



Joint Implementation: whence we come and where we go

Joint Implementation Action Group

Annual Report 2009/Outlook 2010

03 February 2010

1. INTRODUCTION

This report looks back on the activities of the Joint Implementation Action Group (JIAG) in 2009, listing key events, achievements, discussions and strategies. JIAG has been very active in promoting JI as prime mechanism in capped environments. The promotion was done through direct interaction with the Joint Implementation Supervisory Committee (JISC), side-events at different conferences, various publications and improved access to publications with the launch of a website. This Annual Report presents the results over 2009 and the Group's strategy for 2010.

2. OFFICIAL COMMUNICATION CHANNEL

The JISC recognised the JIAG as organisation for Joint Implementation project developers by appointing the JIAG as official communication channel. The JIAG in response revised its Memorandum and procedures, allowing also non-members to use the JIAG as a channel to communicate their suggestions to the JISC.

3. LAUNCH OF THE WEB-SITE

In June 2009 the JIAG launched its web-site with an e-mail through Climate-L (www.jiactiongroup.com). The web-site provides an introduction to the JIAG, its purpose and activities. In addition, it lists the events in which the JIAG has participated or will participate in the future. Finally the site provides access to all publications from the JIAG and links to relevant information on JI.

4. THE REGULATORY FRAMEWORK OF JI

Throughout 2009, the JIAG has been in regular contact with the UNFCCC secretariat and the JISC. The table below lists the topics that were discussed and how these issues have been addressed.

| Month | Topic | Changes to the regulatory framework |
|-------|--|--|
| All | Joint Implementation in publications. | Regularly reviewing articles and answering questions from authors of articles on JI in popular carbon market magazines. |
| Jan. | The possibility to move Track 2 JI projects to Track 1 and vice versa. | No changes to the regulatory framework were necessary. A project can be listed both under Track 2 and Track 1 at the same time |
| Apr. | Request from the JIAG to | JIAG acted as communication channel on a tentative basis and participated in four |

| | | |
|------|--|--|
| | be recognised as an official communication channel to the JISC. | JISC meetings (JISC16 to 19). In December the status was made permanent. |
| Jun. | Witnessing procedures for the accreditation of Independent Entities | The JIAG proposed to simplify the accreditation procedures under the JIAG. The call was heard and the procedures were simplified in June 2009. Subsequently the JIAG made an inventory of the project type needs by Accredited Independent Entities for the ex-post witnessing process and matched project developers with AIEs. |
| Sep. | Fee structure for JI Track 2 | Initially the advance payment of the registration fee due upon final determination of a JI project depended and was capped at USD 350,000. For large projects this was a significant upfront payment, even though this amount could be reimbursed if the project would not generate verified emission reductions. The JIAG proposed to cap the advance payment to the non-reimbursable amount of USD 30,000. This proposal was accepted by the JISC and implemented after endorsement by the 5 th session of the Meeting of the Parties (CMP5) in Copenhagen. |
| Sep. | Response to the Call for Input on the draft procedures for Programme of Activities | In this reaction the JIAG drew attention on issues related to additionality, reviews of Joint Implementation Project Activities or JPAs inclusions, starting date, monitoring periods and sampling. |
| Oct. | Response to the Call for Input on the draft Determination and Verification Manual | The JIAG drew attention to issues related to transferring projects from Track 1 to Track 2 and vice versa, deviations from CDM methodologies, validity of the methodology used, the monitoring report template, stakeholder consultations and site visits. |
| Dec. | JI projects in countries outside Annex B | Belarus and Kazakhstan have both taken up Annex I Party obligations under the UNFCCC and they assumed, on a unilateral basis, quantified emission limitations and reduction targets. Belarus' proposal for amendment of Annex B has been adopted at CMP 2 in Nairobi and Kazakhstan submitted a request for approval to be decided at CMP 5 in December 2009 in Copenhagen. The JIAG encouraged the JISC to accept projects, from the moment a country has submitted an amendment proposal, to be included in Annex B. The determination can be made valid at the moment the respective revision of Annex B is ratified and the host country meets the relevant eligibility requirements. A decision on this issue is pending. |

5. PUBLICATIONS

In 2009 the JIAG actively stimulated research on Joint Implementation to draw more attention to the topic and stimulate the carbon market to develop suggestions for further improvement of JI. The JIAG attracted funding from the Danish government for the development of two papers, one on domestic JI, closely assessing the need for a non-host country Annex 1 approval and one on reform of additionality under JI. The first report was concluded by Climate Focus in December 2009 and the second by the Finnish Institute of International Affairs in January 2010. JIAG publications can be found at: <http://jiactiongroup.com/publications.html>.

In addition, the JIAG published several articles and reports, all available on the web-site:

- **JI Chapter** in book on 'Legal Aspects of Carbon Trading' (October 2009)

Chapter 8 of the new edition of 'Legal Aspects of Carbon Trading' authored by Jelmer Hoogzaad and Charlotte Streck has been published under the title 'A mechanism with a bright future: Joint Implementation'. It describes the current state of play for JI, explaining the procedural requirements for a successful participation in JI, providing insights in Track 1 JI, describing the

post-2012 future of JI, elaborating upon options for JI reform as well as proposals to introduce new elements to expand the mechanisms' sectoral coverage.

- **Article in Trading Carbon Magazine: Redefining JI** (December 2009).

The December edition of Trading Carbon contains an article on JI in which Jelmer Hoogzaad and Moritz von Unger examine the role for carbon offsets under joint implementation in the post-2012 capped environment.

- **Joint Implementation Post 2012 -Opportunities and Role of Domestic JI under the Kyoto Protocol** (October 2009).

Climate Focus has prepared a report on unilateral JI. The report provides an overview of domestic JI activities together with an analysis of its legal basis in the Kyoto Protocol. The report found that bilateral approval prior to ERU generation, though a requirement under the Marrakesh Accords for Track 2 JI, is not required by the Kyoto Protocol. Under the primary rules, bilateral approval is needed for cross-border transfer of ERUs only. The report makes a case for unilateral JI and suggests proposals for regulatory changes at JISC, COP/MOP and Kyoto Protocol level.

- **JIAG presents recommendations on JI** (September 2009)

At the JI Workshop in Kiev the JIAG published its positions on the two-track structure of JI, additionality, governance and the role of the JISC and ERU conversion and transfer. The recommendations are summarised in a new position paper.

- **JIAG CMI Side Event Report** (April 2009)

The JIAG held a side event at Carbon Market Insights, Point Carbon's annual gathering of the carbon market in Copenhagen. This report lists the key positions presented on post 2012 JI and outlines the various suggestions from the audience.

6. EVENTS

To promote JI in the international negotiation and the carbon markets, the JIAG organised a number of events. These events aimed at reaching the negotiators in the international climate negotiations to avoid that JI stays in the shadow of the larger CDM. In addition, the events targeted the private sector to stimulate participation of the carbon markets into JI.

- **Side Event at the Conference of Parties in Copenhagen**

The JIAG hosted a Side Event at COP 15 on the options for international carbon crediting in countries within an emissions restraint environment. Most Eastern and Central European countries will continue to face emission reduction targets after 2012 or move into the capped environment. The event that attracted about 50 participants looked at various instruments to achieve real, measurable and sustainable GHG emission reductions, including Green Investment Schemes (GIS), JI, emission trading and domestic offsets.

- **UNFCCC JI Workshop in Kyiv**

Lennard de Klerk from the JIAG presented the JIAG's position on the two-track structure of JI, additionality, governance and the role of the JISC and ERU conversion and transfer. The recommendations can be found in the latest Position Paper.

- **Roundtable** Consultations and 16th JISC meeting.

The JIAG was present at the JI Roundtable to share with the Joint Implementation Supervisory Committee views on the agenda items. Key topics were the draft JI Guidelines for Programme of Activities and the scope of the JI Determination and Verification Manual.

- **SBSTA Side Event** "Joint Implementation, options for a post-2012 framework"

The JIAG organised a side event at the SBSTA meetings in Bonn. Parties already called the need for improvement of JI 'indispensable' but concrete proposals are very diverse. The side event provided a comprehensive overview of existing proposals for a Joint Implementation framework after 2012.

- **Carbon Expo**

JIAG members contributed to the various events and plenary sessions at Carbon Expo.

- **Carbon Market Insights Side Event** "JI, applying lessons in a post-2012 framework"

At the side event the presentations focused on how the geographical and sectoral scope of JI can be expanded and how different options can be elaborated in the post-2012 negotiations.

7. NEW MEMBERS

In 2009 the JIAG welcomed two new members:

1. **GreenStream:** provider of investment opportunities, intermediary and advisory services in the carbon and renewable energy markets. GreenStream serves financial investors, enterprises within emissions trading and renewable energy schemes, companies for which tackling climate change provides new business opportunities or new risks to manage as well as public sector organisations. Greenstream has about 50 experts dedicated to carbon and renewable energy markets. GreenStream has offices in Beijing, Berlin, Gothenburg, Hamburg, Helsinki, Moscow, Kiev, Oslo, Stockholm and Vilnius plus a JV in South Africa. Greenstream manages the EBRD/EIB carbon fund in Russia, Ukraine, Kazakhstan and Belarus. The company also has its own carbon funds Fine Carbon Fund and Nordic Carbon Fund, which operate both in JI and CDM markets.
2. **FutureCamp Climate GmbH:** a consultancy in EU-Emissions Trading and Climate Strategy. The Munich-based company is the leader in the development of JI Projects in Germany and also strong represented in various JI, CDM and VER projects abroad (e.g. China, Brazil, Poland, Russia, Turkey, Republic of Moldova, Romania). FutureCamp Climate is further specialised in carbon footprinting, knowledge transfer, studies and expertises.

8. OUTLOOK 2010

The JIAG will continue its activities to promote JI and other off-set mechanism in capped environments. JIAG envisages the following points:

- **Communication channel JISC:** Provide input to the JISC to improve the regulatory framework under Track 2. In particular JIAG want to focus on an evaluation of the "Guidance on criteria for baseline setting and monitoring"
- **Accreditation AIE:** JIAG will encourage Independent Entities to complete an initial witnessing procedure to obtain accreditation. JIAG will also encourage the three Accredited Independent Entities to complete ex-post witnessing in certain Sectoral Groups for which the 18 months period accreditation period will expire in 2010.

- **CMP-6 in Mexico:** In Copenhagen the JISC has been mandated to make proposals for JI post-2012.¹ JIAG will very actively provide suggestions to the JISC to continue and improve JI in a new international agreement.
- **Belarus:** Promoting the ratification of the accession of Belarus as Annex B member;
- **Kazakhstan:** Promoting Kazakhstan's attempts to gain access to carbon finance, adopt internationally accepted emission targets and become listed as Annex B member;
- **Article 24a to the EU ETS:** The JIAG will participate to a Roundtable in Brussels on 1 March on the 2009 amendment of the EU ETS Directive. This amendment introduces the concept of domestic offsets and reads: "[Implementing] measures for issuing allowances or credits in respect of projects administered by Member States that reduce greenhouse gas emissions not covered by the Community scheme may be adopted." The Roundtable aims at updating participants of regulatory initiatives taken thus far under or in line with this provision and at identifying options for a harmonized approach.
- **International off-sets a US cap-and-trade:** Monitoring the development of cap and trade initiatives in the US on federal and state level. Where trading mechanisms are introduced the JIAG will try to promote JI and its concepts as basis for offset projects in a capped environment.

9. 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 330 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 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.

Based on the latest JI pipeline as provided by UNEP Risø, the JIAG members represent over 132 million Emission Reduction Units up to 2012, being about 35% of the credits in the pipeline and 28% of the projects.

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.

¹ Draft decision -/CMP.5, Guidance on the implementation of Article 6 of the Kyoto Protocol, article 11.

10. CONTACT DETAILS

This JIAG publication has been developed with the support of representatives from the following companies:

- Global Carbon (chair), Lennard de Klerk (deklerk@global-carbon.com)
- Climate Focus (secretariat), Charlotte Streck (c.streck@climatefocus.com), Jelmer Hoogzaad (j.hoogzaad@climatefocus.com)
- Core Carbon Group, Morten Prehn Sorensen (mprehn@corecarbongroup.com)
- Camco International, Charles Purshouse (Charles.Purshouse@camcoglobal.com)
- Vertis Environmental Finance, James Atkins (james.atkins@vertisfinance.com)
- Carbon Trade & Finance, Ingo Ramming (ingo.ramming@carbontradefinance.com)
- Future Camp, Roland Geres (Roland.Geres@future-camp.de)
- Greenstream, Jussi Nykänen (Jussi.Nykanen@greenstream.net)