



Joint Implementation: whence we come and where we go

Annual Report 2010/Outlook 2011

17 March 2011

1. INTRODUCTION

This report looks back on the activities of the Joint Implementation Action Group (JIAG) in 2010, listing key events, achievements, discussions and strategies. JIAG has been very active in promoting Joint Implementation (JI) as prime mechanism in capped environments. The promotion was done through direct interaction with the Joint Implementation Supervisory Committee (JISC), various publications, the launch of a Newsletter and active support to negotiators on JI in during the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in Cancun. This Annual Report presents the results over 2010 and the Group's strategy for 2011.

2. COMMUNICATION WITH THE JISC

In 2010 the JISC had four meetings, compared to six in the year before. In 2010 the JISC faced budget constraints to support its activities. At its 3rd meeting in June the JISC decided to cancel the meetings scheduled for September and December and only had an extraordinary meeting in October.

The JIAG noticed this development with concern. For its funding, the JISC relies on voluntary contributions from the Parties. Since the JISC provides guidance to both JI Track 1 and Track 2, the JIAG welcomes the approval of the COP/MOP of the JISC's proposal to levy a fee on Track 1 projects.

3. LAUNCH OF A NEWSLETTER

After the JISC web-site went on-line in June 2009, the JISC continued to improve its outreach by launching a Newsletter. The first JIAG newsletter was issued in October 2010, drawing attention to a legal analysis on the consequences of not reaching an agreement on a second commitment period for JI after 2012.

The second Newsletter was launched in November, just before the COP/MOP in Cancun. This Newsletter focussed on a JIAG position paper for Cancun and the Question and Answer section on the UNFCCC web-site on the issuance of ERUs after 2012.

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.¹

Month	Topic	Changes to the regulatory framework
All	Joint Implementation in publications.	Reviewing articles and answering questions from authors of articles on JI in popular carbon market magazines.
Feb.	Initiating an evaluation of the “guidance on criteria for baseline setting and monitoring”	The Copenhagen Accord mandated the JISC to make “improvements for the future operation of joint implementation”. Based on this mandate the JIAG proposed to evaluate the “Guidance on criteria for baseline setting and monitoring”. A call for Input on “experience with the verification procedure under the Joint Implementation Supervisory Committee (JISC)” was launched in April. In June 2010 the JIAG submitted a detailed proposal of 24 pages to the JISC with concrete suggestions for improvement of the Guidance In October 2010 a new version of the Guidance was launched.
Feb.	Belarus and Kazakhstan are considered Annex I Parties but do not have Annex B status. In this situation they are excluded them from benefiting from any of the flexible mechanisms.	In the JIAG’s submission for JISC19, the Group raised the issue of Belarus and Kazakhstan. The JIAG submitted a legal brief on this topic to the JISC at its 22nd meeting. As a result of this brief the JISC agreed to recommend to the CMP that the determination of projects and verification of emission reductions from Kazakhstan and Belarus can already start. The JISC also confirmed that the two countries can only issue and transfer emission reduction units (ERUs) after the amendment to include the countries in Annex B enters into force. The CMP accepted this recommendation from the JISC.
Mar.	Responding to the Call for input on Witnessing	The JIAG notices reluctance from project participants and project developers to propose their project determination or verification for usage as a witnessing activity because of: <ul style="list-style-type: none"> • concerns that witnessing will require extra work and efforts during determination (e.g. participation of an accreditation team members at the site visit), • the requirement that each sectoral group of projects requires one ex-post witnessing. The JISC decided to revise the accreditation procedure and, amongst others, abolish the ex-post witnessing requirement for all sectoral groups. Currently only one witnessing activity is required for the initial accreditation of an independent entity.
Mar.	Responding to the Call for input on Materiality	The JIAG encouraged the JISC to adopt recommendations for applying the concept of materiality for the calculation and the measurement of the project’s emission reduction figures at the relevant stages in the JI project cycle. The JIAG also suggested that the JISC, on a non-prescriptive basis, recommends the approach chosen by the European emissions trading scheme (EU ETS). In its letter to the JISC at its 22 nd meeting the JIAG provided further suggestions on materiality. The JISC adopted version 01 of the “Standard for applying the concept of materiality in verifications” at its 22 nd meeting.

¹ For a full overview of all JIAG publications, please refer to:
<http://jiactiongroup.com/publications.html>. All communication with the JISC can be found at
<http://jiactiongroup.com/jisc.html>.

Apr.	Retroactive application of guidance	<p>The JIAG raised a concern on a clarification from the JI Secretariat regarding the versions of guidance documents that apply to PDDs that are under determination. By retroactively applying new versions of the guidance documents any PDD under determination may have to be revised.</p> <p>This topic was raised again at the 22nd JISC meeting. Unfortunately, to date, the JISC has not acted on this topic.</p>
Jun.	Post 2012	<p>The JIAG published a position paper on JI after 2012. The paper suggested to align track 1 and track 2, provided suggestions for reducing the political risk in ERU transfer, suggested to abolish the requirement for a second Annex 1 approval from an investor country, criteria for the selection of JISC members, a proposal for streamlining additionality and the establishment of multinational sectoral baselines and suggestions to overcome the post-2012 gap.</p> <p>The paper brought the streamlining of Track 1 and Track 2 on the agenda of the CMP in November/December 2010. A reformed JI in a new international agreement will be one of the topics on the work programme of the JISC in 2011, while working towards the CMP in November/December 2011 in Durban.</p>
Sep.	Legal issues in a post-2012 period	<p>The JIAG presented legal recommendations to the JISC confirming that ERUs relating to emission reductions achieved before 2013 can be issued, transferred and acquired after the end of the first commitment period. ERUs related to emission reductions after 2012 can be generated, issued and transferred in the same manner as pre-2013 ERUs ("late crediting") up until the end of the so called true-up period in 2015, as long as they are based on Assigned Amount Units (AAUs) from the first commitment period.</p> <p>To end the 'gap' debate, CMP as the decision-making body of the Kyoto Protocol is advised to confirm the details of the JI continuation during the Mexico conference at the end of 2010.</p> <p>The paper brought the issue on the agenda of the CMP in Mexico but parties could not agree on a decision.</p>
Oct.	Suggestions to the draft annual report of the JISC to CMP	<p>The JIAG provide input to the annual report of the JISC. In particular the input focussed on</p> <ul style="list-style-type: none"> • a continuation of JI during the true-up period • bringing the success of JI in a balanced way and referring also to the achievements of JI over the last few years. • procedures and guidelines • -additionality • -linking to other trading mechanisms • -composition of the JISC. <p>By adopting some of the suggestions from the JIAG into the JISC's report to the CMP, the JISC initiated and active debate on these topics.</p>
Dec	Cancun position paper	<p>The JIAG bundled some reactions to questions asked on the future of JI and concerns raised by policy-makers in particular on the proposal from the JISC for continued issuance during the true-up period of the first Commitment Period</p>
Dec	Press release: "Has the EU lost its way on Joint Implementation?"	<p>The JIAG issued a press release on "JI has proved to be a robust and credible mechanism for inspiring entrepreneurs and investors to invest in reducing emissions, with close to 400 projects initiated to date. The European Commission seems determined to undo much good that has been done and member states avoid taking concrete action in line with rhetoric."</p>

Dec.	Active participation in the negotiations on JI	<p>JIAG representatives actively participated in the negotiations in Cancún as Observers. Cancún did result in several decisions like::</p> <ul style="list-style-type: none"> • Introduction of a fee for track 1 JI projects <p>Allowing for the determination of JI projects and verification of emission reductions from projects in Belarus. Arguably, this decision also applied to Kazakhstan.</p> <p>No decision was made to enable JI transactions during the true-up period</p>
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5. PUBLICATIONS

The focus of the JIAG's publications in 2010 was on the future of JI after 2012 and the urgent need for agreement on post-2012 emission targets, allowing for the continuation of Joint Implementation,

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

- a) **JIAG 2009 Report and Strategy for 2010** (February 2010)
This report looks back on the activities of the Joint Implementation Action Group (JIAG) in 2009 and presents the Group's strategy for 2010.
- b) **Background Paper on Article 24a ETS** (February 2010)
This paper provides an introduction on Domestic Offsets under Article 24 (a), introduces the scope of the provision, and offers a point of departure for the discussions.
- c) **Position Paper on the Future of JI** (June 2010)
Aligning Track 1 and Track 2, Issuance of ERU, Domestic and Unilateral JI, Governance of JI, Establishment of Multisectoral Baselines, Accreditation Procedures, Crediting Periods beyond 2012, Providing certainty beyond 2012.
- d) **Legal Brief on JI Projects from Kazakhstan and Belarus** (June 2010)
This Brief explains that JI projects from Belarus and Kazakhstan, both Annex I parties to the Kyoto Protocol (KP), can enter the determination and verification procedure under Track 2 of Joint Implementation (JI) The transfer of ERUs can only take place once the countries have an emission reduction commitment specified in Annex B of the Kyoto Protocol.
- e) **JI: Legal Issues in a post-2012 period** (October 2010)
This legal opinion gives an overview of legal issues arising for the continuation of JI after 2012 and provides possible legal interpretations to these, assuming the existence of a gap-period between the first and a second commitment period under the Protocol. It concludes that continued issuance and transfer of ERUs even for reductions achieved after 2012 is possible.
- f) **Article on a JI bilateral agreement EU – Ukraine** (October 2010)
The Joint Implementation Action Group (JIAG) published an article in the JI Quarterly on the desirability of a bilateral agreement between Ukraine and the European Union. This bilateral agreement can facilitate the investments in energy efficiency through the existing JI mechanism. As the negotiations on a new Kyoto agreement are stalled, this bilateral agreement can bridge the period between the end of the Kyoto Protocol in December 2012 and a future agreement entering into force.
- g) **Article in Point Carbon Magazine: Joint implementation: Bridging the Gap** (November 2010)
In the November issue of Point Carbon Lennard de Klerk, chair of the JIAG, provides perspectives on prolonging carbon trade in Ukraine and Russia after 2012.
- h) **Question and Answer paper on continued issuance of CERs after 2012** (November 2010)
In the run up to Cancun the JIAG published a paper addressing key concerns that policy-makers may have on continued issuance of ERUs after 2012.

6. EVENTS

The JIAG participated in various events:

Carbon Expo (May 2010, Cologne)

Various JIAG members attended Carbon Expo. Among the many topics discussed there was broad attention for JI and the future and use of offset mechanisms in general, including article 24a of the ETS directive, use of bilateral agreements between Annex 1 parties to strengthen JI after 2012 and domestic JI. At Carbon Expo the Energy Agency, NRW and FutureCamp Climate presented innovative approaches in the field of Domestic Offsets from different European member states.

At Carbon Expo the JIAG organised a breakfast session. Participants included representatives from five member states and the JISC. Topics discussed included domestic offsetting and bilateral agreements on JI after 2012. Ukraine expressed interest in discussing bilateral agreements with the EU.

Roundtable Consultations on Current JI Issues (June 2010, Bonn)

The JIAG presented its recommendations and reactions to the JISC's calls for Public Input at the Roundtable.

Carbon conference in Moscow (September 2010, Moscow)

Lennard de Klerk presented several measures to prolong JI projects after 2012 during a carbon conference. These so-called 'gap measures' will bridge the gap between the end of the Kyoto period in 2012 and the subsequent commitment period.

7. OUTLOOK 2011

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

- a) **New international agreement:** Parties stated at Cancún that they would like JI to continue. The CMP requested the JISC to prepare proposals for a reformed JI in a new international agreement. JIAG will actively support the JISC with this effort through the submission of recommendations in preparation of the JISC meetings. The JIAG will also support this effort during the CMP in Durban in November/December 2011.
- b) **Bridging the gap:** The JIAG renders it unlikely that at the end of 2011 an agreement can be reached that will enter into force immediately after the end of the first commitment period in December 2012. A so-called 'gap' between the first and the second commitment period should be overcome by decision from CMP to allow for continued conversion of Assigned Amount Units (AAUs) from the first commitment period into CP1 ERUs for reductions taking place after 2012. The JIAG will emphasise the without measures to overcome the gap, the continuity of JI will be seriously compromised.
- c) **New market mechanisms:** Outside the frameworks of the UNFCCC and the Kyoto Protocol new options for offset mechanisms in a capped environment are available. These alternatives do not depend on an agreement in the international negotiations on emission targets for the next commitment period. For example the Directive on the EU Emission Trading Scheme (ETS) allows for:
 - The adoption of a domestic mechanism that enables EU ETS operators to generate offsets with projects within sectors in the EU that are not covered by the EU ETS (a concept often referred to as "article 24a");
 - Technical assistance towards the development of other cap-and-trade schemes and linking them to the EU ETS;
 - Bilateral agreements with JI host countries to allow the use of JI credits within the EU ETS after 2012 in conjunction with the establishment of cap-and-trade schemes and/or use of sectoral approaches

In addition, many EU countries are facing government budget constraints and need to reduce budget expenditures. As a result, governments are seeking ways to reduce greenhouse gas emissions without increasing or even while reducing their expenditures. The carbon markets can provide an alternative source of financial means.

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 465 million tons of greenhouse gas 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, maximizes 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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