

Annex 5**INFORMATION NOTE ON FEES TO COVER ADMINISTRATIVE COSTS RELATING TO ACTIVITIES OF THE JOINT IMPLEMENTATION SUPERVISORY COMMITTEE AND ITS SUPPORTING STRUCTURES****A. Background**

1. According to paragraph 7 of decision 9/CMP.1 any administrative costs arising from procedures contained in the annex of the decision (hereinafter referred to as the JI guidelines) relating to the functions of the Joint Implementation Supervisory Committee (JISC) shall be borne by both Annex I Parties and the project participants according to specifications to be set out in a decision by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its first session. In this context, by decision 10/CMP.1, the CMP requested the JISC to develop provisions for charging of fees to cover these costs.
2. The CMP at its second session endorsed the initial fee structure developed by the JISC as presented in decision 3/CMP.2. The revisions of the initial fee structure were endorsed by the CMP at its third and fifth sessions.
3. However, due to significantly slower than expected pace of joint implementation (JI) projects coming into the verification procedure under the JISC in accordance with paragraph 24 of the JI guidelines (hereinafter referred to as the Track 2 procedure), the CMP noted through its decision 3/CMP.5 that the income from fees will continue to accrue during the biennium 2010-2011 and that income from fees may cover the administrative expenses only as of 2012. Therefore, the JISC to date has had to rely its resources entirely on contributions from Parties. Although the CMP at all previous sessions urged Annex I Parties to make contributions to the Trust Fund for Supplementary Activities to fund the work on JI at a level that would ensure the thorough and timely implementation of the JI management plan (JI-AP), there has been a consistent shortfall to date.
4. The operational environment of the JISC and its supporting structures has been vulnerable from the beginning to unpredictable fluctuations in both fees and Party contributions and the JISC considered that it would be impossible to become self-financing (i.e. relying solely on the income of fees generated under the Track 2 procedure) during the first commitment period of the Kyoto Protocol. Furthermore, the JISC noticed that the costs incurred by the work of the JISC and its supporting structures are directly or indirectly contributing to the development and implementation of the verification procedure of JI projects administered by host Parties in accordance with paragraph 23 of the JI guidelines (hereinafter referred to as the Track 1 procedure).
5. In this respect, the JISC has agreed to:
 - (a) 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 re-orientating the present work programme, and focusing on activities required by JI stakeholders for the day-to-day operation of the mechanism. 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;
 - (b) 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; and
 - (c) Recommended the CMP that consideration be given to introducing as soon as possible a fee relating to activities under the Track 1 procedure, such as a fee payable by project

Joint Implementation Supervisory Committee

participants upon publication of projects or issuance of emission reduction units (ERUs) under Track 1.

6. At its sixth session, the CMP decided to establish provisions for the charging of fees for activities under the Track 1 procedure in order to contribute to the administrative costs of the JISC and its supporting structures, by introducing a fee of up to USD 20,000 for each large-scale project activity, including programmes of activities (PoAs), and a fee of up to USD 5,000 for each small-scale (SSC) project activity and for each PoA composed of SSC project activities, with the fees payable upon publication of project documentation on the UNFCCC website.

7. The CMP, through the same decision, requested the JISC to:

- (a) Finalize the provisions for charging the fees outlined in paragraph 4 above at its first meeting in 2011;
- (b) Consider the basis of an estimate of the administrative costs relating to the activities under Track 1, and take into account the existing provisions for the charging of fees for activities under the Track 2 procedure; and
- (c) Apply the fees to projects for which documentation is submitted to the UNFCCC secretariat for publication from 1 March 2011 onwards.

8. Considering that the first JISC meeting after the CMP decision has been postponed to 23-25 March 2011, it is proposed that the revised provisions for the charging of fees to apply to projects for which documentation is submitted to the UNFCCC secretariat for publication from 1 April 2011 onwards.

9. The present document prepared by the secretariat provides detailed information on the financial resources of the JISC and its supporting structures, and the estimation on attributable costs for activities under the Track 1 and Track 2 procedures, with a view to determining the levels of fees proposed for activities under the Track 1 procedure.

B. Activities under the Track 1 procedure

10. As requested by the CMP through decision 3/CMP.3, the secretariat has developed in 2008 a web-based interface to receive information on projects under the Track 1 procedure from designated focal points (DFPs) of host Parties of the projects, in order to:

- (a) Provide transparent access to project information published and an overview of all JI projects on the UNFCCC JI website;
- (b) Provide information to the international transaction log (ITL) on the establishment of JI projects;
- (c) Receive project identifiers of JI projects issued by the JI information system, thereby ensuring their uniqueness and used by the ITL.

11. Based on the UNFCCC database information, the numbers of JI projects under the Track 1 procedure registered until 1 March 2011 are:

- (a) 28 projects in 2008 (from May);
- (b) 87 projects in 2009;
- (c) 95 projects in 2010;
- (d) 16 projects in 2011 (by 1 March).

12. Considering the figures presented above, the average number of projects per year is 77. According to the information presented by DFPs in the JI information system, the only possible SSC criterion that can be used for this exercise is the maximum annual emission reductions of 60,000 kt

Joint Implementation Supervisory Committee

CO² eq.. Using this, it was estimated that around 55% of all projects are SSC projects and PoAs (43 SSC projects and PoAs per year).

13. While it is difficult to provide a precise estimate of attributable costs of the JISC and its support structures to each track since the costs to support JI and external benefits are shared, table 1 below provides an approximate break-down of costs to support JI based on the following information:

- (a) **Project cycle activities:** Based on number of Track 1 and Track 2 submissions, and an internal analysis of the time needed to process Track 1 submissions compared with Track 2 submissions it was estimated that a Track 2 PDD submission, determination submission, monitoring report submission and verification submission take twice, six times, twice, and five times, respectively, the time for processing the submission of a Track 1 submission;
- (b) **Accreditation activities:** Of the 35 Parties that have identified DFPs, 29 Parties have already submitted their national guidelines and procedures for approving JI projects, and can be considered as Parties involved in JI. Based on the information provided in the national guidelines, at least 11 host Parties are requiring independent entities accredited under the Track 2 procedure (AIEs) to perform determinations and verifications of Track 1 projects, and around twice as many Parties permit the use of AIEs/DOEs for determinations when providing approvals as investing countries in JI;
- (c) **Procedures, guidelines, guidance (JISC activities):** Based on information provided by the 29 Parties that have submitted national guidelines and procedures for approving JI projects, at least 20 of them mentioned the use of JISC documents (e.g. PDD format) and at least ten of them specified the use of JISC guidelines, guidance on criteria for baseline setting and monitoring, and other documents developed by the JISC;
- (d) **Management, information system, and communication:** The management process within the JISC and the secretariat for the entire JI system cannot be separated between the Track 1 and Track 2 procedures. This area includes general activities of the JI administration such as the overall coordination and management of the JI system; organization of meetings (JISC, JI-AP); communication with stakeholders and media; preparation of workshops, roundtables, side-events, and other outreach activities; support to international negotiations; further developing and maintaining the JI information system, the website and the electronic interaction with the ITL; participation in events.

C. Estimation of attributable costs to Track 1 and Track 2 activities for 2011

14. Over the years some of the costs incurred for the activities under the Track 1 procedure (e.g. the development of the JI information system for registering JI Track 1 projects) were covered by the contributions from Parties, which were primarily meant to support the JISC activities under the Track 2 procedure.

15. In addition, certain proportion of costs required to provide basic functioning of the general JI system, including: further development and maintenance of the JI information system and website; JISC's development of regulatory documents; accreditation of independent entities; outreach activities and workshops; and support staff are attributable to the Track 1 procedure.

16. The total budget for the functioning of the JI system in 2011 is estimated as USD 2,517,035, based on the draft JI-MAP 2011 (annex 3 to JISC 24 annotations). The figures presented in table 1 below show the budget of each activity area and the budget breakdown attributable to the Track 1 and Track 2 activities, using the information presented in paragraph 13 above.

Joint Implementation Supervisory Committee**Table 1: Distribution of the JI budget for 2011 between Track 1 and Track 2 activities (USD)**

Activity area	2011	Track 1		Track 2	
		%	Value	%	Value
Project cycle (Track 1 and Track 2)	483,360	30	145,008	70	338,352
Accreditation	313,553	35	109,744	65	203,809
Management, information system and communication (including JISC procedural work)	1,430,552	35	500,693	65	929,859
Net budget	2,227,465		755,445		1,472,020
Plus overhead (13%)	289,570		98,208		191,363
Total	2,517,035		853,653		1,663,383

D. Principles for developing the fee structure

17. Following the past practice in developing the fees under the Track 2 procedure, the JISC may wish to adopt the following principles for setting the structure of fees for registering projects under the Track 1 procedure:

- (a) Fees shall cover the costs exclusively incurred for the activities under the Track 1 procedure;
- (b) Fees shall cover certain proportion of costs required to provide basic functioning of the general JI system including: further development and maintenance of the JI information system and website; JISC's development of regulatory documents; accreditation of independent entities; outreach activities and workshops; and support staff;
- (c) Fees shall be applied only once at the publication of project documentation on the UNFCCC website ("registration" of project with the JI information system and ITL);
- (d) Fees shall be non-reimbursable even if the project does not generate emission reductions or removal enhancements;
- (e) The maximum level of fees shall be:
 - (i) USD 20,000 for each large-scale project, including PoA;
 - (ii) USD 5,000 for each SSC project, and for each PoA composed of SSC projects;
- (f) The host Parties requesting registration of SSC projects and programmes of activities composed of SSC projects shall submit sufficient information regarding the scale of the respective projects or programmes when uploading documentation on the JI UNFCCC website.

E. Proposed fees for registering project activities under the Track 1 procedure**1. Option 1 (flat fees)**

18. The fees for registering projects under the Track 1 procedure are:

- (a) USD 20,000 for each Track 1 JI large-scale project, including PoA;
- (b) USD 5,000 for each Track 1 JI SSC project, including PoA composed of SSC projects.

2. Option 2 (proportional SoP based fees)

19. The fees for registering projects under the Track 1 procedure shall be calculated based on USD 0.10 per tonne of CO₂ equivalent of emission reductions or removal enhancements generated by the respective project in a given calendar year regardless of the scale of the respective project.

20. The maximum fee payment due shall be USD 20,000 for each large-scale project, including PoA, and USD 5,000 for each SSC project, including PoA composed of SSC projects.

Joint Implementation Supervisory Committee**F. Conclusions**

21. The potential revenues from fees on Track 1 projects that would have been received in 2010 were estimated by using the structures of the fees in both options presented in the previous section. According to the JI information system, of the 95 Track 1 projects registered in 2010, 51 were large scale projects and 44 were SSC projects and PoAs. If the option 1 of the fee structure had been applied, the potential additional revenues would have been USD 1.2 million. If the option 2 of the fee structure had been applied, the potential additional revenues would have been USD 0.94 million. However, it should be noted that the potential revenues in 2011 cannot be directly compared with the potential revenues in 2010 considering that the fees will be applied starting on 1 April 2011 and the level of JI project submissions is decreasing, probably due to the uncertainties regarding the future of the mechanism.

22. It is extremely important to reflect on the fact that for both JI (Track 1 and Track 2) and CDM projects, usually the level of emission reductions or removal enhancements presented in the PDD is different to the level of real emission reductions or removal enhancements generated by the respective project after their implementation.

23. In the Track 1 system the information on the level of expected emission reductions or removal enhancements for a project is presented by the host Party usually based on information provided by the project participants in the PDD or other documents, which may not necessarily be verified by a third party verifier. The risk in receiving erroneous information and using this information for the calculation of the fee is present for both options, and unlike the fees for Track 2 projects it cannot be adjusted at verification of emission reductions, as the fees for Track 1 projects are paid only one time at registration.

24. It appears that option 2 has an increased risk of errors in calculating the fee due to the direct relation with the level of emission reductions, compared to the option 1 where the calculation is based only on the scale category of projects (i.e. either large-scale or SSC).

25. Despite efforts to employ the best possible assumptions for calculation of the appropriate fee levels, many uncertainties still remain that affect the estimation of expected income from both Track 1 and Track 2 activities mostly related in particular to the behavioural changes in the JI market, and in general to the future of the carbon market.

26. As requested by the CMP at its sixth session, the JISC will review the fee structure by the end of 2011 and make recommendations on them to the CMP, as appropriate, for the revision of the fee structure at its seventh session.

27. Based on the information presented in this document, the JISC is expected to take a decision at its twenty-fourth meeting in accordance with paragraph 30 of decision 4/CMP.6 and to start applying the provisions of the revised fee structure to Track 1 projects for which documentation is submitted to the UNFCCC secretariat for publication from 1 April 2011 onwards.
