

Subject: IETA Response to the call for input on the JISC’s “Draft Recommendations on Options for Building on the Approach Embodied in Joint Implementation”

22 July 2011

JI Supervisory Committee

UNFCCC Secretariat
Martin Luther King Strasse 8
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Germany

Dear Mr. Chowdhury and JISC members,

I write to you in response to the request at the JISC’s 25th meeting for input on the JISC’s draft recommendations to the CMP on options for building on the approach embodied in joint implementation, as part of the first review of the joint implementation (JI) guidelines (as contained in particular in decision 9/CMP.1, as well as subsequent CMP decisions relating to JI).

Overarching Support

IETA supports the continuation of JI into a second commitment period of the Kyoto Protocol, as well as the expansion and encouragement of emission reduction projects in capped environments under whatever post-2012 international climate regime the Parties agree to create. We agree with the JISC that the purpose of JI is to provide a common basis for countries with quantified emission targets to collaborate in the mitigation of climate change and that, at minimum, it requires compatible accounting standards and procedures among participating countries.

A discussion about Post-2012 JI should, therefore, focus on creating a mechanism that could serve *any* capped environment, as long as the caps meet basic eligibility criteria (for example, they have been internationally recognized under the so-called Cancun Agreements and domestically enforced) and are accompanied by the use of compatible accounting standards and the other relevant procedures.

As such, IETA urges the CMP to send a strong signal about their intention to maintain the functioning of JI during a second commitment period of the Kyoto Protocol or to create a similar mechanism under a new post-2012 international climate regime. IETA also believes that the Parties should move quickly to provide for the operation of JI in the event of a gap between the first and possible second commitment periods of the Kyoto Protocol.

The remainder of this letter will be devoted to answering the specific questions posed in the draft recommendations and in the call for input.

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Recommended Evolution of Joint Implementation

Verification Process

(Question 30a) IETA supports the proposal for a single, unified track in JI but we think that the newly unified mechanism should maintain the best of both tracks, and so therefore should differ from the current Track 2 process. IETA believes that further consultation is needed with stakeholders and Parties to fully consider the necessary elements for the project cycle under a single-track verification process.

At minimum, the current flexibility of host countries under Track 1 to use JI as a policy instrument must be maintained while also reducing the knowledge barriers and transaction costs for project developers and participants involved in multiple countries and increasing transparency.

IETA believes that the JI governing body should work very closely with host countries to develop Best Practice guidelines for determination and verification requirements that go as far as possible to meet the needs of all host countries. **Some elements of those guidelines should be binding and some non-binding, and IETA believes that the Parties and the JISC should undertake further consultation with Parties and stakeholders to determine which elements need to be binding to improve the efficiency, transparency, and environmental integrity of the mechanism.** The non-binding elements should be considered "best practice guidance" and should at least include guidance on the national approval procedures— including number of stages, required documents, processing times, etc. Countries should have the ability to tweak the procedures in their countries where necessary to meet their policy objectives but alignment with the best practice guidance should be strongly encouraged.

(Question 30b) IETA believes that the use of standardized baselines under JI is already possible and should remain so. The further development and usage of standardized baselines under JI does not require CMP action and can be addressed at the level of the JISC or any new body with which the JISC is replaced.

IETA believes that the issue of additionality should be significantly reconsidered at the level of the CMP. It should be considered whether additionality is necessary in a new operational model for JI in the view of the original rationale for it and experience in the first commitment period. When projects operate in a capped environment, any reduction in GHG emissions should have a market value, regardless of the underlying rationale for making that reduction. Net emission reductions should result in an equivalent number of AAUs to be converted into ERUs and transferred to a buyer. Additionality should only be a consideration in situations where emission caps are not in place and enforced.¹

If the host countries feel the need to make an additionality determination, IETA suggests that such a

¹ Additionality is closely tied with the approach to baseline setting, which is currently defined based on the most plausible scenario in the absence of the Kyoto mechanisms. This approach is justified in the CDM, but could be altered under JI as countries with emissions caps have and continue to improve their national GHG inventory systems. IETA suggests that the CMP and JISC consider using an approach to the establishment of project baselines and project monitoring that is more in line with the approach to set emission caps and undertake GHG accounting at the country level.

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determination could be on the basis of a positive list of technologies defined by the host country.

(Question 30c) The single verification process will increase the likelihood of it being utilized as a basis for providing domestic offsets within domestic emission trading systems if it strikes an appropriate balance between flexibility and adherence to high standards of transparency and environmental integrity. Exporting countries need to feel that it is good fit with their emission reduction needs and importing countries need to feel comfortable allowing its credits into their emission trading systems.

Governing Body

IETA agrees that a new governing body for the single verification process will be required.

We see one major change for this governing body in that it should avoid involvement in the considerations of individual projects and, instead, focus on supervising the accreditation process; developing standards and principles in baseline setting, monitoring, etc; managing the JI-registry; and supervising issuance. Following the authorization of the project by the host party, the positive determination by the AIE should lead directly to registration and the positive verification should lead directly to issuance. There should be no duplication of roles.

(Question 36a) IETA believes that members of the governing body should act in their individual capacities.

(Question 36b) Representatives of the business constituency, including representatives of certification bodies, should be included directly on the governing body as regular members of the body in their personal capacities. It is important to note that representatives of the business community currently serve on the JISC and have made valuable contributions to the development of JI since its inception. We believe that the same should continue.

(Question 36c) IETA believes that two good options are available 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. Either the governing body could create subordinate bodies tasked with undertaking the technical work of setting standards/procedures and enforcing standards/procedures, with the governing body providing high level guidance on both, or the governing body itself could be separated into two committees, one to set standards/procedures and the other to provide oversight.

(Question 36d) IETA strongly believes that the governing body should perform the accreditation functions on behalf of all Parties participating in JI but does not believe that JI and CDM should operate under a unified accreditation process. We believe that the CDM and JI are separate entities with different functions and should remain so. IETA members have noticed that AIEs that have teams dedicated to JI better understand the mechanism and are more open to JI-specific approaches. In cases where determination is performed by auditors who mainly focus on CDM projects, IETA member companies observe that CDM requirements are often unnecessarily applied to JI projects and the use of approved CDM methodologies is insisted upon. Keeping the accreditation function separate will be one step in the right direction towards addressing this problem.

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(Question 36e) The governing body should assume responsibility for the authorization of the conversion of AAUs into ERUs and their subsequent issuance. Such a responsibility should be made more impactful by (a) ensuring that AIE certification leads directly to issuance without further involvement by the governing body or host country and (b) setting up a set-aside of AAUs for approved JI projects (see further explanation below). IETA member companies believe that issuance has been one of the greatest bottlenecks of the JI process and a great disincentive to participate in the mechanism. Changing the rules for issuance in this way would alleviate much of their concern by ensuring that issuance takes place in a timely manner once emission reductions have been certified for projects that were previously authorized by the host country and received a final determination from an AIE. This change will be very important to ensure that greater investments flow through the JI mechanism post-2012.

(Question 36f) IETA believes that there is need for further consultation on the issue of appeals under post-2012 JI, and that the decision on whether and where to place an appeals body will be based largely on the final distribution of decision-making power under JI, among the governing body, host country and AIE. IETA believes that it is very likely that a multi-level appeals would be necessary to ensure that host countries, AIEs and project participants all had access to recourse for decisions taken against them.

IETA believes that it will likely not be appropriate that such an appeals mechanism build upon appeals processes for other offset credit systems at the international level, for example that currently under consideration for the CDM, but we remain open to further consideration of this suggestion once the final distribution of decision-making power is decided.

(Question 36g) IETA does not see a strong need for the current vocabulary of JI to be aligned with other project-based mechanisms but would not strongly oppose doing so.

National Project Approval

IETA agrees with the JISC that only the host Party of a project be required to give its national approval.

As explained previously, IETA believes that the governing body should issue "best practice guidance", which should include guidance on the national approval procedures— including number of stages, required documents, processing times, etc. Host countries should still be able to determine the types of projects that they deem eligible to be undertaken in their territory, however, and to tweak the procedures if necessary within their country. Any eligibility criteria or positive or negative lists of project types/technologies should be made public by the host countries, however.

IETA agrees with the JISC that, upon project approval by the host country and positive determination by an AIE, host Parties should be required to set aside the estimated quantity of credits for the project to a JI-registry administered and maintained by the governing body, for subsequent distribution to project participants upon positive verification and issuance. Should the emission reductions not occur to the extent predicted, the governing body should transfer any un-issued credits back to the host country.

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Eligibility requirements

IETA agrees that the CMP should consider the possible need for different eligibility requirements for participation in JI in light of any further clarity emerging on the future international climate regime beyond 2012.

IETA believes that Host Parties should meet basic minimum eligibility requirements pertaining to their GHG accounting at a country level and, if JI is utilized under a system other than the Kyoto Protocol, also pertaining to the nature of their caps.

Financial resources

(Question 47a) If the registration process is implemented at a national level, an annual fee on Parties involved in JI and based on emission reductions generated should be strongly considered, possibly in addition to project-based fees. Other options should also be considered after further analysis and after the more is known about the design of JI post-2012.

TRANSITIONAL ISSUES

IETA supports the JISC recommendation that the CMP, with regard to the continuation of activities under the Track 2 procedure in the immediate period beyond 2012, should do the following:

- (a) Clarify that these activities may continue, including the registration of projects and the verification of emission reductions and removals;
- (b) Allow emission reductions and removals achieved by existing and new JI projects between 1 January 2013 and either the end of the true-up period or the establishment of assigned amount for a host Party for a second commitment period under the Kyoto Protocol, whichever is sooner, to be issued by host Parties as ERUs by converting AAUs or RMUs from the first commitment period.

If the Parties decide to move forward with a different form of international climate regime post-2012, IETA believes that they should then consider how to bring JI, or a mechanism for crediting emission reductions in a capped environment, into that regime.

(Question 53a) IETA supports the specific transitional measures put forward by the JISC.

(Call for Input Question a) IETA believes that all types of activities should be undertaken under a new operational model, including micro, small and large-scale projects, programs, and sector-level activities. Putting in place rules for sector-level activities will require further consultation with the Parties and stakeholders to ensure that sectoral activities can be developed effectively. IETA does not have any proposals to be incorporated in revised JI guidelines in order to encourage these activities. If sector-level activities are allowed, provision should be made for existing JI projects to remain viable within any newly defined sectoral boundary.

(Call for Input Question b) See answer above.

(Call for Input Question c) To date, JI projects take place within a capped environment. As long as this

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remains the case, IETA does not believe that it is appropriate to consider amending guidelines to facilitate net overall reductions in emissions.

Thank you very much for taking the time to review IETA's recommendations with respect to these issues. Please do not hesitate to contact me should you have comments or questions on the views expressed above.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Derwent". The signature is written in a cursive style with a long, sweeping flourish extending to the right.

Henry Derwent
President and CEO, IETA