

**Annex 5****DRAFT ANNUAL REPORT OF THE JOINT IMPLEMENTATION SUPERVISORY COMMITTEE
TO THE CONFERENCE OF THE PARTIES SERVING AS THE MEETING OF THE PARTIES
TO THE KYOTO PROTOCOL****COVER NOTE****I. Background**

1. In accordance with the joint implementation guidelines, the Joint Implementation Supervisory Committee shall report on its activities to each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). This annex is a draft of the JISC's report to the CMP for 2012.

II. Purpose

2. The JISC requested to consider and agree to the draft report, pending inclusion of parts of the report that will only become available closer to the end of the reporting period, e.g. status of financial resources.

III. Key issues and proposed solutions

3. The draft report points out that JI stands at a critical junction, and stresses the urgent need for Parties to take action, based on the JISC's recommendations on the necessary key attributes of JI in the future, together with recommendations on transitional measures necessary to ensure the smooth functioning of JI into the post-2012 period, which are to be found in annexes I and II to the report, respectively.

IV. Proposed work and timelines

4. The JISC is asked to consider and agree to the draft report, and to request the secretariat to finalize the report in cooperation with the Chair, taking into account the outcomes of the thirtieth meeting of the JISC.

V. Impacts

5. The draft report describes activities, achievements, challenges and the status of the mechanism. Importantly, it focuses Parties' attention on matters crucial to the continuing operation of JI. The JISC's report to CMP will be one important basis for negotiation of Parties under the CMP agenda item "Issues relating to Joint Implementation".

VI. Recommendations to the Committee

6. The secretariat recommends that the JISC, at its thirtieth meeting, offer any further guidance to the secretariat, and then agree to the report. It recommends also that the JISC request the secretariat to finalize the report in cooperation with the Chair of the JISC in order to include the outcomes of the thirtieth meeting of the JISC.

**DRAFT****DRAFT ANNUAL REPORT OF THE JOINT IMPLEMENTATION SUPERVISORY COMMITTEE
TO THE CONFERENCE OF THE PARTIES SERVING AS THE MEETING OF THE PARTIES
TO THE KYOTO PROTOCOL****(Version 01.0)****I. Executive Summary**

1. This report covers the work of the Joint Implementation Supervisory Committee (JISC) during the period from 26 November 2011 to 28 September 2012, during which the JISC held three meetings and one round-table consultation with stakeholders. This report highlights achievements made and challenges faced by the JISC in its supervision of the mechanism. In particular, it reports the work of the JISC in response to the request by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its seventh session. The report contains a number of recommendations for actions by the CMP in the context of the review of the joint implementation guidelines and recommendations to ensure a smooth transition post-2012. Lastly, it reports on the financial resources for the work on joint implementation.

II. Introduction**A. Mandate**

2. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), by its decision 10/CMP.1, established the Joint Implementation Supervisory Committee (JISC) to supervise, inter alia, the verification of emission reductions or removal enhancements generated by projects under Article 6 of the Kyoto Protocol (hereinafter referred to as JI projects), in accordance with the joint implementation (JI) guidelines.¹

3. The JI guidelines require that the JISC report on its activities to each session of the CMP, and that the CMP provide guidance regarding the implementation of Article 6 of the Kyoto Protocol and exercise authority over the JISC.

B. Scope of the report

4. This annual report of the JISC to the CMP covers JI activities during the period from 26 November 2011 to 28 September 2012 (hereinafter referred to as the reporting period), the closing date of the 30th meeting of the JISC. The Chair of the JISC, Mr. Wolfgang Seidel, will highlight any relevant subsequent matters in his oral report to the CMP at its eighth session. During the reporting period, the JISC held three meetings and one round-table consultation with stakeholders. The JISC accreditation panel held two meetings.

5. The report describes the state of JI at the close of the first commitment period of the Kyoto Protocol and recommends urgent action for consideration by the CMP at its eighth session. As in past years, the report refers to work undertaken by the JISC during the reporting period, including the further operationalization of the verification procedure under the JISC (hereinafter referred to as the Track 2 procedure²), the associated project caseload, the operation of the JI accreditation process, and the financial status of JI.

¹ Decision 9/CMP.1, annex.

² Defined in paragraphs 30–45 of the JI guidelines.

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6. Full details on the operation and functions of the JISC are available on the UNFCCC JI website, which is the central repository for reports of JISC meetings and documentation adopted by the JISC.³

C. Action to be taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

7. After reviewing this report and taking note of the oral report by the Chair of the JISC, the CMP at its eighth session may wish:

- (a) To consider the draft revised JI guidelines prepared by the JISC (annex I), with a view to developing revised JI guidelines for adoption at the ninth session of the CMP;
- (b) To consider and adopt the JISC's recommended transitional measures necessary to ensure the smooth functioning of JI going into the post-2012 period (annex II).

8. In accordance with the JI guidelines, paragraphs 4–6, the CMP is expected to elect the following to the JISC for a term of two years upon nominations being received from Parties:

- (a) XXX member and XXX alternate member from <<Parties included in Annex I to the Convention (Annex I Parties)>> that are undergoing the process of transition to a market economy;
- (b) XXX member and XXX alternate member from <<Annex I Parties not referred to in paragraph 7(a) above;>>
- (c) XXX members and XXX alternate members from <<Parties not included in Annex I to the Convention (non-Annex I Parties)>>
- (d) XXX member and one alternate member from <<small island developing States.>>

III. Joint implementation at the end of the commitment period**A. State of joint implementation**

9. To date, XXX projects have entered the verification pipeline for approval by the JISC (Track 2), with XX so far having been determined to meet the relevant requirements with potential emission reductions of XX tonnes of carbon dioxide equivalent (t CO₂ eq). The total emission reductions that would be generated if all XXX projects under the Track 2 procedure were realized is estimated to be around XXX million t CO₂ eq for the period 2008–2012. Available information indicates that a further XXX projects are in place under the verification procedures instituted by host-Party governments (Track 1). Transactions in the primary market for JI in 2011 had an estimated value of around USD XXX million.

10. Now, at the close of the first commitment period of the Kyoto Protocol, the story of the JI mechanism could be divided into three parts: (1) slow start-up, for a variety of reasons, such as delays in the establishment of necessary domestic regulations in host Parties; (2) a period of steady development, implementation and improvement, accompanied by a growing interest and participation in the mechanism; and (3) the present stage of uncertainty, during which the JISC has focused its attention on consolidating the progress made in implementing JI and formulating, and seeking adoption of, recommendations that would ensure that this valuable tool continues to be available to Parties in the future.

³ <<http://ji.unfccc.int>>.

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11. Thanks to changes agreed by the CMP at its sixth session allowing the charging of fees on Track 1 projects, the JISC in 2012 was in much better financial shape, especially compared to 2010, when lack of funds even affected the number and timing of meetings. The JISC is now in a position to operate without additional voluntary support by Parties in 2013.

12. However, the improved financial position of the JISC comes at a time when prices of emission reduction units (ERUs) are hitting record lows due to low demand, ultimately related to the negotiations toward a concerted international response to climate change.

B. Challenges facing joint implementation

13. While the JISC remains firmly of the view that there is a future for the operation of JI, the overwhelming sense of the JISC is that significant changes in the set-up of the mechanism will be needed if JI is to realize its potential and secure its relevance as a mitigation tool beyond 2012. The JISC urges Parties to consider the recommendations contained in the annexes to this report, and take decisions, including urgent transitional measures, necessary to ensure the continuing usefulness of this mechanism that Parties, stakeholders and the JISC have work so hard to create.

14. Joint implementation, like the clean development mechanism, the other project-based mechanism under the Kyoto Protocol, is suffering from uncertainty regarding the level, timing and nature of new national emission targets, despite a decision at the international level to agree a second commitment period of the Kyoto Protocol and to negotiate a new, comprehensive climate change agreement by 2015.

15. The JI mechanism suffers from additional uncertainty, because the units earned by JI projects are created through conversion of hosting Party's existing assigned amount units. **Annex II addresses this uncertainty, with specific recommendations to help ensure a smooth transition of JI into the post-2012 period.<<This and related text to be updated pending outcomes of JISC30.>>**

16. So, despite the fact that JI is a mature, proven mechanism that countries can use as a tool to achieve cost-effective emission reductions, it remains to be seen how the current depressed market price for ERUs and uncertainty regarding the demand for ERUs will affect the mechanism.

17. All of this said, the JISC believes that the approach embodied in JI presents a robust basis for the continuing operation of the mechanism. This is based on the experience of the JISC in implementing the mechanism in the past six years, the considerable improvements made to the mechanism in that time, and in the continual growth observed in JI Track 2. Further, it is based on Parties' expressed interest in the mechanism, in the form of annual guidance to the JISC, on governments' and constituencies' active participation in shaping the mechanism, and, crucially, on the private sector's desire to engage in JI despite challenges.

C. Securing a future for joint implementation

18. Joint implementation is an effective tool that countries have at their disposal now to incentivize and focus investment on greenhouse gas emission reduction. The mechanism is now mature, the result of several years of commitment by Parties, stakeholders, especially the private sector, and the JISC. It makes sense for countries to continue to build on and use JI.

19. As requested by the CMP at its seventh session, the JISC has prepared recommendations on the necessary key attributes of JI in the future (draft revised JI guidelines, annex I), together with recommendations on transitional measures necessary to ensure the smooth functioning of JI going into the post-2012 period (annex II). These build on recommendations prepared by the JISC and discussed by the

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CMP at its seventh session,⁴ on submissions received from Parties and relevant organizations,⁵ and public inputs solicited by the JISC, as mandated by the CMP. The recommendations are for consideration of the CMP as part of the first review of the JI guidelines in accordance with decision 9/CMP.1, paragraph 8.

20. The JISC believes that substantial changes to the JI mechanism are needed. Among other recommendations, the JISC sees a need to consolidate the current two-track approach to JI in a way that decentralizes operations out to host countries.

21. It recommends maintaining the mechanism under the international oversight of a central governing body responsible for setting essential standards and rules for the formulation of JI activities and operation of the mechanism as a whole.

22. The guidelines included in annex I, if adopted, would: maintain a broad definition of JI activities that could encompass individual projects all the way up to sectoral or policy-based initiatives; elaborate on the JI project cycle; and increase responsibilities for host governments and accredited independent entities.

IV. Work undertaken in the reporting period**A. Ensuring a productive future for joint implementation**

23. As reported to the CMP at its seventh session, the JISC and its support structure made considerable improvements to JI Track 2 in 2011, aimed at efficiency and increasing the use of JI Track 2 while maintaining its environmental integrity.⁶

24. In 2012, the JISC devoted its attention to implementing the mechanism and responding to the request by the CMP at its seventh session that it prepare a revised set of key attributes (draft revised JI guidelines) and transitional measures dealing with possible changes to the joint implementation guidelines.

25. In its first meeting of the year, the JISC adopted a two-year business plan and detailed management plan designed to guide the mechanism to a healthy future. The vision included, among things:

- (a) A single but optimized verification process;
- (b) Flexibility to allow an open range of activities in countries using JI;
- (c) Scaling-up of the mechanism while ensuring credibility and integrity through strong international accountability.

26. Further, and in specific response to the CMP request, the JISC, at its 28th meeting, formed a committee to lead the drafting of revised JI guidelines, for consideration by the CMP at its eighth session (see para. 17).

B. Verification procedure under the Joint Implementation Supervisory Committee <<To be updated.>>

27. By 28 September 2012, XXX project design documents (PDDs) and XXX programme of activity design documents (PoA-DD) had been submitted and made publicly available on the UNFCCC JI website in accordance with paragraph 32 of the JI guidelines. During the first commitment period of the Kyoto Protocol, the XXX active projects combined would achieve emission reductions of approximately XXX million t CO₂ eq.

⁴ FCCC/KP/CMP/2011/9.

⁵ FCCC/KP/CMP/2012/INF.1.

⁶ FCCC/KP/CMP/2011/4.

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28. In total, **XX** determinations regarding PDDs have been published on the UNFCCC JI website in accordance with paragraph 34 of the JI guidelines, of which:

- (a) **XXXX-XXX** positive determinations for projects located in **XXXX** host Parties were deemed final in accordance with paragraph 35 of the JI guidelines. During the first commitment period of the Kyoto Protocol, these projects would achieve emission reductions of approximately **XX** million t CO₂ eq;
- (b) **XXX** determination was rejected by the JISC;
- (c) **XXX** determination(s) are open for review.

29. By 28 September 2012, **XX** verifications of emission reductions had been deemed final in accordance with paragraph 39 of the JI guidelines and were published on the UNFCCC JI website. These verifications are from **XX** projects that had determinations deemed final. These final verifications allow for **XX** million t CO₂ eq of units to be issued as ERUs.

30. Detailed information on the determinations and verifications referred to in paragraphs **XX** and **XX** above is available under “JI Projects” on the UNFCCC JI website.

31. During the reporting period, the verification casework was facilitated by work carried out by the JISC in 2010 and 2011 in response to decision 4/CMP.6, paragraph 13, including: further improvement in the verification procedure; enhancement of the clarity of its documents; the setting of time limits in the JI project cycle, together with the use of electronic decision-making, in particular in relation to reviews; and encouraging and supporting project-based innovative methodological approaches.

C. Accreditation of independent entities <<To be updated.>>

32. Since the announcement on 26 October 2006 that the JI accreditation process would start on 15 November 2006, **XX** applications for accreditation from independent entities (IEs) have been received. Of these, **XX** applications have been withdrawn.

33. **XX** additional IEs were accredited in 2011. During the reporting period, **XX** more IEs were accredited, bringing to **XX** the total number of accredited independent entities (AIEs), from just three prior to 2011.

34. In response to guidance from Parties, the JISC has worked to facilitate the process of accrediting IEs. For example, in 2011 the JISC adopted the revised “Procedure for accrediting independent entities by the Joint Implementation Supervisory Committee” (JI accreditation procedure). The revision further streamlined the JI accreditation process and aligned its main steps with those of the CDM accreditation process, replacing initial and ex post witnessing activities with performance assessments to be conducted after accreditation is granted. The revision also introduced a complaints procedure to be used by stakeholders and IEs.

V. Governance and management matters**A. Interaction with bodies and stakeholders**

35. The JISC held a round-table consultation on 9 August 2012 in Bonn, Germany. The event brought together members of the JISC and key stakeholders, including designated focal points, in support of the mandate of the JISC to draft key attributes and transitional measures dealing with possible changes to the JI guidelines, for consideration by the CMP at its eighth session.

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36. The JISC continued its regular interaction with applicant IEs and AIEs by encouraging them to provide written inputs and by inviting the Chair of the DOE/AIE Coordination Forum to JISC meetings and to the round-table consultation.

37. The JISC also continued its interaction with project participants, inviting project participants to JISC meetings and the round-table consultation. At its 19th meeting, the JISC decided to recognize two groups (the Joint Implementation Action Group and the Project Developer Forum) as communication channels between the JISC and project participants, and allowed for interaction with these groups at its meetings, without preventing communication between the JISC and entities not affiliated with these groups and the public.

38. The JISC continued to meet for question-and-answer sessions with registered observers at each of its meetings. The JISC also held question-and-answer sessions as side events at the seventh session of the CMP and the thirty-sixth sessions of the Subsidiary Body for Implementation and the Subsidiary Body for Scientific and Technological Advice. These question-and-answer sessions are available as webcasts.⁷

39. In addition, JISC members and representatives of the secretariat continued to interact with stakeholders by, inter alia, attending conferences and workshops on JI and/or carbon market events, making presentations on JISC activities and exchanging views on JI.

B. Outreach activities

40. In response to decision 4/CMP.6, paragraph 20, the JISC adopted the JISC communication and outreach workplan for 2011. In 2012, the JISC, at its 28th meeting, adopted an updated workplan, and at its 29th meeting adopted a revised strategy intended to increase awareness about, and participation in, the Track 2 procedure. The main activities in 2012 included:

- (a) Continuing efforts to enhance media outreach, including adoption of a media engagement plan;
- (b) Launching the Carbon Mechanisms social media accounts;
- (c) Enhancing the JI website;
- (d) Preparing communication materials (fact sheets, audio files, frequently-asked-questions lists);
- (e) Launching an annual photo contest targeting project participants and designated focal points.

C. Membership issues

41. The CMP, by its decision 9/CMP.1, established the JISC and subsequently elected members and alternate members of the JISC in accordance with paragraphs 4, 5, 6 and 8 of the JI guidelines.

42. At its seventh session, the CMP elected new members and alternate members of the JISC to fill vacancies arising from the expiration of terms of tenure of outgoing members and alternate members. During the reporting period, the JISC comprised the members and alternate members listed in table 1.

⁷http://ji.unfccc.int/Sup_Committee/Meetings/index.html, <http://ji.unfccc.int/Workshop/index.html>.

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Table 1

Members and alternate members of the Joint Implementation Supervisory Committee as elected by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session

<i>Members</i>	<i>Alternate members</i>	<i>Constituency</i>
Ms. Carola Borja ^b (Vice-Chair)	Mr. Carlos Fuller ^b	Non-Annex I Parties
Mr. Mykhailo Chyzenko ^a	Ms. Milya Dimitrova ^a	Annex I Parties with economies in transition
Mr. Piotr Dombrowicki ^b	Mr. Oleg Pluzhnikov ^b	Annex I Parties with economies in transition
Mr. Denis Lansana ^a	Mr. Evans Njewa ^a	Non-Annex I Parties
Mr. Benoit Leguet ^a	Mr. Anton Beck ^a	Other Annex I Parties
Mr. Chebet Maikut ^b	Nomination pending ^{b,1}	Non-Annex I Parties
Mr. Derrick Oderson ^b	Mr. Andrew Yatilman ^b	Small island developing States
Mr. Wolfgang Seidel ^b (Chair)	Ms. Gertraud Wollansky ^b	Other Annex I Parties
Mr. Evgeny Sokolov ^a	Mr. Hiroki Kudo ^a	Other Annex I Parties
Ms. Irina Voitekhovitch ^a	Ms. Miriana Roman ^a	Annex I Parties with economies in transition

^a Term: 2 years, i.e. ending immediately before the first meeting in 2013

^b Term: 2 years, i.e. ending immediately before the first meeting in 2014

¹ Nomination by CMP 7 was not received, therefore the current alternate member, Mr. Momin Agha, will remain in office until the successor is nominated by the respective constituency.

D. Election of the Chair and the Vice-Chair of the Joint Implementation Supervisory Committee

43. At its 28th meeting, the JISC elected by consensus Mr. Wolfgang Seidel, a member from an Annex I Party, as its Chair, and Ms. Carola Borja, a member from a non-Annex I Party, as its Vice-Chair. The tenures of the Chair and Vice-Chair will end immediately before the first meeting of the JISC in 2013.

44. The JISC expressed deep appreciation to the outgoing Chair, Mr. Muhammed Quamrul Chowdhury, and Vice-Chair, Mr. Wolfgang Seidel, for their excellent leadership during the sixth year of operation of the JISC.

E. Calendar of meetings in 2012

45. The JISC adopted a tentative meeting schedule for 2012 at its 27th meeting. All meetings in 2012 took place as planned (see table 2).

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Table 2

Joint Implementation Supervisory Committee meetings in 2012

<i>Meeting</i>	<i>Date</i>	<i>Location</i>
Twenty-eighth	22–23 March	Bonn, Germany
Twenty-ninth	28–30 May	Bonn, Germany (in conjunction with the meetings of the subsidiary bodies)
Thirtieth	26–28 September	Bonn, Germany

46. The annotated agendas for the JISC meetings, documentation supporting agenda items and reports containing all agreements reached by the JISC are available on the UNFCCC JI website.

47. The JI Accreditation Panel (JI-AP) held two meetings during the reporting period as part of its work in support of the JISC. The JISC, at its 28th meeting, appointed Mr. Derrick Oderson and Mr. Benoît Leguet to serve as Chair and Vice-Chair, respectively, of the JI-AP. The JISC expressed deep appreciation to Mr. Leguet and Mr. Carlos Fuller, as the outgoing Chair and Vice-Chair of the JI-AP, for their dedication and excellent support.

VI. Report on the status of financial resources for the work of the Joint Implementation Supervisory Committee and its supporting structures <<To be updated.>>

48. During the reporting period, the JISC monitored and reviewed, through reports by the secretariat, the status of resources for the work on JI. Information and resource requirements were developed and maintained by the secretariat on the major activity areas: meetings and activities of the JISC; activities relating to the project cycle, including the handling of submissions of PDDs, determinations, monitoring reports and verifications of Track 2 projects, and Track 1 project submissions; activities relating to the accreditation of IEs, including meetings of the JI-AP; and other meetings and consultations. This information has been included in the JI management plan.⁸

49. This budget performance report contains information on income and expenditure from XXXXX to 31 August 2012 and includes a status of income, a listing of voluntary contributions and a status of expenditure against budget.

50. <<To be added.>>

VII. Summary of decisions

51. In accordance with paragraph 16 of the JI guidelines, decisions of the JISC are made publicly available in all six official languages of the United Nations by including the decisions or referring to them (indicating their location on the UNFCCC JI website) in the annual report of the JISC to the CMP.

⁸ The CMP, by its decisions 3/CMP.2, 3/CMP.3, 5/CMP.4, 3/CMP.5, 4/CMP.6, 11/CMP.7 requested the JISC to keep the JI management plan under review and to make adjustments as necessary to continue ensuring the efficient, cost-effective and transparent functioning of the JISC.

**DRAFT****History of the document**

Version	Date	Nature of revision
01.0	12 September 2012	Initial publication as an annex to the annotated agenda of JISC30.
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