



**Annex 2**

**REPORT ON EXPERIENCE WITH THE VERIFICATION PROCEDURE UNDER THE  
JOINT IMPLEMENTATION SUPERVISORY COMMITTEE AND POSSIBLE  
IMPROVEMENTS IN THE FUTURE OPERATION OF JOINT IMPLEMENTATION**

**Joint Implementation Supervisory Committee****I. EXECUTIVE SUMMARY**

1. This report responds to a request made in Copenhagen, in December 2009, by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). It is the result of a unique period of reflection by the Joint Implementation Supervisory Committee (JISC) to assess the experience gained so far with the joint implementation (JI) mechanism under the Kyoto Protocol and focus its ongoing work in areas that offer the greatest value to the evolution of JI, both within what remains of the first commitment period under the Kyoto Protocol and beyond.
2. To date, the pipeline of JI projects under the verification procedure under the JISC (Track 2) numbers 195, with 27 so far having been determined to meet the relevant requirements. The total emission reduction that would be generated, if all the 195 projects under the Track 2 procedure are realized, is estimated to be around 300 million tonnes of CO<sub>2</sub> equivalent for the period 2008–2012. Available information indicates that a further 190 projects are in place under the verification procedures instituted by host Party governments (Track 1). Transactions on the primary market for JI in 2009 have an estimated value of around USD 350 million.
3. While these numbers are lower than for the clean development mechanism (CDM) under the Kyoto Protocol in absolute terms, they reflect the later start of JI and the different countries and circumstances involved in the mechanism. The JISC is of the view that the approach embodied in JI presents a robust basis for growth in the future.
4. The JISC believes in the value of the offsets approach embodied in JI but also sees the need for it to evolve further if it is to realize its potential and provide a more substantive tool for Parties in their contributions to the global mitigation agenda. Such evolution entails strengthening the effectiveness of the current regulatory framework, enhancing the collaboration of the JISC, governments and JI stakeholders to take greater advantage of the mechanism, and considering opportunities for building upon the current JI approach as Parties deliberate on the future of the international climate regime under the UNFCCC beyond 2012.
5. The JISC has agreed on a number of action areas around which it wishes to re-orientate its present work programme. These areas include to:
  - (a) Clarify and elaborate on a number of issues in the guidance it has issued, including the possible use of innovative methodological approaches such as standardized baselines and programmatic approaches;
  - (b) Explore further the possibility of setting time limits for phases of the JI project cycle;
  - (c) Increase the cooperation with designated focal points (DFPs) of Annex I Parties, in particular through the possible establishment of a DFP forum;
  - (d) Strengthen its outreach activities and collaboration with JI stakeholders;
  - (e) Increase the numbers and capacity of accredited independent entities (AIEs).
6. The JISC has also identified a number of areas in which JI could be built upon in the longer term and which it trusts Parties will consider as part of their deliberations on a future climate regime under the UNFCCC. These stem from the conviction of the JISC that the approach to offsetting emissions within a “capped environment” of quantitative emission commitments, as is embodied in JI, can be of great service to the Parties and entities involved in mitigating climate change. These areas for further development include:
  - (a) Changes to the operational model of JI, by either establishing a unified track for JI or by strengthening the current Tracks 1 and 2 independently;
  - (b) Major revisions in the procedures currently implemented under JI, including in relation to the demonstration of additionality, the harmonization of national project approval

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- procedures, and means to build upon synergy between the JI accreditation process and other accreditation processes;
- (c) Major revisions in the financial model of JI to ensure the stability and sustainability of the resources available for the work on JI in the future;
  - (d) Adjustments in the scope, role and membership of the JISC.
7. In addition, the JISC has agreed on several specific recommendations to the CMP relating to JI:
- (a) The JISC recommends that the CMP clarify the continuation of activities under the verification procedure under the JISC in the immediate period beyond 2012;
  - (b) In recalling that the guidelines established for JI are to be periodically reviewed, the JISC recommends that the CMP initiate the first review at its seventh session on the basis of a full set of recommendations to be submitted by the JISC to that session;
  - (c) The JISC also recommends to the CMP that it consider introducing a new fee to raise resources from projects under the Track 1 to help fund the activities of the JISC.
8. The JISC has appreciated the opportunity to reflect upon its experience with JI, as well as those gained by governments and stakeholders in the process, and frankly address some of the issues and concerns that have arisen. The JISC remains able and willing to contribute further to the deliberations of Parties on any of the issues contained in this report.

**II. PURPOSE OF THE REPORT**

9. This report contains the assessment by the JISC of the experience so far with the JI mechanism under the Kyoto Protocol and possible steps that may be taken to develop JI further in both the short and the long term. It has been prepared at a time when Parties are considering the new climate change regime beyond 2012 under the UNFCCC, and amid mixed results so far for JI as a specific tool for Parties in their efforts to mitigate climate change.
10. The overwhelming sense of the JISC is that JI is at a crossroads. The JISC believes that there remains much untapped potential in JI but also sees that significant changes in the setup of the mechanism will be needed if it is to realize this potential and secure its relevance as a mitigation tool beyond 2012.
11. In preparing this report, the JISC is responding to two requests of the fifth session of the CMP. Specifically, the CMP requested the JISC to report to the next session of the CMP on:
- (a) Its experience with the verification procedure under the JISC, with a view to making improvements for the future operation of JI;
  - (b) A financial and budget projection up to 2012, including an analysis of when and under which conditions the JISC will become self-financing.<sup>1</sup>
12. At its twenty-second meeting (15–16 June 2010), after considering information regarding the lack of financial resources available for its work, the JISC decided to incorporate in this report proposals on:
- (a) A revision of its long-term work programme to streamline its work and ensure an appropriate focus on the needs of the JI system;
  - (b) Specific means for building upon the approach embodied in JI beyond the first commitment period of the Kyoto Protocol;
  - (c) A more secure and sustainable financial model for undertaking JISC activities.

<sup>1</sup> Decision 3/CMP.5, paragraphs 11 and 25.



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13. Bearing in mind this context, the JISC has prepared what it considers to be a wide-ranging and frank assessment of the JI mechanism to date, drawing on both its own experience and that of governments and JI stakeholders.<sup>2</sup> The assessment naturally focuses on the experience of the JISC with the verification procedure established under it by the CMP (Track 2). However, it is not possible to consider this one track in isolation, and this assessment also touches upon issues concerning projects operated under verification procedures established by host Parties (Track 1).

14. Sections III and IV of this report address, respectively, the steps taken so far in establishing the JI mechanism and, as a result, the status that JI has now reached. Section V contains the JISC's assessment of the context that JI is currently in. Section VI defines a number of areas of focus for the JISC in revising and re-orientating its work programme to concentrate on shorter-term activities that add the most value to the effectiveness of JI, particularly in relation to the first commitment period under the Kyoto Protocol. Section VII argues for longer-term adjustments to JI that, in the view of the JISC, have potential to build upon the approach embodied in JI and strengthen its capacity to contribute to global efforts beyond 2012 to combat climate change.

### III. GOVERNANCE ISSUES

#### A. Guidance provided by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

##### 1. Establishment of two tracks

15. The JI mechanism was established by Article 6 of the Kyoto Protocol to enable Annex I Parties (or legal entities authorized by them) to support projects that reduce emissions, or enhance removals, of greenhouse gas (GHG) emissions in other Annex I Parties, thereby enhancing the cost-effectiveness of mitigation actions in meeting the emission targets of Annex I Parties under the Kyoto Protocol. The guidelines for the implementation of Article 6 are set out in the annex to decision 9/CMP.1 (JI guidelines).

16. Though it is often compared with the CDM, which was established by Article 12 of the Kyoto Protocol and enables Annex I Parties (or legal entities authorized by them) to support projects in non-Annex I Parties, JI differs in two key aspects:

- (a) JI operates within the overall cap on emissions established by the Kyoto Protocol for Annex I Parties. As a direct consequence, JI projects and their associated offset credits, known as emission reduction units (ERUs), result in redistributing the emission reduction effort undertaken by Annex I Parties without impacting on the overall magnitude of the effort required by these Parties,<sup>3</sup>
- (b) JI is flexible in the type of emission reduction or removal enhancement opportunities that may be undertaken, with no limitations other than the use of ERUs from nuclear activities.

17. The two "tracks" established for JI initially arose from the consideration of eligibility requirements that must be met by Parties before they may issue and transfer or acquire ERUs. These requirements relate to the accounting systems and processes that Parties are required to institute, at a national level, to measure their annual emissions and removal enhancements of GHGs and demonstrate compliance with their emission commitments.

<sup>2</sup> The JISC, its twenty-first meeting (April 2010), launched a call for public inputs on experience with the verification procedure under the JISC. A summary of the public inputs received was considered at the twenty-second meeting of the JISC (June 2010) and may be found under: [http://ji.unfccc.int/Sup\\_Committee/Meetings/022/Annex4.pdf](http://ji.unfccc.int/Sup_Committee/Meetings/022/Annex4.pdf).

<sup>3</sup> This differs from the CDM, for which certified emission reductions (CERs) are generated outside the overall emission cap for Annex I Parties and lead to increased Annex I emissions when used for compliance purposes.



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18. Specifically, the eligibility requirements for JI that must be met by Annex I Parties are as follows:

- (a) It is a Party to the Kyoto Protocol;
- (b) Its assigned amount has been calculated and recorded;
- (c) It has in place a national system for the estimation of emissions and removals;
- (d) It has in place a national registry;
- (e) It has submitted the most recent inventory of emissions and removals that is required;
- (f) It has submitted its most recent supplementary information on assigned amount and implements the accounting of assigned amounts under the Kyoto Protocol.<sup>4</sup>

19. Parties meeting all such requirements may implement their own procedures for verifying that emission reductions and removal enhancements generated by projects are additional to any that would otherwise occur, and may then proceed directly to the issuance and transfer of ERUs (Track 1).<sup>5</sup>

20. The Track 2 procedure was originally conceived as a system of international oversight for the verification of emission reductions and removals by projects hosted by Parties which had not yet met all the eligibility requirements for JI. Under the Track 2 procedure, after the verification of emission reductions or removal enhancements is deemed final under the JISC process, ERUs may be issued and transferred by the host Party with only three eligibility requirements having been met: being a Party to the Kyoto Protocol; having its assigned amount calculated and recorded; and having in place a national registry (paragraph 18(a), (b) and (d) above).<sup>6</sup>

21. However, the Track 2 procedure is available for use by any Party hosting a JI project, including Parties that meet all six eligibility requirements.<sup>7</sup> In fact, some Parties eligible for the Track 1 procedure have chosen to make use of the Track 2 procedure for some or all of the JI projects they host. This allows such Parties and project participants to benefit from the international oversight and transparency provided by the Track 2 procedure, and reduces the risk of the Party not being able to issue and transfer ERUs in the event of its eligibility to participate in the JI Track 1 procedure being suspended.

### 2. Institutions and roles

22. The CMP established the **JISC** to supervise, inter alia, the verification of ERUs generated by projects under the Track 2 procedure. As outlined in the JI guidelines, the responsibilities of the JISC include:

- (a) Elaborating its rules of procedure;
- (b) Reporting on its activities and providing recommendations, as necessary, to each session of the CMP;
- (c) Accrediting independent entities, which determine whether projects and their emission reductions or removal enhancements meet JI requirements;
- (d) Reviewing such determinations where necessary;

<sup>4</sup> The full text of the eligibility requirements is contained in decision 9/CMP.1, annex, paragraph 21.

<sup>5</sup> Decision 9/CMP.1, annex, paragraph 23.

<sup>6</sup> Decision 9/CMP.1, annex, paragraph 24.

<sup>7</sup> Decision 9/CMP.1, annex, paragraph 25.

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- (e) Establishing and reviewing standards, guidelines, procedures and forms for the operation of the Track 2 procedure, including reporting guidelines and criteria for baseline setting and monitoring.<sup>8</sup>

23. Over time, the CMP has added further responsibilities to the JISC, such as developing provisions for charging fees to cover administrative costs.

24. The membership of the JISC comprises 10 members and 10 alternate members from Parties to the Kyoto Protocol, serving in their personal capacities, nominated by the relevant constituencies and elected by the CMP. Members and alternate members serve two-year terms, with half of the members and alternate members being elected each year. Members and alternate members may serve a maximum of two consecutive terms.<sup>9, 10</sup>

25. Parties may be involved directly in JI projects as **project participants** or may authorize legal entities as project participants. In all cases, the Party remains responsible for the fulfilment of its obligations under the Kyoto Protocol and must ensure that project participants act in a manner that is consistent with the guidance established for JI. Legal entities may only transfer or acquire ERUs under relevant provisions in the JI guidelines if the authorizing Party is eligible to do so at the time.<sup>11</sup>

26. For each project under the Track 2 procedure, project participants are required to submit the following to an accredited independent entity (AIE):

- (a) A project design document (PDD) containing all information needed for the determination of whether the project meets all relevant requirements;<sup>12</sup>
- (b) A report, to be submitted in accordance with the project's monitoring plan after the determination regarding the respective PDD has been deemed final by the JISC, on the emission reductions or removal that have occurred through the project, in order to allow the verification of whether they have been monitored, calculated and reported in accordance with the PDD and other requirements under JI (monitoring report).

27. **AIEs**, as accredited by the JISC, are responsible for determining whether projects and their emission reductions or removal enhancements meet the relevant requirements established for JI projects. With the initiation of the JISC's work, the CMP decided that designated operational entities (DOEs) under the CDM that apply for accreditation under JI may act provisionally as AIEs until a final accreditation decision is taken by the JISC.<sup>13</sup> However, the determinations and other activities undertaken by an entity under these provisions become valid only after the accreditation of the entity is finalized by the JISC.

28. Each Annex I Party involved in a JI project is to establish a **designated focal point (DFP)** for approving JI projects, as well as national guidelines and procedures for approving JI projects. Project approval is granted by DFPs via written approvals to specific legal entities authorized to participate in the JI project in question. Most DFPs additionally involve themselves in assessing JI project documents prior to approving and verifying the monitoring of subsequent emission reductions and removals.

<sup>8</sup> Decision 9/CMP.1, annex, paragraph 3. It should be noted that the JISC was initially referred to in CMP decisions as the "Article 6 Supervisory Committee".

<sup>9</sup> Decision 9/CMP.1, annex, paragraphs 4-8. Specifically, the membership of the JISC comprises three members and three alternate members from Annex I Parties that have economies in transition; three members and three alternate members from other Annex I Parties; three members and three alternate members from non-Annex I Parties; one member and one alternate member from the small island developing States.

<sup>10</sup> Rule 4 of the "Rules of procedures of the Joint Implementation Supervisory Committee" (version 02).

<sup>11</sup> Decision 9/CMP.1, annex, paragraph 29.

<sup>12</sup> Decision 9/CMP.1 paragraph 31.

<sup>13</sup> Decision 10/CMP.1, paragraph 3.



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29. The UNFCCC secretariat was requested through the JI guidelines to service the JISC. The main activities performed by the secretariat in this respect include:

- (a) Organizing meetings of the JISC, panels and working groups, as well as outreach and stakeholder events;
- (b) Managing the project cycle workflow;
- (c) Supporting the operation of the accreditation process for independent entities;
- (d) Preparing draft regulatory documents for consideration and adoption the JISC, panels and working groups;
- (e) Making information on JI publicly available, especially through the UNFCCC JI website;
- (f) Maintaining external communications with stakeholders and the media;
- (g) Collecting fees to cover administrative costs arising from procedures contained in the JI guidelines relating to the function of the JISC;
- (h) Providing substantive management and coordination of JI related work, including in relation to human and financial resources.

### B. Activities of the Joint Implementation Supervisory Committee

#### 1. Evolving nature of work

30. Figure 1 below shows key milestones in the development of the Track 2 procedure to date. Notwithstanding the continuous need to strengthen the system, the feedback received by the JISC and the secretariat suggests that the process under the Track 2 procedure is functioning relatively well and that stakeholders are satisfied with both the performance of the JISC and the efficiency and timeliness of its work.

31. The JISC was elected for the first time by the CMP at its first session (December 2005), in conjunction with the adoption by the CMP of the JI guidelines. Since then, the JISC has held 23 meetings<sup>14</sup> and has undertaken a considerable amount of work. Its initial focus was on developing the procedures for operationalizing the Track 2 procedure. In this context, the JISC established the Joint Implementation Accreditation Panel (JI-AP) to assist in developing an accreditation procedure and other regulatory documents, as well as recommending to the JISC the accreditation of independent entities. The JISC officially launched the accreditation procedure on 6 October 2006, triggering the receipt of applications for accreditation, and the overall verification procedure on 26 October 2006, allowing the submission of PDDs to commence.

32. The focus of the JISC's work has since shifted from the development of regulatory documents to the operation of the Track 2 procedure itself. Accordingly, the JISC has in the last years devoted an increasing share of its deliberations to the processing of project-related submissions, including:

- (a) The publication of PDDs and monitoring reports submitted by project participants;
- (b) The publication and appraisal of determination and verification reports submitted by AIEs (including DOEs acting provisionally as AIEs), in relation to specific projects;
- (c) The conduct of reviews, where appropriate, in relation to these determination and verification reports.

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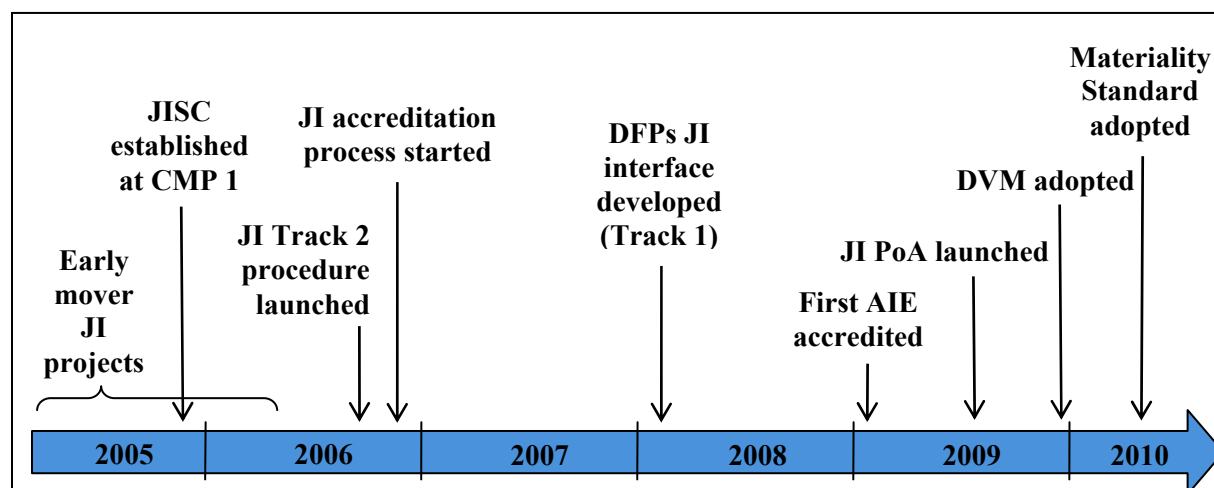
<sup>14</sup> As at 23 October 2010.

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33. As encouraged by the CMP, the JISC has collaborated actively on JI issues with the CDM Executive Board, the Compliance Committee, DFPs, AIEs, project participants (including through dedicated communication channels with specific project participant groups such as the JI Action Group and the Project Developers Forum), and observers at JISC meetings.

34. The JISC has always sought to work in a transparent manner. Its meetings have been open to attendance by observers and it has provided live and on-demand webcasts for stakeholders who are unable to attend in person. The JISC has further ensured that its documents are available on its website and has made use of public calls for input as part of its consideration of important items.

**Figure 1: Development of guidance by the Joint Implementation Supervisory Committee**



### 2. Guidance adopted

35. During 2006, its first year of activity, the extensive work programme of the JISC concentrated on the operationalization of the Track 2 procedure. By the end of the year, the JISC had adopted the following documents for its work and the operation of the Track 2 procedure:

- (a) Rules of procedure of the JISC;
- (b) JI PDD forms for use by large-scale, small-scale (SSC) and land use, land-use change and forestry (LULUCF) projects, and a form for the submission of bundled JI SSC projects;
- (c) Guidelines for users of the three JI PDD forms (for large-scale, SSC and LULUCF projects);
- (d) Guidance on criteria for baseline setting and monitoring;
- (e) Provisions for SSC projects;
- (f) Procedures for appraisals and reviews of determinations;
- (g) Procedures on the public availability of documents;
- (h) Principles, structure and level of fees to cover administrative costs of the JISC;
- (i) Procedures for accrediting independent entities by the JISC.

36. The development of the documents referred to in paragraph 35 benefited from the earlier work undertaken by the CDM Executive Board on equivalent issues, while taking into consideration the differences between the two mechanisms. These differences include the greater flexibility of JI in respect of eligible project types, additionality, baseline setting and monitoring methodologies, and the possibility for crediting of emission reductions and removal enhancements from projects for the time during the commitment period but prior to the finalization of their determinations.



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37. Two additional elements of policy guidance adopted by the JISC since 2006 deserve particular mention. Firstly, the JISC adopted in 2009 a procedure for JI programmes of activities (PoAs), providing a framework for implementing JI projects that can be replicated easily and bring economies of scale for project participants. PoAs could be submitted under this procedure as of 1 December 2009. In conjunction with adopting the procedure, the JISC also adopted a form (PoA DD) and guidelines to support the implementation of PoAs.

38. Secondly, the JISC adopted the determination and verification manual (DVM) at the end of 2009 to assist AIEs in performing determinations and verifications. The adoption of the DVM resulted in the revision of the guidance on criteria for baseline setting and monitoring, guidelines for users of JI PDD forms, and provisions for SSC projects.

39. Further revisions and new areas of guidance have been agreed by the JISC since 2006, in particular concerning ways to enhance the efficiency and operation of the Track 2 procedure:

- (a) Revised guidance on criteria for baseline setting and monitoring, in order to clarify the use of JI-specific approaches and CDM-approved methodologies;
- (b) Revised procedures for reviews under the verification procedure, further facilitating the implementation of the steps for reviews;
- (c) Revised guidelines for users of JI PDD forms (for large-scale and LULUCF projects), following the adoption of the revised guidance on criteria for baseline setting and monitoring;
- (d) Revised provisions for JI SSC projects and revised guidelines for users of the JI SSC PDD form, following the amendment of the thresholds for SSC projects by the CMP, and the revision of the criteria for baseline setting and monitoring;
- (e) Procedures for the withdrawal of submissions under the verification procedure and for the withdrawal of project participants after final determination;
- (f) Procedures for communication of the public with the JISC;
- (g) JI accreditation standard;
- (h) Standard for applying the concepts of materiality and level of assurance in verifications;
- (i) Procedures regarding changes during project implementation after the determination regarding the respective PDD has been deemed final;
- (j) Revised glossary of JI terms, to incorporate terms related to PoAs and materiality.

### 3. Outreach and communication

40. Pending the entry into force of the Kyoto Protocol and the first election of the JISC, the secretariat undertook outreach activities in relation to JI, most notably by organizing the “UNFCCC workshop on the implementation of Article 6 projects under the Kyoto Protocol” in Moscow, Russian Federation, in May 2004.

41. Since the commencement of its work, the JISC has convened five UNFCCC technical workshops on JI (March 2006, February and October 2007, September 2008, and September 2009) and two round-table consultations (June 2009 and June 2010). These events allowed the JISC to consider the experience of stakeholders with operational aspects of JI, such as accreditation and the supervision of the verification procedure, and enabled greater interaction among JI stakeholders. Further, the JISC has been holding a “question and answer” session at each meeting of the Subsidiary Bodies and the CMP from 2006, and convened numerous side events on specific topics during these meetings to share information on JI and identify further areas for potential improvement.

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42. Members and alternate members of the JISC and the secretariat have also participated in many events, including major carbon market events such as Carbon Expo and Carbon Market Insights, as well as regional events such as the Austrian JI/CDM workshop, Carbon Forum America, Climate Change and Business Kiev, the Russian Carbon Market Forum and, most recently, the JI technical workshop (St Petersburg, September 2010). These events have provided an opportunity for the JISC and the secretariat to share information on JI and gather information on the interests and concerns of stakeholders to contribute to the further improvements of the JI processes.

43. The UNFCCC JI website was established at the beginning of 2006 and has expanded over the years to include detailed information on all JI-related issues. This information includes standards, procedures, guidelines and forms for the Track 2 procedure, contact information of DFPs, national guidelines and procedure for approving JI projects by host Parties, the status of JI projects under both the Track 1 and Track 2 procedures, and other issues (news, side-events, workshops, extranets). In addition, the website contains all documents considered by the JISC and reports of JISC meetings. The JI website receives around 10,000 unique visitors per month and its associated news facility (the JI newsletter) has about 2,000 registered subscribers.

44. The JISC adopted in June 2010 its communication and outreach work plan with a view to reaching a broader group of stakeholders and to raising awareness about JI among key policy makers. Some of the main activities included in this work plan are: enhanced media outreach; cooperation with DFPs to reach policy makers and potential project participants; participation in carbon market events; and utilization of communication tools, services and products.

### C. Financial resources

#### 1. Historical income and expenditures

45. The JISC prepares a biennial management plan (JI-MAP) to guide its activities and plan its resources. In setting out the planned activities of the JISC and the secretariat and detailing its workload assumptions, the JI-MAP provides a valuable planning tool for the JISC as well as transparency towards JI stakeholders and the CMP. It is typically approved, for the following year, prior to the session of the CMP and is revised as necessary during the biennium to take account of any changes that prove necessary.

46. The resources required for the administration of JI were initially entirely provided through voluntary contributions from Parties. Though such contributions continue to be received, the expectations have grown among Parties over time that an increasing number of projects would enable the resources required for the Track 2 procedure, including the activities of the JISC, to increasingly rely on fee-based income and ultimately become self-sufficient.<sup>15</sup>

47. On the basis of decision 3/CMP.2, the following fees are charged by the JISC:

- (a) A flat fee of USD 15,000 per applicant for accreditation as an AIE, plus costs of the work of assessment teams involved in specific assessment cases;<sup>16</sup>
- (b) A variable fee for the verification of emission reductions or removal enhancements, based on USD 0.10 for each of the first 15,000 tonnes of CO<sub>2</sub> equivalent generated by a project in a given calendar year and USD 0.20 for each tonne of CO<sub>2</sub> equivalent thereafter (fees for PoAs apply at a rate of USD 0.10 for all emission reductions and removals).

48. For projects other than small-scale projects or PoAs, or with an expected average emission reductions or removal enhancements below 15,000 tonnes of CO<sub>2</sub> equivalent per year, an advance

<sup>15</sup> Decision 9/CMP.1, paragraph 7, states that administrative costs relating to the functions of the JISC are to be borne by both Annex I Parties and project participants. Decision 10/CMP.1 requests the JISC to develop provisions for charging fees. Subsequent decisions noting that income from fees remains inadequate to cover expenses include decision 5/CMP.4, paragraph 15, and decision 3/CMP.5, paragraph 24.

<sup>16</sup> Applicants from Parties with economies in transition and from non-Annex I Parties are subject to 50 per cent of the accreditation fee up-front, with the remaining 50 per cent becoming due if the application is successful.

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payment is payable upon submission of determination reports regarding PDDs. The amount of the advance payment is equal to the estimated average verification fee for one year, up to the limit of USD 30,000.

49. Table 1 below shows the annual income and expenditure from 2004 until 30 September 2010. The operation of JI remains dependent on voluntary contributions from Parties, which form approximately 80 per cent of all income received to date. There has been no income from accreditation fees since 2007.

50. Income from verification fees grew substantially between 2007 and 2009, before dropping in 2010 as the JISC decreased the maximum level of advance payment of verification fees payable, to the non-reimbursable level.<sup>17</sup> As presented in the JI-MAP for 2010–2011 and noted by the CMP at its fifth session, these fees have been kept aside in a “fee reserve” with a view to building a financial buffer, together with the accumulated carryover of resources from one year to the next, to safeguard JISC activities in times of low income. Of the fee reserve of USD 1,592,471 accumulated so far (as at 30 September 2010), approximately 30 per cent may not be spent immediately, as it reflects advance fees that may need to be reimbursed in case the verifications regarding the respective projects are not eventually submitted to the JISC.

51. From the beginning, the total income has remained consistently below the budget estimated to be required to undertake all the activities planned by the JISC through its approved management plans (e.g. the overall budget planned in the JI-MAP for 2010 is USD 3,423,597). As a result, the activities of the JISC and the secretariat have been restricted in order to save costs where possible. Generally speaking, income has not been sufficiently stable to allow the appropriate implementation of planned activities.

**Table 1: Actual annual income and expenditure (USD)**

	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
<b>Income</b>							
Carry-over from previous year	-	67,723	84,144	996,533	1,337,798	2,000,084	862,237
Party contributions	128,268	41,098	1,105,567	1,012,999	2,095,569	278,385	2,018,063
Accreditation fees	-	-	194,819	29,990	-	-	-
Verification fees	-	-	-	158,842	320,754	750,256	362,619
<b>Total income</b>	<b>128,268</b>	<b>108,821</b>	<b>1,384,530</b>	<b>2,198,364</b>	<b>3,754,121</b>	<b>3,028,725</b>	<b>3,242,919</b>
<b>Expenditure</b>							
Total expenditure	60,545	24,677	387,997	701,724	1,433,283	1,416,232	1,394,977
Set-aside (fee reserve)				158,842	320,754	750,256	362,619
<b>Balance at year end</b>	<b>67,723</b>	<b>84,144</b>	<b>996,533</b>	<b>1,337,798</b>	<b>2,000,084</b>	<b>862,237</b>	<b>1,485,323</b>

a 1 January to 30 September 2010

52. The JISC, at its twenty-second meeting (15–16 June 2010), considered the financial status of its activities. At that time, Party contributions of only USD 163,153 had been received during 2010. The JISC concluded that its current financing model was not sustainable and that the pace of receiving contributions from Parties was at a crisis point. On this basis, the JISC agreed to cancel its two next meetings and replace them with an extraordinary meeting, to be held in October 2010, aimed at finalizing its annual report to the CMP, including proposals for a more secure and sustainable financial model for undertaking JISC activities. The JISC also decided at the same meeting to cancel the remaining JI-AP meetings in 2010. Since its twenty-second meeting, additional Party contributions of USD 1,854,910 have been received.

<sup>17</sup> The JISC revised its fee provisions in December 2009 to reduce the maximum advance payment of verification fees at determination stage from USD 350,000 to USD 30,000. This change took effect from January 2010.

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### 2. Financial projections until 2012

53. Making projections of the fee income expected to be received under the Track 2 procedure for the remainder of the first commitment period is complex. A number of variables are important, including the number and size of JI projects to be determined, timing as to their determination and subsequent verification, certainty as to their generation of emission reductions or removal enhancements, potential change in the JI track eligibility of host Parties, and the likelihood of projects being transferred from one track to the other.

54. On the basis of an informal survey of AIEs and information from a number of project participants, the JISC has assessed the potential number of projects for which determinations and verifications may be expected under the Track 2 procedure during the remainder of the first commitment period. Though the precise timing of these submissions between now and the end of 2012 remains uncertain, this survey indicates that new determinations may be expected to be submitted for up to 62 projects and that new verifications may be expected to be submitted for up to 39 projects under the Track 2 procedure (including eight projects for which PDDs have already been determined but for which verifications have not yet been submitted).<sup>18</sup>

55. On the basis of these estimates, three scenarios regarding the growth of Track 2 projects have been identified for making financial projections until 2012 (see table 2):

- (a) **Zero growth:** This scenario assumes no new submissions of determinations and no submissions of verifications from projects for which a determination is already submitted but a verification has not yet been submitted;
- (b) **Moderate growth:** This scenario assumes that half of the new determinations forecasted by AIEs will be submitted and that only half of the latter will proceed to the verification stage. It also assumes that eight additional projects, for which determinations have already been submitted, will proceed to the verification stage;
- (c) **High growth:** This scenario assumes that all of the new determinations forecasted by AIEs will be submitted and that half of them will proceed to the verification stage. As with the moderate growth scenario, it also assumes that eight additional projects, for which determinations have already been submitted, will proceed to the verification stage.

56. Under the three scenarios referred to in paragraph 55 above, the total expected emission reductions generated by Track 2 projects are shown in table 2, ranging from 18 Mt CO<sub>2</sub> equivalent in the “zero growth” scenario to 73 Mt CO<sub>2</sub> equivalent in the “high growth” scenario.<sup>19</sup> The expected income from verification fees, including the total current non-reimbursable advance payments and total fees upon verification, is also shown in table 2. This indicates that, during the first commitment period, verification fee income an amount of USD 3.0 million may be received under the “zero growth” scenario and an amount of USD 9.3 million may be received under the “high growth” scenario (including non-reimbursable fees already received of approximately USD 1.1 million).

57. Of the scenarios set out in table 2, the JISC expects that the moderate growth scenario has the greatest likelihood of being realised. However, it is important to note that the timing of the potential fee income indicated in this scenario for the remainder of the commitment period is not at all certain.

<sup>18</sup> These results are based on 33 per cent of the projects hosted in Russia being conducted under the Track 2 procedure and half of the projects expected to be determined by AIEs subsequently proceeding to the verification stage before the end of 2012.

<sup>19</sup> Based on the survey, it was assumed that new projects for which PDD determinations will be submitted will each result in an average emission reduction of 1.5 Mt CO<sub>2</sub> equivalent over an average crediting period of 3 years.

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**Table 2:**  
**Estimates of income from Track 2 verification fees for the remainder of the first commitment period**

Scenarios	Current determinations / verifications (number of projects)	New determinations / verifications (number of projects)	Total determinations / verifications (number of projects)	Total expected emission reductions (Mt CO <sub>2</sub> e)	Potential receipt of verification fees during full first commitment period (USD million)
Zero growth	27 / 11	0 / 0	27 / 11	18	3.0
Moderate growth	27 / 19	31 / 15	58 / 34	51	6.8
High growth	27 / 19	62 / 31	89 / 50	73	9.3

58. It can also be expected that fees for verifications pertaining to the first commitment period will continue to be received after 2012, as ex-post verifications will continue to be conducted for emission reductions or removal enhancements generated in the period 2008–2012. Given that ERUs may continue to be traded and used for compliance purposes until the end of the “true up” period under the Kyoto Protocol, which is expected to come to an end around mid-2015, it is possible that verifications pertaining to the first commitment period may continue for some time.

59. It should be noted that table 2 only considers verification fees, for which there is a basis on which estimates may be calculated. In addition, other less predictable sources of income are accreditation fees and Party contributions (see table 1 above for indications of possible levels of such funding).

60. Overall, the JISC does not consider it can be confident, under the current funding mechanisms, of sufficient verification fees being received in the next years to allow it to become self-financing during the first commitment period. Moreover, it is the assessment of the JISC that this situation may continue beyond 2012 as the JISC continues the verification activities for the 2008–2012 period and any new projects submitted after 2012.

61. This lack of confidence reflects also the recent history of the funding situation of the JISC, which indicates its operational environment is vulnerable to unpredictable fluctuations in both fees and Party contributions. It remains very important that the operational environment of the JISC be kept stable in the near to medium term through continued Party contributions, at least to complete activities relating to the first commitment period.

#### **IV. STATUS OF JOINT IMPLEMENTATION**

##### **A. Early action**

62. In 2001, with the adoption of the Marrakesh Accords,<sup>20</sup> early JI activities began to operate on a bilateral basis between Annex I Parties and without a more formal institutional and procedural system, as was to be subsequently developed by the JISC, and prior to the entry into force of the Kyoto Protocol. This early action on JI occurred especially in countries with economies in transition, on the basis of the draft JI guidelines contained in the Marrakesh Accords<sup>21</sup> and building on the experience gained in developing Activities Implemented Jointly (AIJ) under the Article 4.2 of the UNFCCC.

63. The most engaged promoters of this early action on JI included: the Netherlands (through the ERUPT-Carboncredits.nl programme) the World Bank (through the Prototype Carbon Fund), the Nordic Environment Finance Corporation (through the BASREC Testing Ground Facility), Austria and Denmark, together with host Parties such as Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Poland and Romania.

<sup>20</sup> Decisions 2/CP.7 - 24/CP.7, subsequently adopted by the CMP at its first session, December 2005.

<sup>21</sup> Decision 16/CP.7 (Guidelines for the implementation of Article 6 of the Kyoto Protocol) was subsequently adopted by the CMP at its first session, December 2005.

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64. By 27 October 2006, when the JISC officially launched the Track 2 procedure, approximately 130 “early mover” JI projects were in different stages of implementation.<sup>22</sup> Most of these JI projects were registered by the host Parties under the Track 1 procedure due to the differences in regulations and forms adopted by the JISC under the Track 2 procedure from those “expected” by these “early movers”.

### B. Current status of projects

65. JI has attracted a considerable increase in interest since the JISC began its work in 2006 to operationalize the track 2 process. As of 30 September 2010, 234 PDDs have been submitted under the Track 2 procedure and made publicly available on the UNFCCC JI website in accordance with the JI guidelines. Of this number of PDDs:

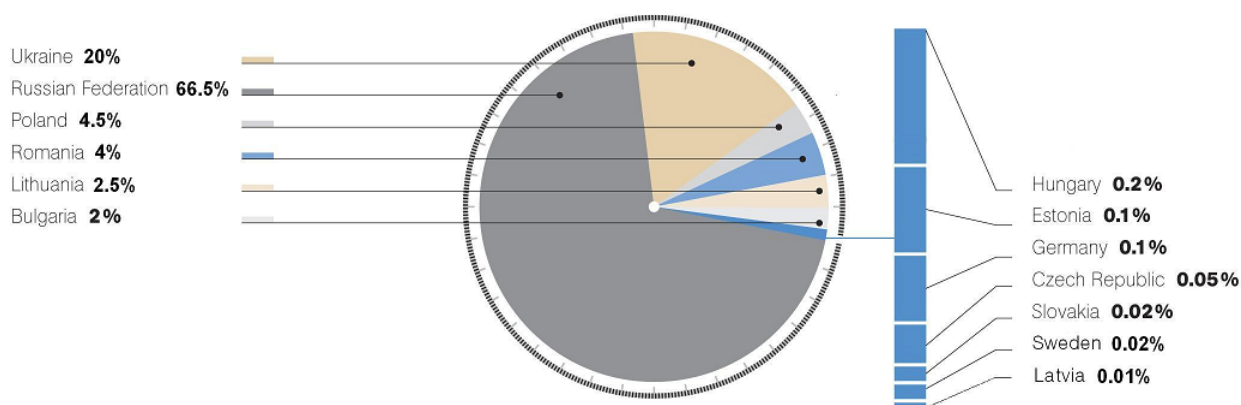
- (a) 27 have received positive determinations from AIEs, of which 20 have been deemed final in accordance with the JI guidelines;<sup>23</sup>
- (b) 168 are awaiting determination;
- (c) 39 have been withdrawn, with some being transferred to the Track 1 procedure by the project participants.

66. The total emission reduction that would be generated, if the remaining of the 195 projects under the Track 2 procedure are realized, is estimated to be around 300 million tonnes of CO<sub>2</sub> equivalent for the first commitment period.

67. Figure 2 below shows the breakdown of the 234 PDDs submitted to the JISC under the Track 2 procedure. Projects in Russia form a significant majority of projects, followed by projects in the Ukraine. Figure 3 below shows the breakdown of these PDDs by sectoral scope, from which it can be seen that the largest shares are contributed by projects in fugitive emissions; manufacturing and chemicals; energy; and mining, minerals and metals.

**Figure 2**

**Jl Track 2 total emission reductions (proposals), 2008–12, by country**



Source: UNFCCC

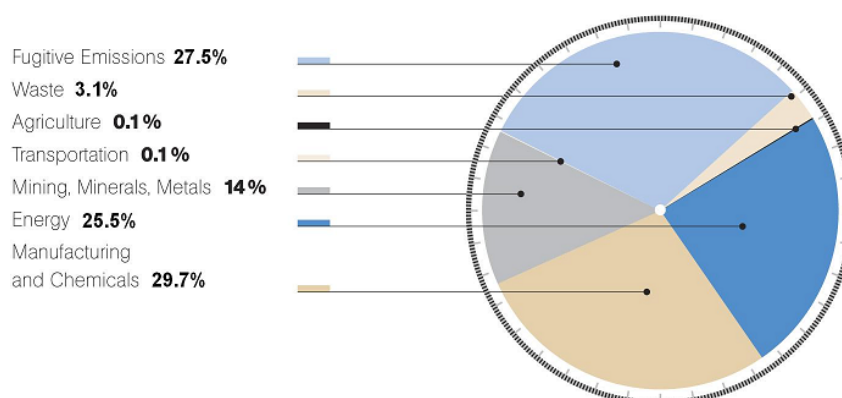
<sup>22</sup> UNEP Risoe Centre, CDM/JI Projects Pipeline Overview, 14 September 2006.

<sup>23</sup> One determination was rejected by the JISC, one is current under review by the JISC and five further determinations are open for requests for review.

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Figure 3

JI Track 2 industries (submitted project proposals by expected GHG reduction)



Source: UNFCCC

68. According to their PDDs, the total volume of emission reductions and removal enhancements to be achieved by the 20 projects whose determinations have been deemed final under the Track 2 procedure is estimated to be around 35 million tonnes of CO<sub>2</sub> equivalent between 2008 and 2012. The average period between the publication of the PDD and the publication of the determination for the same project is 18 months, with a range of 4 to 31 months. The length of the period is affected by a variety of factors, including the delays in host Party approval, the limited number and capacity of AIEs, and the delayed responses from project participants.

69. In accordance with the JI guidelines, 22 verifications of emission reductions generated by 11 projects have been published on the JI website to date and 20 verifications of them have been deemed final. These final verifications allow for 3.6 million tonnes of CO<sub>2</sub> equivalent of ERUs to be issued.

70. As requested by the CMP, in order to provide an overview of all JI projects on the UNFCCC JI website and provide more transparent access to all project information, the secretariat has developed a web-based interface to receive information on projects under the Track 1 procedure from DFPS.<sup>24</sup> As of 30 September 2010, 190 Track 1 projects have been published on the JI website.

71. According to a recent report, a total of 24.5 million ERUs have been issued to date under the Track 1 and Track 2 procedures. These issuances were made for 80 projects in 11 host Parties and represent a substantial growth from the 4.5 million ERUs that had been issued for 27 projects up to November 2009. Approximately 85 per cent of the units issued to date originate from projects in host countries with economies in transition. In addition, according to the same report, the volume of ERUs issued under the Track 1 and 2 procedures is expected to reach 140 million units by the end of the first commitment period.<sup>25</sup>

72. In terms of market volumes, the primary JI market saw a slight increase in transactions from 25.2 Mt CO<sub>2</sub> equivalent in 2008 to 26.5 Mt CO<sub>2</sub> equivalent in 2009. However, the value of ERUs decreased slightly in 2009 to an average price of USD 13.4 per unit, resulting in the total value of the primary JI market to decline from USD 367 million in 2008 to USD 354 million in 2009. In comparison, in 2009, the primary CDM market represented 211 Mt CO<sub>2</sub> equivalent with a market value of USD 2,678 million, and the AAU transaction market represented 155 Mt CO<sub>2</sub> equivalent with a market value of USD 2,003 million. The primary JI market therefore represented approximately 11 per cent of the combined primary market for JI and the CDM in terms of volume, and 12 per cent in terms of value.<sup>26</sup>

<sup>24</sup> Project identifiers are also allocated via this interface and provided to the international transaction log to ensure the transparent tracking of ERUs generated by JI projects.

<sup>25</sup> Report by Vertis Environmental Finance, quoted by Point Carbon on 1 October 2010.

<sup>26</sup> State and Trends of the Carbon Market 2010, World Bank, pages 1 and 50.

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73. Track 2 procedure has faced competition from other programmes offering opportunities for investment in emission reductions or removal enhancements, or investments in other environmental fields:

- (a) The CDM, which offers investments in similar projects in non-Annex I Parties, against which JI has sometimes been seen as “younger sibling”;
- (b) Track 1 projects, which are sometimes able to operate on the same procedural basis as Track 2 projects, but on different timelines and without the need to pay verification fees;
- (c) Green investment schemes, under which revenues from selling AAUs are expected to be invested in activities that have demonstrable benefit to the environment;
- (d) Emissions trading schemes, under which allowances may be purchased without the need to first invest in projects.

74. Furthermore, since 2005, the viability of developing JI projects in most Annex I Parties in Central and Eastern Europe has been affected by the accession of these Parties to the European Union (EU), as rules under the EU Emissions Trading Scheme require any ERUs generated by a JI project at an installation covered by the scheme to be matched by a cancellation of the same amount of EU allowances (which typically command a higher market value). This has discouraged the development of JI projects in sectors such as energy and industry.

### C. Current status of accreditation

75. In late 2006 and 2007, 15 applications for accreditation to become AIEs were received.<sup>27</sup> To date, based on the recommendations of the JI-AP, the JISC has accredited four of these applicants as AIEs (one voluntarily withdrew its accreditation in 2010). Based on the work of JI assessment teams it has established, the JI-AP has issued an indicative letter (indicating successful completion of the desk review and on-site assessment) to 10 of the 11 remaining applicants.

76. Five of the remaining applicants have now initiated the last assessment in the process for initial accreditation by submitting a determination or a verification regarding a project to be used as a witnessing activity. These are currently under the consideration by the JI assessment teams. It can therefore be expected that further applicants will be accredited as AIEs in the near future.

77. In accordance with decision 10/CMP.1, 8 of the 11 remaining applicants may act provisionally as AIEs under the Track 2 procedure for at least one function (determination regarding a PDD or verification of emission reductions or removal enhancements) in at least one sectoral scope until the JISC takes a final accreditation decision on these entities.

## V. CONTEXT TO GUIDE THE FUTURE WORK

### A. Robust foundation for growth

78. JI is part of the Kyoto Protocol, and although the emission targets of Annex I Parties are negotiated on a commitment period by commitment period basis, JI is designed as a long-term mechanism that continues from one period to the next, and is not tied to specific commitment periods. This continuity applies to all aspects of JI, including the determination of projects, issuance of ERUs, and accreditation of independent entities.

79. The JISC is of the strong conviction that it has, under the guidance and authority of the CMP, built a robust foundation of policy guidance and experience in project evaluation upon which there is potential for a substantial increase in the number of projects under the Track 2 procedure. Notwithstanding the ongoing need for the JISC to further refine its policy guidance in order to further strengthen its efficiency, transparency and governance, the guidance provided so far is widely considered to be comprehensive and constructive.

<sup>27</sup> A further application was received in 2010 but was subsequently withdrawn by the applicant.



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80. It is important to recognize the context within which the JI mechanism exists. In particular, JI projects are applicable to Parties operating in a framework for measuring emissions and complying with quantitative emission targets. Within this “capped environment”, projects are given international recognition for the emission reductions or removal enhancements they generate and the resulting credits are counted against the overall emission targets adopted by those Parties.

81. The JISC believes that the specific value of JI, and the Track 2 procedure in particular, rests in its ability to give integrity and value to the measurement and issuance of offset credits in a way that a single Party working in isolation is not able to achieve. The resulting credits can be readily accepted in countries other than the project host, not only for compliance under the Kyoto Protocol but also for trading and compliance purposes under domestic trading systems and potentially under any international system of quantitative targets.

### B. Post-2012 international climate regime

82. At the same time, the JISC is aware of the uncertainty surrounding the future of JI, and the Kyoto Protocol more generally. As Parties continue their deliberations under the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) and the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA), it is not yet clear what level of ambition in reducing emissions will be adopted by developed countries or what form such targets will take. This is of acute relevance to the future of JI, as JI was originally envisioned to assist Annex I Parties in meeting their emission targets under the Kyoto Protocol, and because ERUs need to be converted from either assigned amount units (AAUs) or removal units (RMUs).

83. It is the understanding of the JISC that the eligibility requirements adopted for JI by the CMP would not restrict Parties, or legal entities authorized by them, from continuing to have projects determined or emission reductions and removal enhancements verified beyond 2012.<sup>28</sup> However, it is also the JISC’s understanding that AAUs for the second commitment period will not be issued in the absence of the relevant targets having entered into force and that some elements of the accounting rules for land use, land-use change, and forestry need to be completed in order to be applicable after the first commitment period before RMUs may be issued. Under these circumstances, while the projects themselves would be able to continue unimpeded, it needs to be clarified whether the issuance of ERUs can occur before the Parties’ targets for a period beyond 2012 enter into force.

84. Uncertainty regarding the continuity of the CDM and JI in the post-2012 period is often cited as a major hindrance to investment in both mechanisms, as longer crediting periods are typically required to ensure the financial viability of projects. Of the PDDs received under the Track 2 procedure in recent years, most envisage a continuation of crediting beyond 2012 and some host Parties have begun approving projects with longer crediting periods, on the understanding that JI will continue beyond 2012.

85. A further area of uncertainty often identified by JI stakeholders is how JI activities under the first commitment period would be “closed off” as part of the transition to a second commitment period under the Kyoto Protocol, or any other form of new commitments for the period beyond 2012. In the understanding of the JISC, as ERUs issued for the first commitment period are to relate to emission reductions or removal enhancements that occur from 1 January 2008 to 31 December 2012, it will be necessary that verification activities relevant to this first commitment period to continue in 2013 and perhaps thereafter.<sup>29</sup> The consequent issuance of ERUs would however need to occur soon after the end of the 2012 if they are to be used for compliance purposes by Parties or entities.<sup>30</sup>

<sup>28</sup> Decision 9/CMP.1, annex, paragraphs 20-24 and 29.

<sup>29</sup> In the understanding of the JISC, the processing and issuance of emission reductions and removal enhancements that take place within the first commitment period is unrelated to any issues surrounding the nature of the international climate regime beyond 2012 and is therefore to continue unimpeded. The serial numbers of these ERUs, although issued after 2012, would nevertheless indicate that they were issued for the first commitment period under the Kyoto Protocol.

<sup>30</sup> ERUs may be used by Parties for compliance with their commitments under the first commitment period of the Kyoto Protocol up to the end of the “true-up period”, which is formally defined as extending to 100 days after the date agreed by the Parties for completing the reviews of Annex I Parties’ emission inventories for the 2012

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86. Annex I Parties may “carry over” ERUs from the first commitment period under the Kyoto Protocol for use in complying with emission targets for a second commitment period. However, each Annex I Party may carry over ERUs from the first commitment period only up to a limit of 2.5% of its original assigned amount for the first commitment period.<sup>31</sup> The carry over of AAUs into the second commitment period is not subject to any limits, while the carry over of RMUs is not permitted.

### C. Possible market directions

87. The JISC considers that it would be worthwhile to further consider potential ways in which the experience gained with JI could be applied in different paths that the future market could take. In particular, it appears that there are two general directions in which the carbon market may grow:

- (a) The future market could be characterized by greater **unification**, through continuing to emphasize the applicability of emissions monitoring and offset standards that are universally accepted in all jurisdictions and are tradable as such. This could be led by a continuation of an international framework embodying common accounting modalities, such as those under the Kyoto Protocol. This would provide an ongoing basis for linking trading systems, opening greater access to lower-cost abatement opportunities and providing “capped” countries with flexibility in meeting their emission targets. It would provide a basis for strong growth in the carbon market and greater engagement of the private sector;
- (b) The future market could also be characterized by greater **fragmentation**, through less emphasis being placed on universally accepted emissions monitoring and offset standards. This could arise from a shift from the use of common emission accounting modalities, such as those under the Kyoto Protocol, and towards the use of more disparate accounting modalities, in particular where these are established by different Parties under their legislation or through bilateral arrangements. Although market activity and offsets may, overall, continue to grow, it would likely be more difficult to establish links between such systems to ensure that units accepted under one system are accepted under another.

88. A shift towards greater unification in the market would continue, and perhaps strengthen, the framework in which JI exists today. The JISC considers that JI is well-positioned in its current form to continue and expand its assistance to Parties within the capped system in meeting their mitigation targets.

89. A shift towards greater fragmentation in the carbon market would increase the need for offset standards that are universally accepted, such that offset credits may be readily understood and accepted in countries other than the project host. The JISC considers that the approach embodied in JI would have much to offer as a universally accepted offset standard among countries with quantitative emission targets in a situation of greater market fragmentation. Whereas JI is currently explicitly linked to the use of ERUs for compliance purposes under the Kyoto Protocol, this approach could in principle be applied within any domestic or regional emissions trading scheme or to any international system of quantitative targets.

90. It is important to note the potential for an increasing number of countries to adopt policy measures, either domestically or at the international level that involve caps on emissions. The JISC believes that it is worthwhile to preserve and enhance the approach developed through JI in order for it to be a valuable tool in assisting Parties or entities in meeting their caps. Such enhancements could include improvements to the efficiency, transparency and governance of its operation, as well as potential changes to build further upon the approach to JI for application in the period beyond 2012.

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calendar year (decision 27/CMP.1, annex, article XIII). On this basis, the true-up period associated with the first commitment period is expected to extend until around mid-2015. However, most non-government buyers and sellers of ERUs fall under rules for domestic or regional emissions trading systems, such as the EU emissions trading system, which may impose earlier deadlines for using ERUs from the first commitment period.

<sup>31</sup> Decision 13/CMP.1, annex, paragraph 15. Such carry-over results in the serial numbers of the ERUs being updated.



## VI. RE-ORIENTATING THE PRESENT WORK PROGRAMME

91. Although there are indications that the number of JI Track 2 projects is poised to grow considerably by the end of the first commitment period, it is nevertheless true that the size of the mechanism remains small in absolute terms, even when projects under the Track 1 and Track 2 procedures are considered together. Currently, JI does not appear to be considered a major influence among decision makers in governments or business.

92. This has implications in terms of difficulty in maintaining sufficient knowledge for those few organizations and individuals active in the area. Given the expectations of Parties for the activities under the Track 2 procedure, including the work of the JISC, to be covered by fee income, the current level of JI Track 2 activities brings serious concerns regarding the financial stability and sustainability of the JISC.

93. The JISC considers it important to focus its attention on building more growth into JI in the near to medium terms if JI is to tap the potential for offsetting, make a sizeable contribution to reducing emissions and better secure the work of the JISC. The JISC considers that it should focus its attention for the remainder of the first commitment period in the areas of action that would best contribute to maximizing the potential for JI, under the current rules for JI, by increasing the number of JI projects being developed and implemented. These areas of action are outlined in the following sections.

### A. Further improvements to the verification procedure

94. The call for public inputs on experience with the Track 2 procedure, as launched by the JISC for the period of 22 April - 21 May 2010, resulted in a range of suggestions for revising the policy guidance issued so far by the JISC. These suggestions focused on the following specific documents:

- (a) Guidance on criteria for baseline setting and monitoring (version 2);
- (b) Guidelines for users of JI PDD form (including those for SSC and LULUCF projects) (version 4);
- (c) Glossary of JI terms (version 2);
- (d) PDD forms (including those for SSC and LULUCF projects).

95. **Action area:** In general, these suggestions called for the clarification of issues between project participants and AIEs and the acceleration of the processes of project development, determination and verification. Based on these responses to the public call, the JISC, without undermining the credibility of the Track 2 procedure, has agreed to amend the relevant documents by:

- (a) Ensuring the consistent definition of “JI project” and “Project” between documents;
- (b) Avoiding duplications, repetitions and inconsistencies between documents in relation to baseline setting and monitoring;
- (c) Applying the concept of materiality in establishing the project boundary and estimating leakage;
- (d) Clarifying the option in baseline setting of a JI-specific approach already taken in comparable cases;
- (e) Clarifying which aspects of the CDM additionality tool, and its associated guidelines, are applicable under the Track 2 procedure;
- (f) Clarifying the use of English language, the confidentiality requirements and the possibility of modifying the JI PDD form in specific cases;
- (g) Implementing editorial changes in the guidelines for users of PDD form and the PDD form to increase clarity and user-friendliness;

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- (h) Merging the documents referred to in paragraphs 94 (a) and (b) above into a "PDD Manual" to consolidate and ensure the coherence of all requirements and instructions for JI project development.

96. **Action area:** In addition, the JISC has agreed to explore with stakeholders the setting of time limit or expectations for each phase of the JI project cycle, in particular the time between publication of a PDD and when its determination is deemed final, in order to increase the pace and predictability of the system. As part of this, the JISC has agreed to revise the review process in order to create more independence from the JISC meeting cycle, as the current process specifies a maximum time limit for reviews of two JISC meetings (which may be three or four months apart) after the review is requested.

97. **Action area:** The JISC has also agreed to make use of electronic decision-making, in particular in relation to reviews, based on project assessments conducted by independent experts and/or the secretariat.

98. **Action area:** The JISC has also agreed to further consider revisions of its guidance to encourage and support simple and innovative methodological approaches, including:

- (a) The application of standardized baselines and default values, such as emission factors or energy intensity indicators, to increase the level of objectivity in baseline calculations and facilitate the development of projects;
- (b) The streamlined demonstration of additionality, for example through agreeing on "positive lists" of technologies, perhaps related to renewable energy or energy efficiency, which would be deemed to meet the relevant additionality requirements, or clarifying the requirements for additionality;
- (c) Allowing multiple measures that reduce emissions or enhance removals in a single project;
- (d) Further developing guidelines for programmatic approaches under JI, including programmes of activities.

**B. Increasing the number of accredited independent entities**

99. It appears that the development of JI projects may be hindered by the relatively low number of AIEs available to provide determination services, as well as the speed with which determinations and verification reports are prepared. There are currently only three AIEs in the JI market, although some other applicant independent entities may act provisionally as AIEs under JI in a limited capacity prior to the final accreditation decision by the JISC. The impact of this factor is not clear, as it is only one of many factors impacting on the implementation of projects and issuance of ERUs.

100. The low number of AIEs appears to be attributable to a number of factors:

- (a) The size of the JI market, relative to the CDM, resulting in accreditation as an AIE being less attractive to independent entities and prioritized less;
- (b) Features of the accreditation process, in particular the requirements for witnessing activities to assess whether the applicant independent entity has the required competence and is effectively implementing its policies, procedures and systems. It has been difficult to identify projects that could be used as a basis for such witnessing activities under the Track 2 procedure;
- (c) Competition with CDM activities, for which no retroactive issuance of CERs is allowed, resulting in AIEs' JI determination and verification activities being prioritized lower;
- (d) Competition with the Track 1 procedure, under which some host Parties do not require any form of accreditation specific to the requirements of JI or monitoring of performance.



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101. The JISC has been considering a number of aspects of the witnessing activities required by the current JI accreditation procedure. It has taken the following actions in this regard:

- (a) The JISC agreed, at its twenty-first meeting, to replace ex-post witnessing activities with performance assessments, while maintaining one successful initial witnessing activity before granting accreditation;<sup>32</sup>
- (b) The JISC also decided, at its twenty-first meeting, that Track 1 projects may be used for witnessing activities, provided that Track 2 rules and requirements were applied in determination or verification. This action was taken to relieve some of the difficulties in identifying suitable Track 2 projects for witnessing purposes;
- (c) The JISC decided, at its twenty-second meeting, to temporarily suspend the provisions in the JI accreditation procedure requiring “ex post witnessing activities” within one and a half years for sectoral scopes not witnessed under the initial accreditation. This action was taken in order to avoid suspending the accreditation of AIEs on these grounds.

102. **Action area:** The JISC has agreed, as a priority, to implement the decisions referred to in paragraph 101 above through revisions of the JI accreditation procedure. In addition, the JISC has agreed to consider further means of streamlining the accreditation process through building on synergy and lessons from other accreditation processes, including the possibility of removing the provision requiring a witnessing activity as part of the initial accreditation of an independent entity.<sup>33</sup>

103. The JISC is also aware of the benefits of increasing the number of local independent entities applying for accreditation under JI. In addition to increasing the number of AIEs available and reducing delays in determination and verification, this could contribute to the enhancement of national practices and the application of JI guidance.

### C. Enhanced cooperation with designated focal points

104. The JISC believes it is important to enhance the engagement and collaboration of DFPs in JI. Parties have adopted varying approaches to the specific roles of DFPs, with some considering their role as only being to approve projects at the national level and others taking greater policy-setting and promotional roles.

105. In the view of the JISC, JI would benefit from having greater harmonization of institutional frameworks and procedures at the national level. These relate to both the national approval of projects and the wider verification procedures under the Track 1 procedures. The need to understand and work with a wide range of procedures and information requirements among different host countries creates additional barriers to the development and implementation of JI projects.

106. National project approval processes have also experienced considerable delays in some host Parties, reducing the number of projects proceeding to the determination stage and affecting the carbon market interest in JI. These delays typically arise from delays in establishing procedures and institutions at the national level, limited DFP capacity, and bottlenecks in the approval processes.

107. Furthermore, the JISC considers that DFPs should make every effort to increase the transparency of Track 1 projects by providing sufficiently detailed information on projects through the revised web-based interface as referred to in paragraph 70 above so that the UNFCCC JI website may provide an overview of these projects in a transparent way.<sup>34</sup>

<sup>32</sup> Initial and ex-post witnessing activities have recently been replaced under the CDM accreditation process by a system of performance assessments after accreditation has been granted.

<sup>33</sup> "Procedure for accrediting independent entities by the Joint Implementation Supervisory Committee", paragraph 15.

<sup>34</sup> Decision 3/CMP.5, paragraph 13.

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108. **Action area:** The JISC has agreed to explore with DFPs the establishment of a DFP forum, based on experience gained with the Designated National Authorities (DNA) Forum under the CDM. Such a forum could:

- (a) Create a platform for DFPs to exchange views and experiences;
- (b) Harmonize requirements between national approval processes and increase the transparency towards interested stakeholders;
- (c) Provide a basis for capacity-building under both tracks.

### D. Enhanced communication with other stakeholders

109. The effectiveness of JI depends highly on the active and informed engagement of stakeholders in the mechanism. Some delays in the development of JI projects to have been attributed to some extent to insufficient quality in project documents and the technical implementation of projects, as well as slow responsiveness in contract negotiations, data submissions, decision-making and communication. Such issues could be improved by promoting greater awareness and understanding of JI rules and more effective communication between project participants and AIEs.

110. More generally, the JISC considers that it should undertake more targeted actions to make stakeholders and the wider policy-making community more aware of the characteristics and strengths of the JI mechanisms. Specific messages identified in this context include:

- (a) The wide applicability of JI. With the development of projects in countries such as Finland, France, Germany, New Zealand, Spain and Sweden, JI is demonstrating its usefulness as a framework for channeling support towards projects in countries outside the earlier JI movers in Central and Eastern Europe. Germany has been particularly active in PoAs under JI and Denmark is also initiating a national JI programme;
- (b) Assurance of real and additional emission reductions. The environmental integrity of JI is underscored by the requirement for verified emission reductions or removal enhancements to have taken place, over and above what would have happened in the absence of the project, before any ERUs are issued. As a result, the conversion of AAUs to ERUs is always on the basis of reductions in the host Party's emissions;
- (c) Engagement of the private sector in mitigation effort. JI is a bottom-up mechanism in that it is primarily based on opportunities for private sector entities to engage in mitigation activities and use the mechanism to support investments in environmental projects.

111. The JISC considers that it should make more use of formal communication channels to disseminate information on decisions taken, provide additional opportunities for dialogue and ensure means for stakeholders to give feedback. In addition to the greater use of JI workshops, round-table consultations and calls for public input, such channels could include holding meetings to communicate and further develop the DVM, as well as the establishment of working groups with stakeholders to develop proposals on topics of common interest.

112. **Action area:** The JISC requests the secretariat to enhance its outreach activities on JI through:

- (a) Developing and implementing a comprehensive communication strategy;
- (b) Improving the structure and format of, and information on, the UNFCCC JI website;
- (c) Publishing JI-related articles on relevant web-portals and organizing interviews with JISC members/alternates;
- (d) Preparing responses to frequently asked questions about JI;
- (e) Supporting capacity building activities and training by external organizations;

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- (f) Publishing information on JI “success stories”;
- (g) Providing updated information on the resource situation for JISC activities;
- (h) Organizing JI-related events during important carbon market events;

113. **Action area:** In addition, the JISC has agreed to consider involving other stakeholders further in activities to raise awareness and understanding of JI among policy-makers and potential project developers. These stakeholders could include Parties, non-governmental organizations, carbon market players, project participants and AIEs. The JISC has also agreed to explore cooperative activities with international institutions interested in JI to promote the mechanism and to undertake concrete actions to increase awareness of the mechanism.

114. **Action area:** The members and alternate members of the JISC, and especially its Chair and Vice-Chair, wish to engage more actively in JI outreach activities by participating and making presentations at external events. The JISC has agreed to strengthen its engagement with the media, in particular via its Chair and Vice-Chair.

### E. Enhanced financial stability of the Joint Implementation Supervisory Committee

115. As discussed in section III.C.2 above, the operational environment of the JISC has been vulnerable to unpredictable fluctuations in both fees and Party contributions and the JISC is not confident, under the current funding mechanisms, that sufficient fees will be received in the next years to allow it to become self-financing during the first commitment period. Furthermore, as is discussed in section VII.B below, the costs incurred by the work of the JISC is in effect subsidizing activities under the Track 1 procedure without sharing any of the costs.

116. The JISC believes that, in order to maintain a stable operational environment in which to undertake the remaining activities pertaining to the current commitment period, it is important to make greater use of existing funding measures available to the JISC, including fees and opportunities for further contributions by Parties, and also to ensure a strict prioritization of expenditures on essential activities and activities which can be expected to add the most value to the ongoing development and success of the mechanism.

117. **Action area:** The JISC has agreed to develop a contingency plan identifying further resource savings in relation to its JI-MAP for the biennium 2010–2011. This plan is to strictly prioritize activities of the JISC, taking into account the action areas contained in this report for re-orientating the present work programme of the JISC, activities required by JI stakeholders for the day-to-day operation of the mechanism, and ongoing updates on financial status and expectations of future fee income. To the extent possible, meetings of the JISC and JI-AP will be minimized for the immediate future, as will staff recruitment, until the financial situation is more alleviated.

118. **Action area:** The JISC has also agreed to consider increasing the non-reimbursable portion of the advance fee payment due at determination. This would have the impact of bringing forward the payment of fees in order to assist with covering the costs associated with the initial determination of projects.

119. **Recommendation:** The JISC recommends to the CMP that consideration be given to introducing a fee relating to activities under the Track 1 procedure, such as a fee payable by project participants upon publication of projects or issuance of ERUs under Track 1, as soon as possible.

## VII. BUILDING ON THE JI APPROACH FOR THE PERIOD BEYOND 2012

### A. Addressing a potential gap in emission commitments

120. As discussed in section V.B above, in the absence of emission targets having entered into force for the period beyond 2012, it is the understanding of the JISC that the eligibility requirements for JI would not restrict Parties, or legal entities authorized by them, from continuing to have projects determined or emission reductions and removal enhancements verified beyond 2012.

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121. However, it is less clear whether the JISC has a mandate under these circumstances to undertake activities under the JI Track 2 procedure in relation to projects initiated, or emission reductions and removal enhancements achieved, during the period beyond 2012. Furthermore, under the current guidance of the CMP, further clarification is required as to whether ERUs may be issued for emission reductions and removal enhancements that occur after the end of the first commitment period and prior to the entry into force of commitments beyond 2012.

122. This uncertainty surrounding the post-2012 period is significantly impeding the development and uptake of the JI mechanism, especially given that it was not able to commence in earnest until 2006 and that some Parties are now in the stages of developing their JI programmes, and hinders a smooth transition for JI between commitment periods.

123. **Recommendation:** The JISC recommends that the CMP, with regard to the continuation of activities under Track 2 procedure in the immediate period beyond 2012:

- (a) Clarify that these activities may continue;
- (b) Allow emission reductions and removal enhancements, achieved by existing and new JI projects between 1 January 2013 and the end of the “true-up” period, or the entry into force of new commitments, whichever is the sooner, to be issued by host Parties as ERUs by converting AAUs or RMUs from the first commitment period.

### B. Need for a new operational model for joint implementation

124. As argued in section V above, the JISC considers that JI is well-positioned to contribute as a universally accepted offset standard in the carbon market, either in the context of targets for a second commitment period being agreed under the Kyoto Protocol or any other international system of emission targets. However, it is also clear to the JISC that the contribution to the market, and to global efforts to address climate change more generally, would be considerably enhanced if the current model for JI could be changed to overcome some of the difficulties that have been faced to date.

125. In particular, the JISC is of the view that the two-track approach to JI, as it is currently applied, is not sustainable and hinders the success of the overall JI mechanism in a number of ways. The original concerns that gave rise to the two tracks – that some Annex I Parties may not be in a position to meet all of the eligibility requirements of JI – have proven themselves unfounded.<sup>35</sup> Some Annex I Parties have decided only to host projects operating under their own Track 1 procedures, while other Annex I Parties allow project participants to decide under which track they wish to have their projects determined and verified and have established a consolidated national approval process that is applicable to both tracks.

126. Since its establishment, the JISC has allocated important resources and effort to develop the Track 2 procedure, including through the establishment of an overall policy framework by developing standards, procedures, guidelines, clarifications and forms. These elements of the policy framework have in many cases been adopted for use by host Parties under the Track 1 procedure. Some Parties also require verification bodies to become accredited as AIEs under the Track 2 procedure before conducting determination and verification work under their Track 1 procedures.

127. Although the JISC welcomes the adoption of common approaches across JI activities, it is also aware that the development of regulatory documents for the Track 2 procedure in many cases in effect subsidizes the work under the Track 1 procedure without any sharing of the costs. In addition, there have been instances of projects being initiated under the Track 2 procedure and subsequently migrating to the Track 1 procedure, potentially to avoid the payment of fees under the Track 2 procedure.<sup>36</sup>

128. The JISC considers that, in light of JI projects taking place within a capped environment and not leading to any increase in the overall emissions of Annex I Parties, a number of revisions in the current

<sup>35</sup> Several Parties have had their eligibility for JI track 1 suspended by the Compliance Committee in the past but have had it subsequently reinstated shortly thereafter.

<sup>36</sup> There may be other reasons, for example due to the PDD used by early-mover JI projects not being accepted by the JISC and the delay in some host Parties in providing project approvals.



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procedures for JI would prove useful in streamlining the procedures and better enabling JI to reach its potential while ensuring environmental integrity. Such revisions could include:

- (a) Allowing for a streamlined demonstration of additionality for JI projects. Additionality is essential in ensuring that JI projects result in emission reductions and removal enhancements that are additional to any that would otherwise occur. Nevertheless, there may be ways of streamlining approaches to the demonstration of additionality such that projects may quickly move to an implementation stage;
- (b) Clarifying the definition of “Parties involved”, for the purposes of national project approval, to only refer to the host Parties of the project.<sup>37</sup> This would streamline the process of implementing projects and recognize that the primary interest in monitoring and impacting on projects lies with host Parties;
- (c) Harmonization of procedures for the national approval of projects. This would consolidate the procedures for national approval that need to be followed by project participants;
- (d) Amending the procedures and standards for the accreditation processes under JI, including through the consideration of synergy with other accreditation procedures, with a view to the possible development of a unified accreditation process for JI and the CDM. This approach could involve making accreditation as an AIE subject to the fulfillment of a subset, as necessary, of the overall requirements of a unified accreditation process;
- (e) Measures to set aside, upon the positive determination of a project’s PDD, AAUs or RMUs for subsequent conversion to ERUs through the issuance process. This may help accelerate the issuance process, once verification has been deemed final, and reduce risks for project participants with respect to the host Party’s fulfillment of the necessary eligibility requirements and its ability to issue and transfer ERUs. Such measures could include the creation of a dedicated registry account for the JI regulatory body, either in a Party’s national registry or in a separate JI registry.

129. The assessment of the JISC to date has identified two broad options for building on the current approach to JI to better enable it to reach its potential and strengthen JI as a mitigation tool beyond 2012:

- (a) Establishing a **unified track** for JI, 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 and ensuring that Parties are able to contribute to the definition of the procedures and standards. Such a unified track could involve:
  - (i) The constitution by the CMP of a new regulatory body, under its authority. There may be scope to focus the role of such a body on the setting of harmonized standards and procedures for the operation of the mechanism; monitoring of implementation undertaken at a national level; and reporting to the CMP on the overall compliance of activities under JI with the policy framework established;
  - (ii) Full self-financing of the activities of the new regulatory body through accreditation and verification fees. Given the higher volumes of projects that would be facilitated by such a unified track, and that the costs incurred in supporting JI would be covered by the full range of JI projects, it may be more likely that fee-based income would be sufficient to cover all the activities of the regulatory body.
- (b) **Strengthen both of the current Tracks 1 and 2**, in particular through harmonizing the national procedures and requirements under Track 1 and further streamlining the procedures and requirements under Track 2. Given the likelihood that the increase in the

<sup>37</sup> The term “Parties involved” appears in Article 6, paragraph 1(a).

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number of projects under the Track 2 procedures would not be sufficient under this option to fully secure the financial stability and sustainability of its activities, the JISC considers that it would be necessary to extend the fee income of the JISC to Track 1 activities.

130. Either of the broad options referred to in paragraph 129 above could involve further amendments in the governance of JI. The scope of such amendments could include:

- (a) Improving communications with DFPs, AIEs and other stakeholders in the JI process, in order to ensure collaboration, information dissemination and feedback;
- (b) Indicating the skills and expertise necessary to regulate the mechanism, to inform the process of selecting the membership of any JI regulatory body;
- (c) Aligning the membership and composition of any JI regulatory bod with any new operational model for JI.

131. As discussed in section III.C.2 above, the JISC considers it necessary to ensure a stable and predictable means of financing the work relating to JI after 2012. A truly sustainable and acceptable approach to financing the resource requirements must lie in ensuring the necessary scale of JI that can provide fee-based income sufficient to meet the needs of the system. The JISC therefore believes it is essential to consider potential changes in the financial model of JI, and the possibility of becoming self-financing, in any discussion of changes to the operational model put in place for JI.

132. In the event that it is not possible to achieve the necessary scale of JI to make the mechanism self-financing, options which may be considered for raising additional income include:

- (a) Party contributions that are considered mandatory in nature and are shared on an agreed basis. For example, contributions could be determined on the basis of equal shares or the UNFCCC funding scale (adjusted to limit its applicability to Annex I Parties);
- (b) Amendment of the structure of fees applicable to Track 2 projects;
- (c) Establishment of new fees to cover Track 1 projects, such as fees on issuance of ERUs to be paid by project participants (rather than on verification) or fees for the use of procedures and systems established by the JISC.

133. The JISC would be interested in the potential amendments to the JI approach set out in this report being considered further by Parties, including in their current deliberations on the post-2012 climate regime, and would be available and willing to contribute further to Parties in this manner.

134. In this context, the JISC recalls that the JI guidelines may be revised by the CMP on the basis of periodic reviews of the mechanism that are based on, inter alia, recommendations of the JISC.<sup>38</sup> The first such review is to be carried out no later than one year after the end of the first commitment period.

135. **Recommendation:** The JISC recommends that the CMP:

- (a) Initiate the first review of the JI guidelines, in accordance with decision 9/CMP.1, paragraph 8, at its seventh session;
- (b) Request the JISC to make recommendations to the seventh session of the CMP on options for building on the approach embodied in JI, with a view to considering the recommendations of the JISC as part of the review.

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<sup>38</sup> Decision 9/CMP.1, paragraph 8.