developed by the Joint Committee on the basis of the PDD.

24. Project participants develop a PDD by filling in the format and request a third-party entity to validate the proposed JCM project.

25. The third-party entity, in line with the guidelines for the validation as developed by the Joint Committee, validates the proposed JCM project as described in the PDD and notifies the result of the validation to the project participants.

J. Registration

26. Registration is the formal acceptance by the Joint Committee of a validated project as a JCM project.

27. Project participants submit the PDD, which was validated by the third-party entity, to the Joint Committee and request for registration.

28. Upon receiving the request for registration from project participants, the Joint Committee registers the project, notifies each side of the registration and makes publicly available the relevant information on the JCM project through a website.

K. Monitoring

29. Project participants implement a JCM project and monitor GHG emission reductions or removals by the JCM project based on the PDD.

L. Verification

30. Verification is the periodic independent review and ex post determination by a

third-party entity of the monitored GHG emissions reductions or removals as a result of a registered JCM project during the verification period.

31. Project participants prepare a monitoring report and request a third-party entity for verification.

32. The third-party entity, in line with the guidelines for the verification of GHG emission reductions or removals as developed by the Joint Committee, verifies the amount of GHG emission reductions or removals on the basis of the monitoring report submitted by the project participants, prepares a verification report and sends the report to the project participants which requested verification.

M. Issuance of Credits

33. Each side establishes a registry to record and use the credits.

34. Project participants of a JCM project consult among themselves, and determine, the allocation of credits.

35. Project participants request the Joint Committee to notify each side to issue the credits to its respective account in the registry on the basis of the verification report with the determined allocation of the credits among the project participants.

36. The Joint Committee conducts a completeness check on the request, including for allocation of the credits among the project participants, and notifies each side of the result.

37. The Joint Committee makes publicly available the relevant information on the issuance of credits through a website.

N. Use of Credits

38. Credits issued by each side can be used to achieve emission reduction targets of both sides.

39. Each side checks the status of the issuance and use of credits and makes sure that no double counting as described in paragraph 16 of credits is discovered.

O. Others

40. A project which started operation on or after 13 January 2014 is eligible for consideration as a JCM project.

41. The JCM covers the period until a possible coming into effect of a new international framework under the UNFCCC. Both sides consider possible extension of the JCM and reach a conclusion before its termination, taking into account, inter alia, the progress made in the United Nations negotiations on climate change.