



POST 2012 POSITION PAPER

REVISED PAPER FOR THE ROUNDTABLE CONSULTATIONS, 14 JUNE, BONN

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1. INTRODUCTION

This Position Paper presents the vision of the JIAG for the future of Joint Implementation (JI). This revised paper draws upon two earlier policy papers published by the JIAG in preparation of the Conference of Parties in Poznan and Copenhagen. The views presented in this Paper are complemented to take into account recent developments in EU legislation and further clarity on the framework in which JI will operate after 2012.

JI is a crucial domestic offset mechanism that stimulates reductions in countries that are subject to emission caps and in particular where sectors or individual installations are not covered by caps like under the European Emission Trading Scheme (EU ETS).

This paper elaborates additionality, baseline setting but also the interaction of the JI mechanism with existing cap and trade systems. As such it contains recommendations for the negotiators at the sixteenth Conference of the Parties in Cancun at the end of 2010, the Joint Implementation Supervisory Committee (JISC) and EU policy makers.

2. POTENTIAL FOR ALIGNING TRACK 1 AND TRACK 2

All Annex 1 countries meet the eligibility criteria for JI Track 1.¹ Projects developed under Track 2 are subject to the rules, procedure and criteria defined by the JISC. By centrally defining Track 2 guidelines, de facto this track became the standard for baseline setting and monitoring of JI projects. Under Track 1 however, verification procedures are defined by the host country as it deems suitable. As a result, Track 1 JI projects need to adhere to national standards and is thereby more a political instrument that Annex 1 governments can use to support domestic greenhouse gas emission policies.

This makes the two mechanisms very different, each with its own quality. Where Track 1 provides the flexibility to national governments that Track 2 cannot, Track 2 is the international standard that is so crucial for a free trade of credits and for the development of a homogeneous carbon market that sets global standards for the recognition of real emission reductions.

¹ When JI was negotiated concerns were raised whether all Annex 1 countries would be able to meet the eligibility requirements, i.e. being able to monitor annual emissions and have a registry in place. A hybrid system was put in place, called JI Track 2 for those countries not eligible and JI Track 1 for eligible Annex 1 countries. The JISC was created to supervise JI Track 2 projects only. In JI Track 1 the host country is left on its own devices: It can design Track 1 verification procedures as is deemed suitable.

Before the conference of parties in Cancun in December 2010, the JIAG calls for an analysis of the JI Track 1 requirements of different Annex 1 countries. The objective of this assessment should be to determine the potential for:

1. Improving Track 2 Guidelines according to lessons that can be learned from the different national approaches under Track 1,
2. A coordinated harmonization of Track 1 Guidelines in cooperation with the relevant host countries,
3. Drawing conclusions on the need to have different tracks.

While the current scrutiny may be overly restrictive for JI Track 2, Track 1 does not guarantee the compliance with the minimum requirements that the JIAG defined for JI.² In reality host countries meet the criteria discussed above and require independent determination of the baseline and independent verification of the monitored emissions reduction. However, in theory a host country could issue ERUs for JI projects that have not monitored actual emission reductions. In that case JI Track 1 will start to resemble Article 17 International Emissions Trading. We believe that in a post-2012 regime both tracks should be aligned and adhere to minimum requirements, including

- Each JI project should have a baseline and monitoring plan, where the baseline should be calculated according to the most plausible scenario *in absence* of the project
- The baseline setting and monitoring plan should be determined by an accredited independent entity (AIE)
- Reductions should be monitored
- Reductions should be verified by an AIE

3. ISSUANCE OF ERUS

Currently the receipt of ERUs is subject to the host country's willingness and ability to convert AAUs into ERUs and transfer them. This exposes transactions to risks associated with the host country situation which buyers in the JI market perceive a serious political risk. This risk can be reduced by allowing host countries to transfer an amount of AAUs to a dedicated JISC registry account upon issuance of the Letter of Approval. The amount of AAUs transferred can equal the expected amount of emission reductions in a given Kyoto crediting period as estimated in the Project Design Document. Upon positive verification of the emission reductions by an Independent Entity, the JISC can convert and transfer ERUs to the account specified by the project participants. If emission reductions as estimated in the PDD do not mature or are not positively verified, the JISC can periodically return AAUs to the host country account.

² JI is a project-based mechanism that operates in a capped environment. Resulting Emission Reduction Units (ERUs) lead to a cancellation of a country's Assigned Amount Units (AAUs). The essence of JI is that ERUs are issued after emission reductions have been generated. This distinguishes JI from Green Investment Schemes (GIS) where AAUs can be traded freely before any reductions have taken place. Therefore we believe that any JI project should meet two key criteria: 1. The projects should have a baseline and monitoring plan which is independently determined. 2. The emission reductions should be monitored and independently verified.

4. DOMESTIC AND UNILATERAL JI

According to the Kyoto Protocol and Marrakesh Accords, ERUs can only be issued and transferred out of the host country once a second approval from an Annex 1 country is available.

The JIAG would like to suggest that the requirement of a second Annex I approval is removed from any future JI regime and that a Approval from the host country will be sufficient to issue and transfer ERUs.

5. ADDITIONALITY

JIAG argues that the additionality requirement can and should be removed from JI. First of all the environmental integrity of JI is guaranteed since for the issuance of one ERU the host country has to cancel one AAU. Furthermore, as has been argued above, JI is basically a policy instrument of the host country to meet strategic goals related to, among others, reducing emissions, energy efficiency, technology transfer and sustainable development. Therefore we believe that it is host country discretion whether to approve a project, as long as it is proven that the project results in emissions that are below those in absence of the project (see above on the minimum requirements of a JI project).

Nevertheless if the project participant or host country wishes to do so, it can integrate an additionality test in the PDD. This additionality test could then be based on guidance issued by the JISC and assessed by the AIE.

6. GOVERNANCE OF JI

The role of the JISC is crucial in supervising the mechanism and safeguarding its credibility. JIAG believes that one of the key elements of this role is the accreditation and supervision of Independent Entities.

For the performance of this task it is crucial that JISC members have experience with project development or the determination and verification of projects. The JIAG encourages the JISC to make this an important criterion when selecting JISC members. As a rule of the thumb the JISC should consist of one-third representing Parties, one third representing AIEs and one third representing Project Participants. Having these three groups on the JISC, the consultation of external experts in the appraisal procedure may become obsolete (allowing to shorten the 45-day review request period).

7. ESTABLISH MULTINATIONAL SECTORAL BASELINES

The development and determination of projects is a lengthy procedure. The JIAG encourages host countries and the JISC to search for ways to reduce the replication of effort between projects. A good example is the development of determined sectoral baselines equivalent to what Ukraine did when it published a power grid baseline. There is potential to do the same for the cement or iron and steel sectors.

8. ACCREDITATION PROCEDURES

The accreditation of independent entities could be simplified to grant an accreditation for the whole second commitment period on the basis of one witnessing activity. During the accreditation term, the continued eligibility of the independent entity can be confirmed with regular spot checks.

9. EXTENSION OF CREDITING PERIOD FOR JI PROJECTS WITHIN THE FRAMEWORK OF THE KYOTO PROTOCOL

Although the first commitment period of the Kyoto Protocol ends at 31st December 2012 technically in accordance with procedures established by CMP decisions accounting for the first commitment period will be finalized only sometimes in the middle of 2015 after the submission and review of Parties' final annual reports for 2012 which is the last year of the commitment period.

Section XIII of the Annex to the Decision 27/CMP.1 provides for a specific period of 100 days that is to occur after the completion of the review of 2012 annual reports for the commitment period in order for Parties to continue making transactions for the purpose of 'truing up' any remaining differences between Parties' total emissions during the commitment period and units retired for compliance. The formal name for this period is the 'additional period for fulfilling commitments', but it is commonly known as the 'true-up period'

Moreover Section XIII of the Annex to the Decision 27/CMP.1 provides that until the end of the 'true-up period' each Party is allowed to continue transfer and acquisition of various carbon units (AAUs, ERUs, CERs and RMUs) from the preceding (e.g. first) commitment period.

We believe it provides the opportunity for host Parties, subject to their decision, to issue ERUs for emission reductions achieved after 2012 but before end of 'true-up period' from AAUs they have for the first commitment period of the Kyoto Protocol.

We believe such ERUs would be first commitment period ERUs since they would be issued by conversion of host Parties' first commitment period AAUs.

JIAG kindly requests the JISC to make the following recommendation to the COP/MOP:

For the projects that received approval of the host Party before 31st December 2012:

- a. Emission reductions (removals) achieved until the end of additional period for fulfilling commitments (as referred in Section XIII of the Annex to the Decision 27/CMP.1) can be verified in accordance with paras 23 (Track I) or 24 (Track II) of the Annex to the Decision 9/CMP.1
- b. After such verification Host party may issue ERUs by converting CP1 AAUs.
- c. Any Annex 1 Party can use these ERUs for the purpose of fulfilling commitments under Article 3, paragraph 1.

10. PROVIDING CERTAINTY UNTIL A NEW INTERNATIONAL AGREEMENT COMES INTO FORCE

JI has helped develop and strengthen a low carbon infrastructure that integrates both the public and the private sector, that identifies emission reduction potentials across economic sectors, and that guarantees that the low carbon transformation of our economies will happen at a an acceptable and competitive price. JI has been a successful instrument of cooperation both within the EU (by far most registered JI projects are located on EU territory) and between EU countries and their Eastern neighbours (Russia, Ukraine). JI spreads technology, knowledge, and investment, and as an offsetting mechanism, it is highly innovative and flexible in scouting the entire economy.

As JI is intrinsically linked to the existence of AAUs, the future of JI depends on the international community to agree in time on the continuation of, or replacement for, the Kyoto Protocol. Project participants, investors and the market as a whole depend on the mechanism's predictability to continue making the investments needed for developing projects.

While the world community and the EU should stay committed to negotiate an overarching climate agreement at the multinational level in Mexico (2010) or South Africa (2011), it is high time for the EU to take proactive steps on a contingency plan. Just as the European Union Emission Trading Scheme (EU

ETS) foresees, if international negotiations are in stalemate, the EU should seek to negotiate bilateral agreements with third countries. These bilateral agreements will allow to recognize offsets in the ETS from JI projects that invest in projects promoting energy efficiency, technology transfer and sustainable development in the direct neighbours of the EU. The EU is called upon to negotiate agreements with Ukraine, Russia and Belarus. Such bilateral agreements will not only facilitate emission reductions, but is of strategic interest of the EU by promoting technology transfer, improve energy efficiency and therefore enhance the security of energy supply by and through the neighbours of the European Union.

In addition, the EU needs a strategy for JI and other offsetting mechanisms within the Union. JI has proven particularly successful in EU Member States. If it wishes to continue this path, the EU needs to adopt legislation for the creation of a European offsetting mechanism. The EU Commission and Member States have the power to do so under the new EU ETS Directive (Article 24a). They need to act fast if they want to secure the positive project trajectory Europe has witnessed over recent years. Projects inside the EU can contribute remarkably to more ambitious targets as it is already proven in Member States enabling JI within their jurisdiction.

ABOUT THE JOINT IMPLEMENTATION ACTION GROUP

The Joint Implementation (JI) mechanism under the Kyoto Protocol has developed a project pipeline that is expected to generate 409 million tons of greenhouse gas (GHG) emission reductions in the period 2008-2012. Its central principle has proved simple and effective: countries under the Kyoto Protocol with capped emissions can trade project credits and reduce their total emission profile. The JI mechanism delivers low transaction costs, substantial benefits, and should be expanded in the next climate framework.

The Joint Implementation Action Group (JIAG) was formed in March 2008 to support the post-2012 negotiations with hands-on experience from market participants. The consortium of carbon market pioneers representing over 100 millions of tonnes of greenhouse gas emission reductions through JI projects constantly interacts with policy-makers and interest groups to communicate its views. The JIAG believes it is essential that JI is enhanced in the next climate agreement, maximize its potential as a project finance mechanism, creating incentives to reduce GHG emission in a wide range of sectors and among a broad range of actors.

On the web-site www.jiactiongroup.com you will find an overview of the JIAG's activities, its publications, policy papers, legal papers, information on how the JIAG works and how entities can support its activities by becoming a JIAG member.

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