

**JI-JISC38-AA-A05**

## Concept note

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# Input from the Joint Implementation Supervisory Committee to CMP 12

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

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## 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)<sup>1</sup> 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. CMP 11 also requested the JISC to prepare an analysis on experiences and lessons learned from JI for the possible design of mitigation mechanisms and on links and interactions with other tools. Such an analysis is to take into account submissions from Parties and admitted observer organizations, to be submitted by 31 March 2016, and any other relevant materials.
3. CMP 11 requested that these analysis and reflections by the JISC are forwarded to CMP 12.

## 2. Purpose

4. The purpose of this concept note is to initiate a discussion on these mandates from decision 7/CMP.11 and gather inputs from the JISC. This concept note should serve as basis of the initial discussion for the JISC to analyse the areas of experiences and lessons learned from JI for the possible design of mitigation mechanisms and to explore areas of synergies between JI and other mitigation mechanisms.
5. As the deadline for submissions from Parties and admitted observer organizations is after this first meeting of the JISC in 2016, this concept note brings an initial analysis from other relevant materials to facilitate this preliminary discussion by the JISC.

## 3. Key issues

### 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 its importance for the possible design of mitigation mechanisms.

#### 3.1.1. Modalities and procedures on 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, in places, more detailed than necessary. 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

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<sup>1</sup> Decision 7/CMP.11.

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, 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. It has been observed that the lack of international oversight may have affected the integrity of JI activities, in particular Track 1 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.<sup>2</sup>
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 current draft of the revised JI guidelines (proposed modalities and procedures for JI), which outlines a single track for JI under the supervision of the JISC. Under this draft, JI activities are 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 JISC can also review the registration of JI activities and review 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 extends to explaining the assumptions and methodologies applied in establishing the emission reductions achieved by the activity clearly and in such a manner that the results can be independently replicated.
12. In particular JI Track 1 has previously suffered criticism from the lack of transparency regarding the public availability of information regarding JI activities. In response, the CMP has previously requested that all JI Track 1 key project documentation, such as project design documents (PDDs), monitoring reports, and determination and verification

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<sup>2</sup> 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>

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 current draft of the proposed modalities and procedures for JI. These include requirements to ensure the transparency of decision-making processes, local stakeholder consultation, and 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,<sup>3</sup> default values,<sup>4</sup> positive lists of activities that are considered automatically additional,<sup>5</sup> and barrier tests.<sup>6</sup>
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 provides 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.

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<sup>3</sup> Where emission rates are per unit of output and are based on the current and/or future performance of a peer group of similar plants or installations.

<sup>4</sup> 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.

<sup>5</sup> 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/emission reduction units.

<sup>6</sup> Where activities are considered additional if the technology used has not reached a certain level of market penetration in a particular country or region.

17. The design of future crediting mechanisms could draw upon these lessons from JI and the CDM to standardized common functions as much as possible while still allowing 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) System for accrediting independent third-party validators and verifiers under the JI and/or CDM;
- (d) The registry for any internationally issued emission reduction credits;
- (e) The registry for any internationally issued emission reduction credits, possibly building on the existing CDM registry;
- (f) The international transaction log (ITL) for providing the tracking of internationally transferred credits.

19. A further lesson that can be 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 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. A failure to allow early action into Track 2 by the JISC led many Parties to push for the domestic development of JI via Track 1, which consequently allowed many of the early action activities previously disallowed for Track 2. 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. On the other side, it has also been argued that the retroactive

crediting of emission reductions seriously compromised the integrity of JI,<sup>7</sup> 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. This is also represented, particularly in the CDM and to a lesser extent JI, with a pipeline of activities that have been given the expectation of being able to benefit from emission credits beyond 2020 through their potential crediting periods. Parties would send a negative signal to the investment community if these expectations were not honoured, and would potentially undermine the credibility of any future crediting mechanism that Parties establish. At the same time, there is considerable unused mitigation achievable pre-2020 that would not realize any value if this “early action” was not to be recognized, which would send the same negative signal and lack of credibility.
22. Therefore a similar arrangement for recognizing existing credits and crediting further early action, as well as providing a clear pathway for existing activities to be included in the future crediting mechanisms, could be of benefit. This could also have the effect of strengthening mitigation activity in the pre-2020 period by kick-starting investment in new activities under the existing JI and CDM mechanisms.

### **3.2. Synergies between JI and other mitigation mechanisms**

#### **3.2.1. Scope**

23. The scope of this analysis is limited to JI and the CDM, both established under the Kyoto Protocol, 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.
24. 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**

25. The JISC was established at CMP 1, in conjunction with the adoption of the Marrakesh Accords. The JISC supervises, under the authority of the CMP, the JI Track 2 procedure.<sup>8</sup> The Board held 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.
26. 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

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<sup>7</sup> 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>

<sup>8</sup> Decision 9/CMP.1, annex.

under the supervision of the JISC under the authority of the CMP. During its operation, the lack of international oversight was one of the main criticisms of JI Track 1 and is therefore one of the revisions agreed by Parties<sup>9</sup> to date for the new draft JI modalities and procedures is a single track implemented by host Parties with supervision by the JISC. To date, the discussions on the review of the CDM modalities and procedures have not focused on the governing body.

27. The consolidation of market mechanisms could provide opportunities for cost-efficient use of infra-structure and greater overall coherence of the system compare to having multiple mechanisms that fulfil fairly similar functions. Due to similarities of 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 my wish to consider exploring.

### **3.2.3. National focal points**

28. The two mechanisms of the Kyoto Protocol 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, and processes the request 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 to provide a letter of approval to project participants in CDM projects.
29. Today, due to the rules of JI and the CDM, some Parties have already established two national focal points, a DFP and a DNA. In some Parties, these have been consolidated in the form of a single focal point exercising both roles, which has a potential to provide cost-efficiency and coherence in the participation of both mechanisms.

### **3.2.4. Registry**

30. Currently two types of registries exist within the Kyoto Protocol:
- (a) National registries, implemented by governments of the Annex B Parties, containing accounts within which units are held in the name of the government or in the name of 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.
31. 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 Kyoto Protocol. The ITL ensures trust in the system and has been well established.

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<sup>9</sup> Decision 6/CMP.8.



32. This system has already been synergized in the UNFCCC process and provide 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**

33. 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.
34. 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**

35. The functions of the Board and the JISC in relation to 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.
36. The two accreditation systems were operating with very similar standards, 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 may voluntarily act as an accredited independent entity under JI.
37. 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. Subsequent work and timelines

38. The outcomes of this initial discussion and the inputs of the JISC will serve as the basis for the draft analysis and reflections to be prepared by the secretariat and adopted by the JISC to be submitted to CMP 12.
39. The secretariat will also include in the draft the views provided in the submissions from Parties, as invited by CMP 11, for consideration by the JISC.

## 5. Recommendations to the JISC

40. The secretariat recommends that the JISC consider the information contained in this note and provide further inputs of their views:
- (a) On the areas for experiences and lessons learned from JI for the possible design of mitigation mechanisms and on links and interactions with other tools;
  - (b) On the scope and areas to be included in the draft reflections on synergies between JI and other mitigation mechanisms.

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### Document information

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