
Public inputs are solicited and encouraged on the current draft recommendations, as contained in annex 6 to the annotated agenda for the twenty-fifth meeting of the JISC (Annex 6). Respondents are invited in particular to consider the specific questions noted in paragraphs 30, 36, 47 and 53 of annex 6, as well as the following further questions:

(a) What types of activities should be undertaken under a new operational model, for example in relation to project, programmatic or sector levels, and what aspects would usefully be incorporated in revised JI guidelines in order to encourage these?

In principle all types of activities should be possible under a new JI operational model, including project, programmatic and sector level activities. However, excessive overlap and duplication with the CDM on the development of such models should be avoided. The most promising model in some instances is sectoral, for example the introduction of a sector-wide 'baseline and credit' schemes in host countries could be a valuable tool for policy makers. A new operational model for JI should pay much attention to how it can streamline provisions in order to facilitate the development of activities at the project, programmatic and sector level.

(b) What aspects would be usefully incorporated in revised JI guidelines to strengthen a "scheme-based" approach based on the national implementation of JI?

(c) Should the JI guidelines be amended to facilitate net overall reductions in emissions (instead of offsets leading to increases in emissions elsewhere of the same amount) and how could this be achieved through revisions to the JI guidelines?

No. The overall reduction in emissions is achieved through setting the national caps. The cap is the most important indicator as to the level of overall ambition to reduce net emissions. JI is a baseline and credit mechanism and has a facilitative approach with regards to meeting the level of ambition set by the cap. JI, CDM and emissions trading help achieve these agreed reductions at least costs, without affecting the overall level of emissions. By the promotion of emission reduction technologies and practices, "positive leakage" is likely achieved. And by choosing conservative default factors in the calculations, JI projects would generally tend to under-estimate the reductions achieved. However, any under-estimate or positive leakage would still be available to the host country as AAUs. If the JI guidelines were to be amended and more conservativeness were introduced, the under-estimated reductions were still available to the host country as AAUs. Alternatively, executing projects through the mechanisms would become less attractive than operating outside the mechanisms using emissions trading.

B. Verification process

The JISC recommends that the JI guidelines be revised to replace the current two-track approach with a single, unified verification process, such that JI projects are undertaken in accordance with a consolidated set of guidance that emphasizes the strengths of each of the current tracks, especially with regard to measures to ensure international oversight, transparency and consistency.

The existence of two tracks, and in particular the varying implementations of track 1 in the host countries, has given rise to higher transaction costs and fragmented markets. Business therefore would be happy, in principle, for the two tracks to be merged if it leads to a reduction in transaction costs and encourages the implementation of more projects activities. Please note that despite the fragmented market under track 1, this has been the preferred route for project developers, evidenced by the volumes of ERUs issued and projects registered.

Replacing the current approach with a single unified process risks introducing new and additional transaction costs, burdens on national policy makers, and knowledge barriers for project developers. Any such process of merging should only be carried out in a gradual manner, while preserving – for a long-enough transitional period – the possibility of following the existing tracks. Indeed, the old tracks should not be closed off before the merged procedure works well; once it works, it will be more attractive than the existing two tracks and they would become defunct.

Any unified verification process has to be driven by the objective of ensuring consistency and transparency to JI activities while maintaining transaction costs at a minimum and in a manner by which the international system can maintain a degree of oversight and accountability of the Parties.

(a) What design of the project cycle should be recommended for inclusion within the single verification process? Should it differ from the current Track 2 process and, if so, how?

Track 1 has been much preferred by project developers, evidenced by the volumes of ERUs issued and projects registered. The merged process, therefore, should reflect Track 1 more than Track 2, which was conceived as a system in case host countries would not meet the eligibility criteria. Having said this, a level of harmonization across JI host countries driven by clear international standards and transparency is desirable. The international system and a move to a single verification process needs to provide a well defined level of quality assurance that should be met by all JI host countries and implementing entities.

b) Should specific provisions on issues such as standardized baselines or the demonstration of additionality be included in a CMP decision on revised JI guidelines, or are such issues more appropriately addressed at the level of the JISC or a new governing body?

Standardised baselines and additionality can already be determined by the host country under track 1. Therefore, no specific provision is needed from CMP. However, such a mandate would be required for the JISC under track 2.

Yet, clear definitions of issues such as standardized baselines are important for consistency and the provision of a harmonized approach. However, flexibility should be maintained under a unified track. It is important that host countries maintain the flexibility to decide on how they use their AAUs (as ERUs) to stimulate mitigation action.

(c) How can the single verification process be tailored to increase the likelihood of it being utilized as a basis for providing domestic offsets within domestic emissions trading systems?

The utilization of emission reduction units as offsets within domestic emissions trading systems is a matter of the design of that domestic emissions trading system, and thus not in the control of the JISC or CMP, but in the control of the host country of that system. The key elements that make emission reduction unit or credits attractive are integrity, cost effectiveness and fungibility. If the integrity of the units is in question, they will not be used. And any units must be cost effective compared to the alternatives, including the risks associated with creating the units and the use of the mechanism. Fungibility between credits or units is of paramount importance for accounting, comparability reducing transaction cost efficiency and limiting arbitrage between units and systems.

C. Governing body

Business agrees with the JISC recommendations regarding the governing body (contained in Annex 6 paragraph 31), and in particular would like to stress the importance of the inclusion of business constituencies within the body and the use of external experts.

However, an issue that needs thorough consideration is the need to depoliticise as much as possible any such governing body. Professionalization and transparency of how such a governing body will reach decisions and operate are central for a coherent, predictable and effective single JI process.

(a) Should members of the governing body act in their individual capacities or as representatives of their constituencies?

Members of a governing body shall first and foremost act independently. The current system of "acting in their individual capacity" has been proven to be hard to implement leading to a diminishing integrity of the system. So far it has been difficult for individuals acting on supervisory bodies to

exclude themselves from their constituencies. Hence the replication of this model should be avoided. Independence should be one of the central pillars of any new governing body.

(b) Should representatives of the business and environmental constituencies, possibly including representatives of certification bodies, be included directly on the governing body. What should be the role of such constituencies?

Yes. The governing body oversees a market, albeit a policy-driven market. Business constituencies have in many instances very specific and specialised expertise, which complements Party representative's experience. Similarly, certification bodies and environmental constituencies have expertise which cannot be ignored as a source of needed expertise for a correctly operating system.

(c) How could firewalls be established to ensure the "separation of powers" between the function of setting standards/procedures and the function of providing impartial oversight over the conformity of national JI implementation with those standards/procedures?

(d) The minimum standards and procedures established by the governing body would presumably cover the accreditation of certification companies to certify projects and emissions reductions/removals. Should the governing body also perform the accreditation functions on behalf of all Parties participating in JI or should the JISC recommend to the CMP that JI and CDM operate under a unified accreditation process?

The procedures for accreditation are currently being duplicated across JI and CDM. This could be replaced by a single accreditation system.

(e) Should the governing body assume responsibility for the issuance of the offset credits? This may constitute an effective form of ensuring oversight over the conformity of implementation with the minimum standards and procedures?

JI practitioners experience indicates that issuance is one of the main bottlenecks and risks in the JI process, creating delays and uncertainties. ERUs are converted AAUs, such conversion is the responsibility of the host Party. Thus far there has been a market preference for Track 1 (host country issuance); nevertheless this approach introduces a greater sovereign risk.

To some extent issuance should be an automated process linked to the verification by the accredited independent entities (AIE). As a possible solution proposed by some practitioners, refers the requirement to the Host countries upon project approval to transfer estimated amount of credits to a special JI-registry account administered and maintained by the Governing Body. Submission of the final verification report by the AIE should automatically trigger the conversion and ultimately issuance (any access transferred AAUs would need to be transferred back) of emission reduction units.

(f) If the registration process is implemented at a national level, should an appeals mechanism be established for JI, other than the oversight provided by the governing body. If so, could it build upon appeals processes for other offset credit systems at the international level, for example that currently under consideration for the CDM?

Participation by host Parties is voluntary, so if the host rejects the project, then the project cannot occur. If registration happens at national level parties with legitimate interests will have access to national mechanisms and administrative recourses. Nevertheless, some kind of mechanism should guarantee that due process is observed and correctly implemented at the international level too.

(g) Should the current vocabulary of JI be aligned with other project-based mechanisms in order to increase the understandability and accessibility of terms (e.g. "determination")?

Yes, this would certainly be useful.

F. Financial resources

47. Several questions may need further exploration to elaborate this proposal:

(a) If the registration process is implemented at a national level, would an annual fee on Parties involved in JI be a more appropriate fund-raising mechanism?

No. Fees related to the overall number of projects and volume of reductions is more equitable.

V. TRANSITIONAL ISSUES

53. Several questions may need further exploration to elaborate this proposal:

(a) What specific transitional measures should be proposed and how might they work?

We support the identified transitional issues and specific measures proposed in paragraphs 48-52 of Annex 6 to the proposed agenda – annotations of the twenty –fifth meeting of the JISC.

Clear signals and coherent implementation should come from the CMP and any appropriate body with respect to both the future operation of JI and any transition period that is needed.

CMIA is an international trade association representing companies that finance, invest in, and provide enabling support to activities that reduce emissions. CMIA's membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 120 billion in 2010. Solely representing organisations that provide services to and invest in the environmental sector, membership does not include any entities with compliance obligations under cap-and-trade schemes. This results in a unique advocacy platform with emphasis on the environmental integrity of market mechanisms and climate change policies.

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