

JI-JISC33-AA-A03

Concept note

Proposals for recommendations to CMP 9

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1. Procedural background

1. The Joint Implementation Supervisory Committee (JISC) provided recommendations to the eighth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). The CMP requested the Subsidiary Body for Implementation to prepare revised guidelines for consideration by the CMP at its ninth session.
2. At its thirty-second meeting the JISC requested the secretariat to prepare a concept note containing proposals for recommendations to the ninth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) on the following matters relating to the review of the joint implementation (JI) guidelines:
 - (a) A global accreditation system to cover JI and possibly other carbon market mechanisms, including in relation to scope, practicalities, roles, alternative accreditation systems, and strategies for developing such a system;
 - (b) Principles for standardized baselines and positive lists, for inclusion in the revised JI guidelines;
 - (c) Principles to guide the JISC in setting mandatory standards and procedures for host Parties;
 - (d) Steps of the project cycle, based on the JISC recommendations to the CMP in 2012, with the potential addition of proposals to fill any gaps identified;
 - (e) Transitional measures, based on the JISC recommendations to the CMP in 2012, but tying the dates to periods after the adoption of the revised JI guidelines.
3. The JISC intended that the additional recommendations be complimentary to the previous recommendations.

2. Purpose

4. The purpose of this document is to propose options for consideration by the JISC on each of the items referred to in paragraph 1 above. The options agreed by the JISC will be included as recommendations by the JISC in its 2013 annual report to the CMP.

3. Key issues and proposed solutions

3.1. Accreditation system

5. The options for recommendations regarding the revisions to the accreditation system are contained in Annex 1 to the annotated agenda. The final agreed recommendations will be incorporated together with those agreed upon from this document in the final report of the JISC to the CMP for 2013.

3.2. Standardized baselines and positive lists

6. The current guidance on criteria for baseline setting and monitoring specifically require that the baseline for a JI project activity be project-specific, thus creating difficulties for

the application of various forms of standardization. At its thirty-second meeting the JISC considered a document regarding the introduction of standardized baselines, positive lists and standardized approaches. During its consideration of that document the JISC agreed that detailed work related to the specification and introduction of such approaches should only commence after the revision of the JI guidelines.

7. This key issue for the JISC to highlight to the CMP in the context of its present work is what impacts standardization would have on the potential operation of the mechanism under revised guidelines. The current recommendations from the JISC to the CMP regarding the revision of the JI guidelines are based on the concept of a single track operated largely at the Party level with international oversight on quality standards. The appropriateness of standardization should therefore be considered by the CMP in the context of this recommended framework.
8. The potential benefits and costs of the introduction of such approaches have been well elaborated in the above-referenced document and therefore will not be repeated here. It must be noted, however, that those benefits and costs were elucidated in the context of the relationship between the regulator and regulated entities (project participants and accredited independent entities (AIEs)). In the wider context of inter-Party recognition of emission reduction units based on national procedures, standardization can provide a significant benefit to acceptability and fungibility of units by establishing trust among Parties that a standard and transparent approach is being applied by the host Party. This benefit would best be achieved if the host Party were responsible for the development of the standardized approach on the basis of guidance from the governing body that also retained responsibility for the endorsement of the baseline.
9. However, as a key attribute of the current system is flexibility of approaches, and so as not to lose such benefits as envisaged by Parties, the JISC may wish to recommend to the CMP that standardization in relation to baseline setting be included in the draft revised JI guidelines presented to the CMP in addition to the current project-specific approach. The current recommendations by the JISC (FCCC/KP/CMP/2012/5, paragraph 30(a)) do address this point; however, it may be necessary to be more specific. The possibility to use positive lists has already been fully addressed in the existing recommendations of the JISC to the CMP.
10. The JISC may therefore wish to recommend that the CMP give consideration to the following revised version of paragraph 30(a): *“Either on the basis of the characteristics of the specific emission reduction activity or as a pre-determined standardized metric for a defined class of emission reduction activities or emission sources”*.

3.3. Mandatory standards and procedures for host Parties

11. Eliminating duplication of efforts, ensuring acceptance of outcomes and facilitating transparency in decision-making are key to the market acceptability and efficient operation of a decentralized mechanism with international oversight. Efficiency and flexibility would be best achieved through placing as many roles as practical at the Party level. It would therefore be desirable for as many functions as possible to be carried out by a nationally appointed body unless there is a broadly accepted consensus for functions to be carried out at the international level.
12. Functions being conducted solely at the international level could therefore be classified into two distinct types: those that achieve economies of scale without significant loss of

- sovereignty and those where transparency is required to provide sufficient trust to enable a market to function without excessive transaction costs.
13. It is considered that the operation of a globally recognized accreditation system is the core activity which will result in reduced operational costs if conducted centrally rather than replicated at a national level. The experience of the first commitment period has indicated that those entities willing to provide verification services operate on a regional or international level and a central system for accreditation would significantly reduce the costs associated with such entities applying for and maintaining accreditation simultaneously in multiple jurisdictions. The experience of the first commitment period also indicated that Parties do not have significant concerns on or objections to the pooling of this sovereignty.
 14. In summary, it is proposed that the functions of the governing body as recommended by the JISC should be reordered into the following categories of recommendations:
 - (a) That the operation of a centralized and universally recognized accreditation system be maintained in the revision of the JI guidelines and that the governing body/JISC be given responsibility for the maintenance of a publicly accessible repository of all rules and decisions related to the operation of the mechanism;
 - (b) That the setting of technical and procedural requirements for activities to comply with be conducted primarily at the national level with the governing body taking an oversight role by setting minimum standards and reviewing the conformity of national rules with these standards;
 - (c) That the assessment of the compliance of activities with requirements be conducted at the national level.
 15. Achieving this division of responsibilities will require amendments and clarifications of previous recommendations of the JISC. It is therefore recommended that paragraph 5(b) and 5(c) of the previous recommendations be replaced with the following:
 - (a) *“Setting minimum technical standards for activities, in collaboration with host Parties and stakeholders, which ensure the additionality of emission reductions and objectivity and consistency of their measurement. Such standards shall:*
 - (i) *Provide objective criteria for the demonstration of additionality, through the use of positive lists, performance benchmarks, financial return benchmarks and objective demonstration of barriers;*
 - (ii) *Define the criteria for the inclusion of potential emission sources within a project boundary and the requirements for the accuracy of their measurement;*
 - (b) *Setting minimum standards to facilitate the development of project cycle procedures by host Parties which shall ensure adequate provisions in relation to transparency of decision-making processes, the rights of directly affected entities to be given adequate hearing prior to decision-making, the right of appeal and the right to a timely decision;*
 - (c) *Facilitating the sharing and dissemination of best practices and recommendations for the operationalization of joint implementation among Parties in a collaborative manner”.*

3.4. Steps of the project cycle

16. At the eighth session of the CMP, Parties agreed with the JISC recommendation that a single unified track shall characterize the future operation of JI.¹ Subsequently, several Parties and stakeholders proposed that the unified track be implemented by the host Parties at the national level based on mandatory international standards and procedures, and under the supervision of the JISC/governing body.
17. Considering the comments and proposals of Parties and admitted observer organizations in 2012 and 2013 in response to the request for inputs by the CMP, the new unified track should maintain the best of both tracks and its project cycle should be revised in order to improve the structure and fill any gaps identified (e.g. review/appeals process).
18. Based on the above, it is proposed that the JISC recommend that:
 - (a) *“The structure of sections VI and VII of the draft revised JI guidelines² be modified by merging the two sections under the title “Project cycle”. This section should be divided into the following sequential subsections:*
 - (i) *Development of the design document for a JI activity;*
 - (ii) *Approval of the JI activity by the host Party;*
 - (iii) *Determination of the JI activity;*
 - (iv) *Registration of the JI activity by the host Party;*
 - (v) *Review by the governing body and recording of JI activity;*
 - (vi) *Monitoring of emission reductions/removals;*
 - (vii) *Verification of emission reductions/removals;*
 - (viii) *Issuance of emission reduction units (ERUs).*
19. It is further proposed that the JISC recommend that:
 - (a) *“A new paragraph concerning the reporting by host Parties of their standards and procedures for approving JI activities (see chapter 3.3 above), including responsibilities, timelines and review/appeals process, is to be introduced in the subsection on “Approval of the JI activity by the host Party”;*
 - (b) *A new paragraph regarding the possibility of the JISC/governing body to trigger a review of a JI activity before recording it be introduced in the subsection “Review by the governing body and recording of JI activity”;*
 - (c) *A new paragraph presenting the steps to be undertaken before ERUs are issued, including conditions, timelines and criteria for initiating the process, be in the subsection Issuance of ERUs;*

¹ Paragraph 15 (a) of decision 6/CMP.8.

² FCCC/KP/CMP/2012/5.

- (d) *A new paragraph requiring the deduction of a share of proceed for adaption be in the subsection Issuance of ERUs.*

3.5. Transitional measures from the current to the revised JI guidelines

20. In its report to the eighth session of the CMP, the JISC recommended that 1 January 2014 be considered the effective date for implementation of the revised JI guidelines.
21. In its decisions 11/CMP.7 and 6/CMP.8, the CMP invited Parties and admitted observer organizations to submit their views on the revision of the JI guidelines, including transitional measures.
22. Regarding the transition to the full implementation of the revised JI guidelines, most Parties and observer organizations expressed a need for a grace period for the new guidelines to enter into force. They also suggested a fast track for projects registered prior to the end of 2012 and a procedure for renewal of the crediting period for projects to be continued during the second commitment period.
23. The JISC discussed the aspects above at its thirty-second meeting and agreed to recommend that the CMP set flexible dates for the implementation of the revised JI guidelines tied with the adoption date, including timelines for existing projects and host Parties.
24. The implementation of a revised set of guidelines would require time for the governing body, national authorities and participants to adapt to. It is therefore proposed that the JISC recommend that the revised guidelines come into force 12 months from their date of adoption by the CMP.
25. It is proposed that the JISC recommend the following transitional measures to the CMP:
- (a) *The new JI guidelines to become effective 12 months after their adoption by CMP, in order that new activities may be submitted for registration as soon as possible after this date;*
 - (b) *All JI projects deemed final/published prior to this effective date are deemed registered under, and governed by, the new JI guidelines from that date;*
 - (c) *All AIEs accredited prior to this effective date are deemed accredited under, and governed by, the new JI guidelines from that date;*
 - (d) *The JI projects and AIEs referred to in subparagraphs (b) and (c) above shall be brought fully into accordance with the new JI guidelines and any further guidance within 24 months of the adoption of the revised JI guidelines;*
 - (e) *The JISC shall continue to operate until the new JI guidelines become effective.*

3.6. Issuance in the second commitment period under the existing JI guidelines

26. The continued operation of JI even under the existing JI guidelines is currently severely hampered by the inability, under current rules, of host Parties to issue ERUs in the absence of assigned amount units (AAUs) or removal units (RMUs) having been issued for the second commitment period. In its annual report to the eighth session of the CMP, the JISC provided recommendations on transitional measures with regard to how ERUs could be issued for emission reductions and removals occurring in the second

commitment period under these circumstances. In the light of the adoption of the Doha Agreement at the eighth session of the CMP, the JISC may wish to redraft its recommendation to incorporate the language from the agreement.

27. It is proposed that the JISC recommend to the CMP that:

- (a) *“The issuance of ERUs valid for the second commitment period be allowed, prior to the issuance of AAUs or RMUs for that commitment period, by a host Party where it has a QELRC inscribed in the third column of annex B to decision 1/CMP.8, provided that the Party’s eligibility has not been suspended in accordance with chapter XV of the annex to decision 27/CMP.1:*
 - (i) *Option 1: the amount of AAUs or RMUs, as appropriate, for the second commitment period, corresponding to the amount of such ERUs, shall be subsequently deducted from the host Party’s national registry upon AAUs or RMUs for the second commitment period having been established for that Party;*
 - (ii) *Option 2: such ERUs shall be issued by converting the corresponding amount of AAUs or RMUs, as appropriate, for the first commitment period; such ERUs may be used only for the purpose of compliance with commitments for the second commitment period.”*

4. Proposed work and timelines

28. The secretariat will include the agreed recommendations in the JISC report to the ninth session of the CMP, which will be finalized in consultation with the Chair and Vice-Chair of the JISC.

5. Recommendations to the JISC

29. The secretariat proposes that the JISC agree to the draft recommendations to the ninth session of the CMP contained in paragraphs 10, 15, 18, 19, 25 and 27 above.

6. References

30. The following documents were used as references for this concept note:

- (a) Recommendations on possible changes to the joint implementation guidelines (FCCC/SBI/2013/INF.3);
- (b) Views on the revision of the joint implementation guidelines. Submissions from Parties (FCCC/SBI/2013/MISC.3);
- (c) 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 (FCCC/K/CMP/2012/4);
- (d) Revised set of key attributes and transitional measures and draft revised joint implementation guidelines (FCCC/K/CMP/2012/5).

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