

Guest Commentary

JI still has a role to play *By Lennard de Klerk, JI Action Group*

At UN climate talks in Cancun the JI Supervisory Committee (Jisc) made a range of suggestions how to improve the working of JI.

The suggestion that has drawn most attention is the proposal to continue the JI mechanism until mid-2015 within the framework of the first commitment period and without having to change the Kyoto Framework. The Jisc proposal allows new projects to be registered and a continued issuance of ERUs building upon an existing infrastructure that has proven to deliver.

The Jisc proposal only extends JI for two years, which does not provide the long-term horizon investors are looking for. But it may just be long enough to bridge the period until negotiators have concluded a new international agreement.

To phase out JI - as suggested in an EC climate department document late in November - is counterproductive as it would remove the only existing mitigation mechanism that exists to date. Apart from the ETS within the EU, there is currently no alternative incentive in place to promote new investments in energy efficiency and renewables in countries like Ukraine and Russia.

These investments are of crucial interest to Europe to secure energy supply for the next generation. From all natural gas that is imported in the EU 40 per cent comes from Russia. Of all natural gas produced by Russia, Russia consumes itself 50 per cent and exports the remaining 50 per cent to Europe.

The dependency from Russia is expected to increase but if Russia (and Ukraine) does not invest in energy efficiency and renewables, at some point the energy security of the EU is in danger. JI is one of the instruments to finance those investments.

Even worse, with no alternative in place, some existing JI projects will go in reverse and are likely to be decommissioned (like methane destruction projects at coal mines and landfills or catalytic destruction of nitrous oxide at fertilizer plants).

The EC has a wrong understanding of the function of JI. Cap-and-trade AND offsets can happily co-exist, and JI can effectively reduce emissions in sectors

not covered by a cap-and-trade scheme. A good example is the domestic JI scheme in Germany that coexists with the EU ETS.

Currently some 23 JI projects have been registered in Germany of which most projects will not be covered by the third phase of the EU ETS. Other EU members like France, Spain and Poland are hosting several JI projects and Denmark is starting a pilot project to unlock new emission reduction potential.

Those domestic JI projects helped to develop standards and benchmarks that partly have been used for the benchmarks applied in the EU ETS as of 2013 – a very good example that offset mechanisms can not only coexist with cap-and-trade, they support their further development.

Introducing a cap-and-trade scheme in Ukraine and Russia is a possibility but will take 5-10 years. Ukraine recently tabled a draft law to introduce a cap-and-trade scheme, but implementing the law will take several years.

In the meantime people will not be incentivised to invest or will put planned investments on hold pending clarity on the allocation method of a cap-and-trade scheme. Furthermore Ukraine stated that it is willing to consider taking stricter targets going beyond the -20 per cent under the Copenhagen accord. But in order to do so Ukraine wants to have access to financial and technological resources for implementing low-carbon energy-efficient technologies. And JI is one of those resources.

In the context of reaching a new international agreement Ukraine and Russia play an important role as they have significant emissions and have a large quantity of surplus AAUs. For any international agreement to make sense Ukraine and Russia need to be part of it. The JISC proposal is not a game changer as the proposal will only prologue JI with two more years. The resulting ERU volumes will be limited as JI is in size some 10-15 per cent of CDM.

But the proposal of the EC to phase out JI now without providing a realistic alternative will severe relations with two important neighbours. It is worse than a “do nothing”; it is “undo everything”.