JOINT IMPLEMENTATION

JI-JISC39-AA-A04

Draft Recommendation

Reflections and analysis on experiences and lessons learned from joint implementation to be submitted to CMP 12

Version 01.0

United Nations
Framework Convention on
Climate Change

1. Procedural background

1. At its eleventh session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP)[1] requested the Joint Implementation Supervisory Committee (JISC) to reflect on synergies between joint implementation (JI) and other mitigation mechanisms. These reflections should focus on the cost-efficient use of resources, the coherence of mitigation instruments and the avoidance of double counting, in particular regarding the infrastructure and technical arrangements, tools, governance structures and processes.

2. At the same session, the CMP also requested the JISC to prepare an analysis of experiences and lessons learned from JI for the possible design of mitigation mechanisms and on links and interactions with other tools. Such an analysis should take submissions from Parties and admitted observer organizations into account, submitted by 31 March 2016, and any other relevant materials. The CMP requested that the analysis by and reflections of the JISC be forwarded to the CMP at its twelfth session.

3. In response to this request, the JISC, at its thirty-eighth meeting, considered an initial concept note and requested the secretariat to revise the document, taking into account the inputs and submissions to the JISC from Parties and admitted observers. The JISC requested a small group of members (Mr. Benoît Leguet, Ms. Gherghita Nicodim, Mr. Derrick Oderson, Mr. Konrad Raeschke-Kessler and Mr. Albert Williams) to work with the secretariat on the revised version for consideration by the JISC at its next meeting. Substantive changes to the initial concept note are highlighted.

4. Only one submission from an admitted observer was received.

2. Purpose

5. These reflections and analysis are a response to the mandate provided by the JISC to the secretariat, as described in paragraph 3. Its objective is to provide to the CMP:

   (a) The reflection of the JISC on synergies between JI and other mitigation mechanisms;

   (b) The analysis by the JISC of experiences and lessons learned from JI for the possible design of mitigation mechanisms and of links and interactions with other tools.

3. Key issues and proposed solutions

3.1. Experiences and lessons learned from joint implementation for the possible design of mitigation mechanisms

6. This section outlines the areas that have been identified as key, while considering experiences and lessons learned from JI. Each area described below includes an analysis of its importance for the possible design of mitigation mechanisms. On a broader level, JI is a mechanism that provides for the crediting of activities in sectors or economies that are

[1] Decision 7/CMP.11.

subject to quantitative emission limits (environments with "capped" emissions). JI operations have shown how a crediting mechanism can work within an environment with capped emissions. This operational experience should be taken into account whenever drawing from experiences and lessons learned from JI.

3.1.1. Modalities and procedures for high-level requirements

7. The decisions of the CMP on the JI guidelines and also on the clean development mechanism (CDM) modalities and procedures, are more detailed than necessary in some parts. These can be procedurally difficult to change and could unnecessarily restrict and complicate the work of the regulatory bodies charged by the CMP to administer the mechanisms. In addition, the decisions sometimes do not elaborate principles that could guide implementation when issues emerge that were not foreseen at the time of their adoption.

8. An important lesson from JI for the design of a future crediting mechanism may therefore, be to concentrate the modalities and procedures on principles and criteria that need to be achieved, as well as on the roles in the mechanism and responsibilities of various actors for their achievement and perhaps provide an overview of the processes foreseen. Ultimately, when designing a new mechanism, the criteria for inclusion in the modalities and procedures could be whether it requires political guidance by Parties and whether the governing body is given sufficient clarity in operationalizing the mechanism.

3.1.2. International oversight

9. An important lesson from JI is that the authority of a regulatory body, when working in an objective manner to supervise a mechanism, has a substantial impact on the way that a mechanism is perceived. The activities credited under JI and other mechanisms have substantial value and, in this context, it is almost inevitable that host governments will at times be perceived as having a conflict of interest. In particular, it has been observed that the lack of international oversight under Track 1, which was governed exclusively by host Parties, may have affected the integrity of JI activities. This includes the quality of auditing services, the use of inappropriate and inconsistent methodological approaches, project approval, post-registration changes, and monitoring of emission reductions.[2]

10. Based on this understanding, the JISC had previously proposed to merge the two tracks of the JI project cycle. The need for greater international oversight for JI is reflected in the "Work undertaken by the Subsidiary Body for Implementation (SBI) on the review of the joint implementation guidelines"[3], which outlines a single track for JI under the supervision of the JISC. In this context, JI activities were to be implemented by the host Party at the national level based on mandatory international standards and procedures, and under the supervision of the JISC. In exercising its supervision, the JISC shall evaluate the conformity of the national implementation of JI against the international standards. The

[2] Kollmuss, A., Schneider, L., and Zhezherin, V. (2015). Has Joint Implementation reduced GHG emissions? Lessons learned for the design of carbon market mechanisms. Stockholm Environment Institute, Working Paper 2015-07. <http://www.sei-international.org/mediamanager/documents/Publications/Climate/SEI-WP-2015-07-JI-lessons-for-carbon-mechs.pdf>.

[3] FCCC/SBI/2016/L.8.

JISC can also review the registration of JI activities as well as the issuance of emission reduction units (ERUs) by the host Party to the JI activity.

3.1.3. Transparency

11. Transparency, in the context of carbon crediting mechanisms, means the extent to which information regarding an emission reduction activity is disclosed to the public. This disclosure involves clearly explaining the assumptions and methodologies applied in establishing the emission reductions achieved by the activity, and in such a manner that the results can be independently replicated.

12. JI Track 1, previously suffered criticism for the lack of transparency regarding the public availability of information on JI activities. In response, the CMP requested that all JI Track 1 key project documentation, such as project design documents, monitoring reports, and determination and verification reports, be submitted to the secretariat to be made available (in English) on a central registry.

13. This valuable lesson from JI Track 1 has already been reflected in the "Work undertaken by the SBI on the review of the JI guidelines"[4], which included requirements to ensure the transparency of decision-making processes and local stakeholder consultation and the rights of directly affected entities to hearings prior to decision-making, timely decisions and appeals against decisions. Ensuring transparency would be a useful lesson to draw on in the design of future crediting mechanisms.

3.1.4. Standardization of common approaches

14. The general experience under JI Track 1 was the non-standardization of methodologies being applied as each host Party developed their own approaches. These lead to similar activities being treated differently and resulting in different outcomes depending on the host Party where the activities were located. By contrast, under both JI Track 2 and the CDM, project participants have benefited from uniform approaches, processes and standards being available to them, irrespective of where in the world they operate. This significantly reduces the capacity and transaction costs required for entities to operate in multiple jurisdictions.

15. In the case of methodologies, standardizing project parameters in an objective manner across many activities, instead of calculating them for each activity individually, can significantly simplify their implementation, reduce transaction costs, enhance transparency, and facilitate objectivity and predictability. Standardization can be achieved through various means, including emission intensity benchmarks,[5] default values,[6]

[4] FCCC/SBI/2016/L.8.

[5] Where emission rates are per unit of output and based on the current and/or future performance of a peer group of similar plants or installations.

[6] This could include, for example, grid emission factors, Intergovernmental Panel on Climate Change default values for fuel characteristics and other common values, as well as conservative estimates of the emission reductions per unit for a given activity/product (e.g. a solar lamp or a compact fluorescent lamp), which can be multiplied by the number of units installed in order to calculate the total emission reductions achieved without monitoring each unit.

positive lists of activities that are considered automatically additional,[7] and barrier tests.[8] As an example, standardized baselines have been emerging under the CDM and are able to cover whole sectors of economies, without excluding the additionality requirements. These standardized approaches are most welcomed by developers of mitigation activities that aim to go beyond project-specific approaches.

16. In the case of accreditation, synergy and alignment between the mechanisms could be expected to improve quality and efficiency in operating them, and reduce transaction costs for those being accredited. A lesson learned from JI is that it can be costly and cumbersome to maintain separate accreditation systems, as this can act as a disincentive for participation, particularly when one system is relatively smaller than the other. A single system that offers similar services would provide for the consistent use of best practices, consistency in approach to the same issues and standards, and significant cost savings for the regulatory bodies, the secretariat, project participants and other stakeholders.

17. The design of future crediting mechanisms could draw upon these lessons from JI and the CDM to standardize common functions, as much as possible, while still allowing for flexible application of the standards.

3.1.5. Building on existing infrastructure

18. For more than a decade there has been considerable investment in the processes, standards, systems and capacity of JI, and to a greater extent, the CDM. In the design of future mechanisms, particularly if they follow a baseline-and-crediting approach, the mechanisms will need to apply the same or similar infrastructure, and there may be benefit to integrating the infrastructure, or at least aspects of it, directly into the design of future mechanisms. This would still allow for adjustments to be made to further streamline the implementation of the infrastructure and the activities conducted under it. Such aspects of the infrastructure include:

    (a) The modalities and procedures for JI and/or the CDM;

    (b) The project cycle developed for activities under the JI/CDM and/or as envisioned by Parties in the proposed JI modalities and procedure;

    (c) The system for accrediting independent third-party validators and verifiers under the JI and/or CDM;

    (d) The registry for any internationally issued ERUs, possibly building on the existing CDM registry;

    (e) The international transaction log (ITL) for tracking internationally transferred credits.

19. A further lesson learned from the experience of JI and the CDM for the design of a future mechanism, would be the advantage of starting with a digitized system that can help

[7] These positive lists may be applied to activities that face high barriers to investment and/or those that have no, or few financial benefits, other than the revenues from certified emission reductions/ERUs.

[8] Where activities are considered additional if the technology used has not reached a certain level of market penetration in a particular country or region.

reduce the overall complexity of the system, improve user-friendliness and reduce overall transaction costs.

3.1.6. Ensuring opportunities for early action or a 'prompt start'

20. The decision by CMP to not allow early action under JI by not allowing issuance of ERUs for pre-2008 remission reductions hampered the early development of JI. While for the CDM, Parties actively facilitated a prompt start through decision 17/CP.7 by providing for the CDM Executive Board (the Board) to commence the establishment of the CDM system immediately after the Marrakesh Accords had been adopted in 2001. The scope of retroactive crediting for emission reductions achieved prior to the registration of CDM project activities was ultimately decided by the CMP after it commenced its functions with the entry into force of the Kyoto Protocol (KP). On the other hand, it has also been argued that the retroactive crediting of emission reductions seriously compromised the integrity of JI,[9] and possibly of the CDM, by allowing for existing emission reduction activities to compete with and potentially undermine investment in new activities.

21. However, unlike both JI and the CDM, the design of a future mitigation mechanism does not start from scratch; instead, it has almost 15 years of experience and activity to draw upon. In the CDM, and to a lesser extent JI, there exists a pipeline of activities that could, if Parties so wish, benefit from emission credits beyond 2020 through their potential crediting periods. Unfortunately for JI, crediting periods were often limited by national legislation, and often ended in the year 2012. As JI and CDM were relatively new mechanisms, without any previous experience to draw upon, stakeholders and investors understood the merits of the learning by doing approach adopted by the regulatory bodies, and accepted the need for changes necessary to address problems and difficulties, which have arisen in the implementation of these mechanisms. In particular, where the achievement of the objective of the mechanisms is at risk, such modifications took precedence over seeking stability. The JISC holds the view that any strengthening of the mechanisms in order to better serve the ultimate objective of the Convention, should be interpreted as a positive signal by the investment community. However, in order to avoid the impression of arbitrariness of reforms, which could undermine the credibility of any future crediting mechanism that Parties establish, the JISC recommends to take into account the principle of proportionality when designing new mechanisms, in order to protect reasonable expectations.

22. There is considerable mitigation potential that could and should, to the greatest extent possible, be mobilized pre-2020, through recognizing "early action". Furthermore, early start and piloting can also allow Parties to build experience in national strategies, policies, and the management of the national mitigation potential, and can reveal the cost-saving potential of the international exchange of carbon assets. Therefore, providing a clear pathway, including clear conditions, for existing activities to be included in future crediting mechanisms could be of benefit.

[9] Kollmuss, A., Schneider, L., and Zhezherin, V. (2015). Has Joint Implementation reduced GHG emissions? Lessons learned for the design of carbon market mechanisms. Stockholm Environment Institute, Working Paper 2015-07. <http://www.sei-international.org/mediamanager/documents/Publications/Climate/SEI-WP-2015-07-JI-lessons-for-carbon-mechs.pdf>.

3.1.7. Mobilising mitigation action

23. The JI mechanism is a valuable, proven tool that countries can use to focus climate investment where it is needed. Thus, by using JI to mobilize investment from the private sector or direct public funds to targeted sectors, countries could consider greater ambition in their national plans in the context of the Paris Climate Change Agreement.

24. The mechanism can also be used by governments or constituencies to monitor, report and verify (MRV) emission reductions. In so doing, the mechanism can have a role in ensuring the results of national actions, reporting those results transparently and avoiding double counting of emission reductions.

25. The JISC is of the view that the JI mechanism can contribute to the international response to climate change as a functioning mechanism, and as a source of lessons to support implementation of the Paris Agreement, most clearly in creation of the new sustainable development mechanism described in Article 6 of the Agreement.

3.2. Synergies between joint implementation and other mitigation mechanisms

3.2.1. Scope

26. The scope of this analysis is limited to JI and the CDM, both established under the KP, as the only existing mitigation mechanisms. Voluntary offsetting schemes have not been considered, as they cannot be used by Parties to demonstrate mitigation under the UNFCCC process.

27. The analysis looked at seven issues: governing body, national focal point, registry, standards, project cycle, accreditation and pipeline. In accordance with the mandate, for each issue, potential synergies were assessed for cost-efficiency, coherence and avoidance of double-counting, where applicable.

3.2.2. Governing body

28. The JISC was established at CMP 1, in conjunction with the adoption of the Marrakesh Accords, to supervise the JI Track 2 procedure, under the authority of the CMP.[10] The Board was established much earlier, however, holding its inaugural meeting immediately after it was established at the seventh session of the Conference of the Parties (COP) in order to supervise the CDM under the authority of the CMP and allow for a prompt start of the mechanism.

29. JI was implemented under a dual governance structure; whereby the Track 1 procedure was governed exclusively by host Parties and the Track 2 procedure was implemented under the supervision of the JISC, and under the authority of the CMP. During its operation, the lack of international oversight was one of the main criticisms of JI Track 1, which was reflected in one of the revisions agreed to by Parties[11] to a single track implemented by host Parties with supervision by the JISC. This was incorporated in the "Work undertaken by the SBI guidelines"[12]. During discussions on the review of the CDM

[10] Decision 9/CMP.1, annex.

[11] Decision 6/CMP.8.

[12] FCCC/SBI/2016/L.8

modalities and procedures, there has been no examination and no further debate to date on the CDM governing body, the Board.

30. The consolidation of market mechanisms could provide opportunities for the cost-efficient use of infrastructure and the greater overall coherence of the system compared to having multiple mechanisms that fulfil fairly similar functions. Due to similarities in the functions exercised by the JISC and the Board in relation to their supervision of the respective mechanisms and of the emission reduction activities that are undertaken, the consolidation of the supervision of the two mechanisms under a single governing body is an option Parties may wish to explore.

3.2.3. National focal points

31. The two mechanisms of the KP have specific national focal points, with slightly different functions. The designated focal point (DFP) in JI not only approves the JI projects, including the approval of baseline and monitoring methodologies; but also processes requests for issuance of ERUs for these projects. The main task of the designated national authority (DNA) in the CDM is to assess potential CDM projects to determine whether they will assist the host country in achieving its sustainable development goals and provide a letter of approval to project participants in CDM projects.

32. Today, due to the rules of JI and the CDM, some Parties have already established two national focal points: a DFP and a DNA. For some Parties, these have been consolidated in the form of a single focal point exercising both roles, which can potentially provide cost-efficiency and coherence in the participation in both mechanisms.

3.2.4. Registry

33. Currently two types of registries exist within the KP:

(a) National registries, implemented by the governments of the Annex B Parties, containing accounts within which units are held in the name of the government or legal entities authorized by the government to hold and trade units;

(b) The CDM registry, operated by the UNFCCC secretariat under the authority of the Board for issuing certified emission reductions (CERs) and forwarding them to project participants in national registries. Non-Annex I Parties and CDM project participants can also maintain accounts in the CDM registry, however the registry does not allow for trading CERs between accounts.

34. Each registry operates through a link established with the international transaction log (ITL) administered by the UNFCCC secretariat. The ITL verifies registry transactions in real time to ensure that they are consistent with the rules agreed under the KP. The ITL ensures trust in the system and has been well established.

35. This system has already been synergized in the UNFCCC process and provides a cost-efficient means of ensuring that there can be no double-counting, as a unit is transferred or cancelled only in accordance with the rules and can only be in one place at a time.

3.2.5. Standards and procedures

36. Under the proposed draft JI modalities and procedures, the JISC is to develop, inter alia, technical requirements to ensure additionality and provide objective criteria for the

establishment of baselines and set minimum requirements to facilitate the development of project cycle procedures by host Parties. The host Party is to develop national standards, procedures and guidelines for all aspects of the implementation of JI at the time the decisions are to be taken by the DFP.

37. In the CDM, the Board has developed and approved detailed procedures and standards for the administration of the mechanism. These include a consolidated "CDM project standard", "CDM validation and verification standard", and the "CDM project cycle procedure". The future JISC, under the proposed draft JI modalities and procedures, could consider using these standards and procedures as best practice guidance to host Parties in the implementation of a single-track JI.

3.2.6. Accreditation

38. The functions of the Board and the JISC in relation to the accreditation of their respective mechanisms are very similar:

(a) Under decision 3/CMP.1, annex, paragraph 5(f), the Board is responsible for the accreditation of operational entities, in accordance with the accreditation standards contained in appendix A to that annex, including decisions on reaccreditation, suspension and withdrawal of accreditation;

(b) The JISC, pursuant to decision 9/CMP.1, annex, paragraphs 3(b) and (c), is responsible for the accreditation of independent entities in accordance with the standards and procedures contained in appendix A to that annex, and for the review of these standards and procedures, giving consideration to the work of the Board.

39. The two accreditation systems were operating with very similar standards, which were set at the CMP level. The CMP has also requested that possible arrangements for synergies between the JI and CDM accreditation systems be explored, including a common accreditation panel. However, the Board agreed that there would not be any need for a common body, and the JISC decided to fully rely on the CDM accreditation system as of 2 August 2016 by allowing any designated operational entity under the CDM to voluntarily act as an accredited independent entity under JI.

40. Using one system provides for both cost-efficiency and the coherence of the validation and verification functions across the mechanisms, while saving the cost of operating the accreditation system for the JISC and the Board, as well as for the entities that wish to provide validation and verification services in more than one of the two mechanisms.

4. Proposed work and timelines

41. Following the consideration and possible amendment by the JISC of the draft recommendations contained in section 3, the secretariat will include the agreed recommendations in the JISC annual report to the CMP, which will be finalized in consultation with the JISC Chair and Vice-Chair.

5. Recommendations to the JISC

42. The secretariat invites the JISC to consider the draft reflections and analysis contained in section 3 of this document, amend them as necessary, and agree to include them as an annex to the annual report of the JISC to the CMP.

- - - - -

Document information

Version	*Date*	*Description*
01.0	6 September 2016	Initial publication as an annex to the annotated agenda of JISC 39.

Decision Class: Operational, Regulatory
Document Type: Information note
Business Function: Governance
Keywords: CMP, mechanisms, reporting to the COP/MOP