

Utrecht

18 February 2011

Subject: Prior consideration in JI

Dear Mr. Leguet,

Global Carbon BV herewith submits a request for clarification in accordance with the Procedures for requests for clarification under the verification procedure under the Joint Implementation Supervisory Committee¹.

During the review of the determination of project JI0211, one of the review request related to the prior consideration of this JI project. Global Carbon BV, as project participant in this project, argued that prior consideration is a concept that exists in CDM only and cannot be found in any guidelines or guidelines, directly or indirectly, in relation to JI projects. In the Initial Comments provided for this review, Global Carbon BV suggested to provide prior consideration for the purpose of closing this particular review only. We stated the following on page 10: *“Not to delay the closing of this review the suggested solution above is presented for the purpose of closing this review only. We believe that this review should not be considered by market participants as a precedent, but wait the broader discussion in the JISC whether the JISC wants to introduce such requirement.”*

However, in a recent determination activity an AIE claimed the following: *“..... JISC23 concluded on a request for review later in October where information on prior consideration was explicitly required. Based on this decision we need to include an assessment on prior consideration of JI in our additionality assessment.”*

¹ <http://ji.unfccc.int/Ref/Guida/reqClarifications.html>

Herewith we request the JISC to clarify whether above statement is correct and that prior consideration is a requirement in JI projects. Find attached in the annex the elaboration of Global Carbon BV in this matter.

Sincerely yours,

Lennard de Klerk
Managing Director

Annex 2: Elaboration on prior consideration in the context of JI

Background

In some determinations of JI projects AIEs have requested to demonstrate the so-called “prior consideration of JI”. Also in the request for review of project JI0211 it was stated that “... prior consideration of JI which is inherent to the concept of additionality... ”⁵. This concept, hereinafter referred to as prior consideration, has its roots in CDM projects and is explained as the demonstration of the fact “that the CDM benefits were considered necessary in the decision to undertake the project as a CDM project activity”⁶.

In JI there is no *explicit* mentioning that prior consideration should be demonstrated. This paper analyses if prior consideration can be considered as an *implicit* requirement, in particular for projects already implemented. This analysis is based on an assessment of the JI guidelines adopted by the Conference of the Parties serving as the Meeting of the Parties (CMP) to the Kyoto Protocol (KP) and the relevant guidance and guidelines issued by the JI Supervisory Committee (JISC), further referred to as ‘JI Rules’.

Definitions and assumptions

- ‘JI Guidelines’ means the ‘Guidelines for the implementation of Article 6 of the Kyoto Protocol’;
- ‘Guidance’ means ‘Guidance on criteria for baseline setting and monitoring’, version 02;
- ‘PDD user guidelines’ means ‘Guidelines for users of the joint implementation project design document form’, version 04;
- ‘PDD form’ means ‘Joint Implementation Project Design Form’, version 01;
- ‘CDM tool’ means ‘Tool for the demonstration and assessment of additionality’, version 05.2.
- For simplicity the starting date of the project equals the date of the investment decision;
- A JI specific approach is taken for setting a baseline and that the CDM Tool is used for proving additionality.

The essence of a JI project

Article 6, par. 1 (b) of the Kyoto Protocol states that “any such project provides a reduction in emissions by source, or an enhancement of removals by sinks, that is additional to any that would otherwise occur”. In essence a JI project consists of two components being a) that here should be a *reduction* and b) that this reduction is *additional to any that otherwise would occur*.

In the relevant JI rules these two elements are treated separately:

- a) The reductions is being proven by setting a baseline which is done in section B.1 (baseline setting) of the PDD. Should the emissions of the project scenario be below the emissions of the baseline scenario, the first element of a JI project (i.e. reductions) is proven.

⁵

http://ji.unfccc.int/JI_Projects/DB/5WN6N4R5K3L8QH20EWB7DPHTL4008R/Determination/Bureau%20Veritas%20Certification1276093168.48/Review/RFR_JISCGQRZ3IHDQV3DTLVF6N9O97BUIFQC0A

⁶ CDM EB 41, Annex 46, p 1

- b) The second requirement of a JI project “additional to any that otherwise would occur” should be provided in section B.2 of the PDD and in the Guidance is referred to as “Additionality”. If it can be proven that the project scenario does not equal the identified baseline scenario, additionality is proven.

Baseline setting (section B.1 of PDD)

Guidance paragraph 13a says: “The baseline of a JI project is the scenario that reasonably represents the anthropogenic emissions by source or anthropogenic removals by sinks of GHGs that would occur *in the absence* of the proposed project.” This guidance is repeated in paragraph 20a: “...is the scenario that reasonable represents the anthropogenic emission that would occur *in the absence* of the project”.

Furthermore guidance paragraph 24: “A baseline shall be identified by listing and describing plausible future scenarios on the basis of conservative assumption and selecting the most plausible one”. In section B.1 future scenarios are to be listed and the most plausible one is to be selected as the baseline.

Here it is important to note that the baseline is a scenario that occurs *in the absence* of the proposed project. This excludes the possibility that, in the context of baseline setting in section B.1, the baseline scenario equals the proposed project scenario. Note that the latter is being checked under additionality, section B.2.

Additionality (section B.2 of the PDD)

Guidance annex 1 paragraph 2: “Having identified a baseline, additionality can be demonstrated, inter alia, by using one of the following approaches” where option (c) allows to use the CDM Tool: “Application of the most recent version of the “Tool for the demonstration and assessment of additionality” approved by the CDM Executive Board.....”.

In the CDM Tool realistic and credible alternatives *to the project activity* have to be identified (step 1). Then one have to show that the project, without taking the JI incentive into account, would be financially not attractive (step 2) or that the project faces barriers preventing the project being implemented (step 3). By fulfilling step 2 or step 3 one demonstrates that the proposed project is not the identified baseline of section B.1. A final check is performed through a so-called Common Practise Analysis (step 4). If all steps are met additionality is deemed proven. The CDM tool does not require proving prior consideration.

JI projects already in operation

Some JI projects have been determined after the Starting Date of the project or after the Starting Date of the Crediting Period. When developing the PDD of such project it is important that the PDD does not reflect the situation at the date of writing the PDD, but at the Starting Date of the project. In other words, the PDD should reflect the future plausible scenarios available to the Project Participant before or at the Starting Date and that in the additionality proof assumptions should be taken that were relevant on or before the Starting Date of the project. The most plausible scenario in absence of the project can be identified and it can in principle be shown that the project was financially not attractive or faced barriers. No prior consideration is required in this process.

Concluding remarks

The above analysis of the JI rules presented above shows that ‘prior consideration’ is not an implicit or explicit requirement in the context of a JI project, neither in the baseline setting nor in the additionality proof. This is an analysis of the existing guidance as set by the JISC. This analysis is not making any statement whether prior consideration should be a requirement in JI. Such decision is to be made by the regulatory body JISC while interpreting CMP decisions.

Should the JISC decide to introduce such requirement precise guidance is needed including the definition of prior consideration, how this can be proven and how an AIE should check the evidence. However, we believe that introducing such essential new requirement half way the first commitment period would be rather late, in particular if it is to be applied retroactively to projects that in principle can be eligible if they have a Starting Date from 1 January 2000 onwards.