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GERMAN MANUAL FOR JI HOST COUNTRY APPROVAL – GUIDANCE FOR APPLICANTS

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1. INTRODUCTION TO THE MANUAL

1.1. Goal of the manual

This manual has been developed by the German Designated Focal Point (DFP), established in the German Emissions Trading Authority (DEHSt), in order to offer guidance to project proponents of Joint Implementation (JI) projects under the Kyoto Protocol. The manual contains some background information on the carbon market and Joint Implementation, but focuses on concrete steps related to the JI project implementation. It is intended to offer guidance to project proponents wishing to submit to the DEHSt a request for host country approval for JI projects taking place in Germany. A separate manual summarising rules and procedures for JI projects for which Germany is functioning as an investor country, but not as a host country is provided by DEHSt. Besides this manual, project proponents can also consult the FAQ section of the DEHSt website.[1]

For those searching for more general information on international climate policy and the project-based mechanisms of the Kyoto Protocol, the Federal Ministry for Environment, Nature Conservation and Nuclear Safety (BMU) has elaborated the brochure "Die projektbasierten Mechanismen CDM & JI – Einführung und praktische Beispiele"[2] (in German only).
More background information on CDM and JI, especially on current activities of the BMU fostering the engagement of the private sector in the field of the project-based mechanisms can be found at the following website: http://www.jiko-bmu.de.

1.2. How to use this manual

The manual is designed in a way which allows its use as

- a navigable document for online use (with external and internal links)
- a printable manual

[1] http://www.dehst.de/
[2] http://www.bmu.de/klimaschutz/downloads/doc/38548.php

In order to keep the manual as up-to-date as possible, we have only incorporated the most important information in the text, while working with hyperlinks to direct the user to the relevant websites (mostly the UNFCCC secretariat's website) for the information which is expected to change more or less frequently. By clicking on the hyperlinks (blue text elements), the user is directed to the respective website (or section of the manual). Additionally, the exact URL of the hyperlink is repeated in a footnote. When using links inside this manual you can go back to the previous section in the document by clicking the right button of your mouse and then selecting 'previous view'.

Furthermore, the manual includes a glossary of the most important terms related to the project-based mechanisms of the Kyoto Protocol.

2. CARBON MARKET – THE BASICS

2.1. The Kyoto Protocol and the flexible mechanisms

In 1992, at the 'Earth Summit' in Rio de Janeiro, the international community adopted the United Nations Framework Convention on Climate Change (UNFCCC). Five years later, the Parties to the UNFCCC agreed to binding emission reduction targets, known as the 'Kyoto Protocol'. In the Kyoto Protocol, all industrialized countries and some countries with economies in transition (the so-called Annex I countries) together committed themselves to reducing their greenhouse gas emissions in the period 2008-2012 by 5 percent below 1990 levels. Emission reduction targets are different from one country to another. This agreement is the backbone of the demand for emission certificates, and thus the international carbon market. The Kyoto Protocol comprises three innovative market mechanisms, the so-called 'flexible mechanisms':

- International Emission Trading (IET)
- Joint Implementation (JI)
- Clean Development Mechanism (CDM)

Flexible mechanisms can be used by Annex I countries to meet their greenhouse gas reduction targets. JI and the CDM are project-based mechanisms under which emission reductions can be achieved through climate projects in other countries. While projects under JI take place in countries with a Kyoto target (Annex I countries), the CDM involves climate projects in developing countries. The idea behind project-based mechanisms is that (public and private) Annex I country entities invest in climate projects in other countries and receive in return emission credits generated by the project which can be used for the fulfilment of the Kyoto target of the respective Annex I country. The flexible mechanisms allow emission reductions to take place where they are most cost-effective, thus reducing the cost of compliance with the Kyoto targets. The text of the Kyoto Protocol is rather general in nature. Therefore, technical details relating to the Kyoto Protocol and concrete rules and modalities for the implementation of the flexible mechanisms had to be elaborated in the following years. The most important package of these rules was finalized at COP 7 in Marrakech, therefore often referred to as the Marrakech Accords and fully endorsed by COP 11 and COP/MOP 1 in 2005.

2.2. Types of emission certificates under the Kyoto Protocol

In order to be able to compare the six greenhouse gases included in the Kyoto Protocol, the amount of each gas is expressed in 'Carbon dioxide equivalents', abbreviated 'CO_{2eq}'. For each ton of CO_{2eq} a country emits into the atmosphere, it has to present an internationally accepted emission certificate at the end of the commitment period. Four types of emission units are allowed for compliance under the Kyoto Protocol:

- Assigned Amount Units (AAU): Emission allowances assigned to the Annex I countries
- Certified Emission Reductions (CER): Credits generated by CDM projects (in developing countries)[3]
- Emission Reduction Units (ERUs): Credits generated by JI projects (in Annex I countries)[4]
- Removal Units (RMU): Certificates granted for removal of CO_2 due to land use activities in Annex I countries (under Article 3.3 and 3.4 of the Kyoto Protocol).

Further information on holding and trading of all types of certificates is available in section 4.2. and at the German Registry website[5].

2.3. The European Union Emission Trading Scheme (EU ETS)

For the first commitment period (2008-2012) of the Kyoto Protocol, the European Union has taken over an emission reduction target[6] of 8 percent as compared to 1990 levels. The Kyoto Protocol does not specify how countries have to achieve their target, whether fully by domestic action or not. The Marrakech Accords[7] state however that the use of the flexible mechanisms shall be "supplemental to domestic action and that domestic action shall thus constitute a significant element of the effort made by each Party included in Annex I". In order to be able to meet the Kyoto target, the European Union has implemented the Emission Trading Scheme (EU ETS). The EU ETS started in January 2005 and fixes emission limits for around 12,000 plants in the power sector and emission intensive industries. The EU ETS is a cap-and-trade system just like that under the Kyoto Protocol (Article 17), with the difference that emission limits of the EU ETS apply to installations (of certain sectors in the EU) and not to countries.

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[3] Afforestation and reforestation projects under the CDM generate expiring credits only. Two types of expiring credits exist, called tCER and lCER.
[4] ERUs are converted from AAUs, except ERUs generated by JI projects due to land use activities. Those ERUs are converted from RMUs.
[5] http://www.dehst.de/EN/
[6] The option for a group of countries to take over a common target is called a 'bubble'.
[7] See decision 2/CMP.1

It, therefore, transfers the incentive to reduce emissions from the country level to the installations of the respective sectors in the country. Installations covered by the EU ETS can trade emission certificates (called EUAs) granted to them. This offers the opportunity for those installations which are 'short' of emission certificates to buy additional certificates on the carbon market, while installations with a surplus of certificates will be able to act as sellers.

2.4. The EU Linking Directive

The EU Linking directive[8] amending the EU Emissions Trading Directive[9] enables installations to also use emission credits from JI and CDM projects for compliance under the EU ETS, thus linking the EU ETS with the flexible mechanisms of the Kyoto Protocol. The most important restrictions of the Linking Directive on the use of credits under the EU ETS are the following:

- Based on the Marrakech Accords, emission credits from projects involving **nuclear energy** are not eligible.
- Companies are not allowed to use credits from **forestry projects** (tCER, lCER, RMU and ERU converted from RMU) towards compliance.
- In approving large **hydro projects (greater than 20 MW)**, member states have to guarantee that the international criteria and guidelines of the World Commission on Dams (WCD) are respected. The DEHSt has elaborated guidelines for the determination of compliance with the WCD recommendation which can be downloaded from the DEHSt website under 'JI and CDM: Hydroelectric power projects over 20 MW'[10]
- In order to avoid **double counting**, ERUs[11] deriving from projects involving installations covered by the EU ETS can only be issued, if the same amount of EUAs is cancelled. For further information on double-counting, see section 2.4.1 below.

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[8] Directive 2004/101/EC of the European Parliament and of the Council of 27 October 2004 amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol's project mechanisms, http://ec.europa.eu/environment/climat/emission/implementation_en.htm

[9] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC. http://ec.europa.eu/environment/climat/emission/implementation_en.htm

[10] http://www.dehst.de/cln_090/SharedDocs/Downloads/DE/JI__CDM/JI-CDM__Leitfaden__WCD__Empfehlungen__engl.,templateId=raw,property=publicationFile.pdf/JI-CDM_Leitfaden_WCD_Empfehlungen_engl.pdf

[11] The same is true for CERs in the cases of Malta and Cyprus which are EU Member states without being Annex I countries.

- Each member state has to decide on the **maximum amount of CERs and ERUs** it will allow to be used towards compliance. For Germany, the amount of CERs and ERUs used for compliance by an operator, is limited to maximum 22 % of the allowances allocated to this operator in the period 2008-2012 (Article 18 ZuG 2012).

2.4.1. Double Counting

The EU ETS covers only certain industry sectors and only installations of a certain size.[12] If a JI project is planned at an installation covered by the EU ETS, special measures have to be taken in order to prevent crediting of the emission reduction twice by double counting.

Example: An installation that is covered by the EU ETS develops a JI project with the help of a foreign investor which encompasses increasing the energy efficiency of its processes. The host country, in which the project is taking place, can 'issue' Emission Reduction Units (ERUs) for the resulting emission reductions from the JI project. These ERUs are then transferred to the foreign investor who can use the credits towards compliance in the EU ETS.

However, since the installation in this case is covered by the emission trading directive, it will at the same time have EU emission allowances (EUAs) which were allocated to the factory in the National Allocation Plan (NAP) before the JI project took place. Obviously the installation emits less CO2 after the implementation of the emission reduction measures. The EU emission allowances in the host country saved can be sold on the carbon market as well. Thus, one emission reduction project is actually rewarded twice.

If nothing was done to prevent the double counting, JI projects would increase the amount of EUAs in the European system. The emission caps in the investor countries would increase while the emission caps in the host countries would remain at the same level. Thus the emission budget would no longer be balanced, rendering the carbon market inoperable.

The above-mentioned Linking Directive (2004/101/EC) solved the problem of double counting in Article 11b section 4 by requiring the JI host country to cancel the same amount of EUAs in the EU registry.

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[12] In phase I (2005-2007) the EU ETS covers energy activities (combustion installations with a rated thermal input exceeding 20 MW, mineral oil refineries, coke ovens), production and processing of ferrous metals, mineral industry (cement clinker, glass and ceramic bricks) and pulp, paper and board activities. The detailed list of included activities is given in Annex I of the Emission Trading Directive 2003/78/EC.

For the above example of a direct emission reduction, the excess certificates simply have to be cancelled by the operator of the installation where the efficiency measures were implemented.

The administrative complexity arising from the problem of double counting makes most JI projects in EU ETS sectors inefficient and thus limits the applicability of the instrument JI within the EU. It is much easier to make direct emission trading deals than to go through the whole administrative procedure of the JI project cycle. As ERUs are subject to a range of risks which are not applying to EUAs, the price for ERUs is lower than the one for EUAs. The two instruments, emission trading and JI, are in a way competing with each other. Emission trading acts as a substitute for JI in sectors which are covered by the EU emission trading directive because it makes economical sense and the procedures are less complicated.

However, direct emission trading deals are not possible in all cases. The fact that the EU ETS is not covering all industries gives rise to a special case of the double counting problem: indirect double counting of projects taking place at installations that are not covered by the EU ETS, but influence one or more EU ETS sectors indirectly. The most common example of **indirect double counting** is electricity production from renewable energies. Renewable energy production is not included in the EU ETS, and installations producing renewable electricity do not receive EU emission allowances in the National Allocation Plans (NAPs). However, it is assumed that the operation of a new renewable electricity installation reduces the CO2 emissions of a country, because it replaces the same amount of conventionally produced electricity. The indirect double counting occurs if a new renewable energy plant is constructed in an EU Member country under JI. The foreign investor receives ERUs for the occurring emission reductions in the electricity sector of the host country, because all other conventional power plants which are connected to the same grid have to reduce their production. At the same time, these conventional power plants have unused EU emission allowances at their disposal, resulting from the reduced production. If the conventional power plants in the host country sell these surplus permits on the carbon market, the emission reduction of the JI project is actually rewarded twice and the budget of the EU system is again out of balance.

Therefore, the Linking Directive (2004/101/EC) requires the cancelation of an amount of EUAs equivalent to the amount given as ERUs to the JI investor of a project which is indirectly influencing the EU ETS. Special JI reserves, called set-asides, have to be created for this purpose in the EU NAPs (further explained at the end of this section).

Types of double counting

Three types of JI projects can be distinguished, which are differently affected by the double counting conflict within the EU ETS:

1. JI projects with a direct effect on the emissions of an installation covered by the EU ETS.
2. JI projects with an indirect effect on the emissions of a sector of the EU ETS.
3. JI projects without any emission reduction effect on an installation or a sector of the EU ETS.

The potential of type three projects is not reduced by the EU ETS. The potential of type one and type two projects with direct or indirect link to the EU ETS are however affected negatively: To prevent double counting, the Linking Directive (2004/101/EC) allows such projects only if an equivalent number of EUAs are deleted in the national registry of the JI host country.

For type one projects the operator of the directly affected installation simply cancels the EUAs from the assigned amount of the installation. Investors outside the EU (e.g. Japan) can thus still make use of the JI mechanism without negatively influencing the EU ETS. For investors from EU countries, it will be much easier to implement such a project not via the JI mechanism, but simply by negotiating a direct EU emission trading deal with the host installation.

For JI projects which indirectly touch a sector of the EU ETS, member states can create special reserves in their National Allocation Plans (NAP) from which EUAs can be deleted for each ERU issued. It depends on the size of these reserves how strongly the potential for type two JI projects is limited by the EU ETS in a country. The NAPs for the second EU emission trading period show that most of the new EU countries provided a reserve which can only cover JI projects that are already approved or planned. Thus, new type two projects, which indirectly affect the EU ETS, are not possible anymore in most countries.

Germany has not included any JI Reserve in its NAP for Phase II which excludes JI projects with an indirect effect on emissions of EU installations covered by the ETS from being implemented in Germany.

2.4.2. Setting baselines in compliance with EU Legislation

The emission reductions that are rewarded in JI projects (ERUs) are calculated as the difference between the baseline scenario emissions and the actual emissions after project implementation. The baseline assumptions have to take into account the existing regulations of the country in which the project takes place. If a national law is already demanding emission reductions in this area, then the project is not considered additional (the project would then be equal to the baseline).

Therefore, planned JI projects in EU countries shall take all necessary measures to fully comply with the Acquis Communautaire[13] when calculating the baseline scenario. Some abatement measures might already be obligatory. This fact also limits the scope for JI projects in the new EU countries considerably. However, the Linking Directive (2004/101/EC)[14] allows in Article 11b calculating the emission baselines in the new EU countries based on the delayed adaptation periods that were accepted for some countries and certain regulations in the EU accession treaties.

For the German rules applying to JI projects taking place in Germany see section 4.1.4.2.

Among the prescriptive EU legislation, there are mainly three directives which have a strong impact on JI baseline determination:

- Directive 1996/61/EC concerning integrated pollution prevention and control[15] **("The IPPC directive")**
- Directive 1999/31/EC on the landfill of waste[16] **("The Landfill directive")**
- Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants[17] **("The LCP directive")**

[13] Acquis Communautaire is the name for the total body of EU legislation.
[14] Amended by the EU Linking Directive (2004/101/EC).
[15] http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=EN&numdoc=31996L0061
[16] http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=31999L0031&model=guichett
[17] http://eur-lex.europa.eu/LexUriServ/site/en/consleg/2001/L/02001L0080-20011127-en.pdf

JI projects in areas covered by one of these directives can be rewarded only for emission reductions that go beyond the requirements of the directives.

The **IPPC Directive (1996/61/EC)** requires the use of the best available technology (BAT). The BAT is defined in Europe-wide valid Best Available Techniques Reference Documents (BREFs), published by the European Commission. Since Member States have to consider the BAT during the licensing process of a plant under restriction of commensurability, the requirements in the permit might however be formulated differently in the Member States of the EU.
The **Landfill Directive (1999/31/EC)** requires limiting the amount of biodegradable waste that is disposed on a landfill, which reduces potential amounts of landfill gas emissions that could have been avoided and used under a JI project. Further, the directive requires collecting and at least flaring of the landfill gas from 2009 on. This limits the crediting period of a JI project to the year 2008 except for projects on already closed landfills or projects that make energetic use of the landfill gas instead of just flaring it.

The **LCP Directive (2001/80/EC)** limits emissions of SO_2 and NOx for plants larger than 50 MW. If the required emission reductions are achieved by end-of-pipe solutions, it will not change energy efficiency and thus the JI project potential of the plant. If the plant operator however decides to achieve the required emission reductions (SO_2 and NOx) by fuel switch, the CO_2 emissions of the plant as well as the potential for generating emission reduction units under JI decrease. Since this directive concerns only large combustion plants with a capacity above 50 MW, which are covered by the EU ETS, these are usually – due to the double-counting problematic - less attractive for JI project development anyway.

As a result of the changing baselines due to EU legislation, one can divide JI projects in three different categories:

1. Projects which are not affected by changing baselines, because the Acquis Communautaire does not contain regulations relevant for the project.
2. Projects which can no longer be carried out as JI, because they became part of the Acquis Communautaire and are no longer additional.
3. Projects which are still additional but generate less carbon credits now due to the raised baseline.

2.5. The German Act Implementing the Project-Based Mechanisms of the Kyoto Protocol

On 22 September 2005 the "Act Implementing the Project-Based Mechanisms of the Kyoto Protocol" (ProMechG)[18] entered into force. With this act, the German government has transposed the EU Directive that regulates integration of CDM and JI into the European Emissions Trading Scheme (Linking Directive) into German law. According to ProMechG, also JI projects in Germany are eligible. Figure 1 illustrates the international context of the ProMechG.

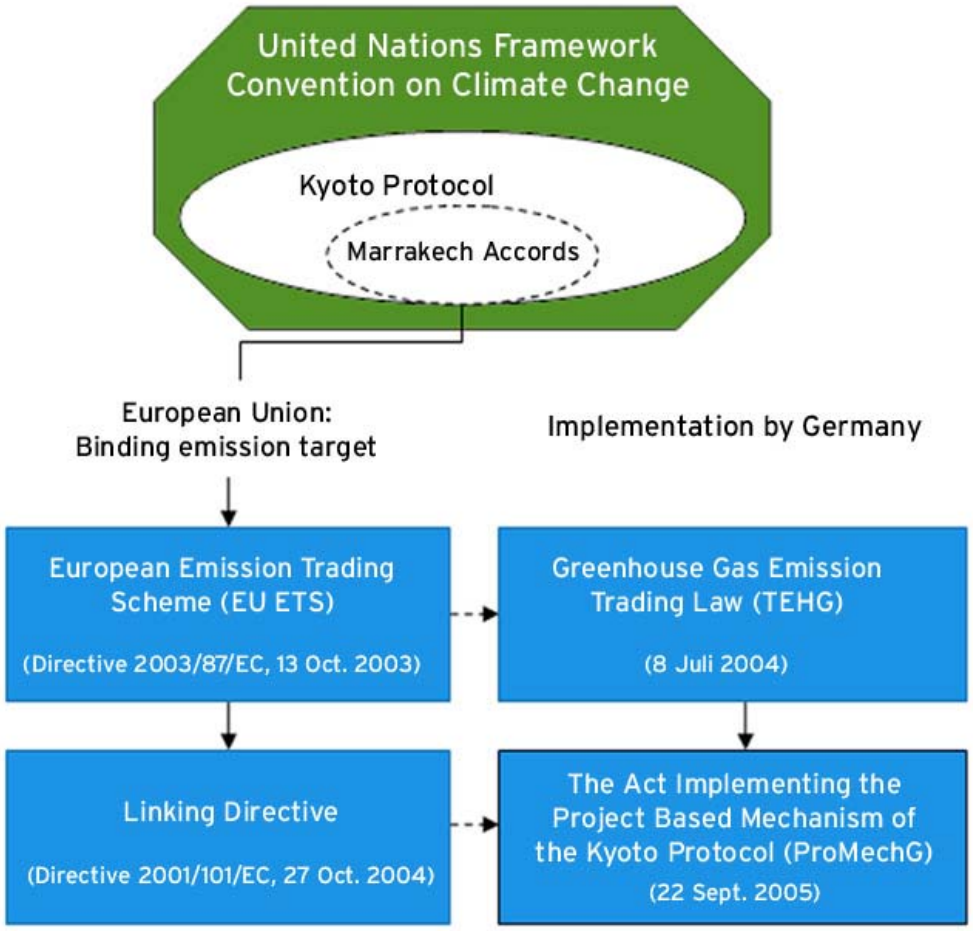

Figure 1: The international context of the ProMechG

[18] In German: Projekt-Mechanismen-Gesetz (ProMechG), available in German at: http://bundesrecht.juris.de/promechg/index.html.

The Federal Environment Agency (in German: Umweltbundesamt, abbreviated UBA) which is the affiliated agency of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (in German: Bundesumweltministerium, abbreviated BMU) is the legal authority for the administration of matters related to emission trading as well as CDM and JI. The division of the Federal Environment Agency, the German Emissions Trading Authority (in German: 'Deutsche Emissionshandelsstelle', abbreviated DEHSt) is the Designated National Autority (DNA) / Designated Focal Point (DFP) and thus responsible for approval of CDM and JI projects.

The approach of the DEHSt for identifying, reviewing and approving JI projects is determined by the ProMechG and the international regulations, especially Article 6 of the Kyoto Protocol, the Marrakech Accords and the Linking Directive (Directive 2004/101/EC). Section 5 of ProMechG includes the relevant regulation for JI projects hosted by Germany. The ProMechG diverges from the specifications of the Linking Directive in that it generally does not allow for approval of activities in the area of land use, land-use change and forestry. Another German characteristic is that JI projects comprising public funding and support cannot be approved as JI projects. This especially concerns the German feed-in tariffs for electricity generated from renewable energies or in combined heat and power plants.

A revision of the ProMechG in 2007 takes into account the developments at the international level (operational Track 2 procedure). Furthermore, in Section 14 ProMechG, a new fee structure for the German approval process is outlined. Section 14 states that fees are between 20 and 600 €, depending on the amount of credits generated by the project and the administrative effort needed. For details of the new cost ordinance, please consult DEHSt website[19].

[19] http://bundesrecht.juris.de/promechgebv/

3. JOINT IMPLEMENTATION

3.1. What is Joint Implementation (JI)?

Joint Implementation is one of the market mechanisms (the so-called flexible mechanisms) under the Kyoto Protocol. It allows countries with emission targets under the Kyoto Protocol (Annex I countries)[20] to engage in emission reduction projects in other Annex I countries and use the emission reduction credits generated by these projects (the so-called 'Emission Reduction Units, ERU) towards meeting their Kyoto target. Contrary to the CDM, under JI there are no new units generated, but existing units (AAU or RMU) held by the registry of the host country are converted into so-called Emission reduction units (ERU) which are then transferred by the host country to the account of the investing entity or Party. As JI investor and host country are both subject to emission limits under the Kyoto Protocol, the overall emission budget of the Kyoto Protocol remains unchanged.

3.2. Requirements for countries

3.2.1. Requirements for participation in JI projects

It is required for any Annex I Parties wishing to participate in a JI project to have set up a Designated Focal Point (DFP) responsible for JI and project approval. Furthermore, national guidelines and procedures for approving JI projects, including the consideration of stakeholders' comments, as well as monitoring and verification have to be in place. The UNFCCC website provides information on Designated Focal Points (DFPs) and national guidelines and procedures[21] for approving JI projects submitted to the UNFCCC secretariat by Parties.

3.2.2. Eligibility requirements to issue, transfer and acquire ERUs

Furthermore, the Marrakech Accords refer to a set of eligibility criteria which Parties included in Annex I have to fulfil in order to be eligible to issue, transfer and/or acquire credits from JI projects (see JI guidelines for the implementation of Article 6 of the Kyoto Protocol, decision 9/CMP.1, Annex paragraph 21, in the following called the 'JI guidelines'[22]). Depending on the fulfilment of eligibility criteria by the host country, JI projects can follow two different Tracks which are illustrated in Figure 2.

[20] http://unfccc.int/parties_and_observers/parties/annex_i/items/2774.php
[21] http://ji.unfccc.int/JI_Parties
[22] http://unfccc.int/resource/docs/2005/cmp1/eng/08a02.pdf#page=2

Under **Track 1**, host countries verify the emissions reductions achieved by JI projects based on national guidelines and procedures. Track 1 does therefore not involve any international control or third party certification. In the simplest case, host and investor country negotiate the baseline to be applied and therefore, the amount of emission reductions (ERUs) bilaterally. In order to be eligible for this 'simplified' Track 1 procedure, host countries have to fulfil all of the eligibility criteria (a-f) listed in Figure 2.

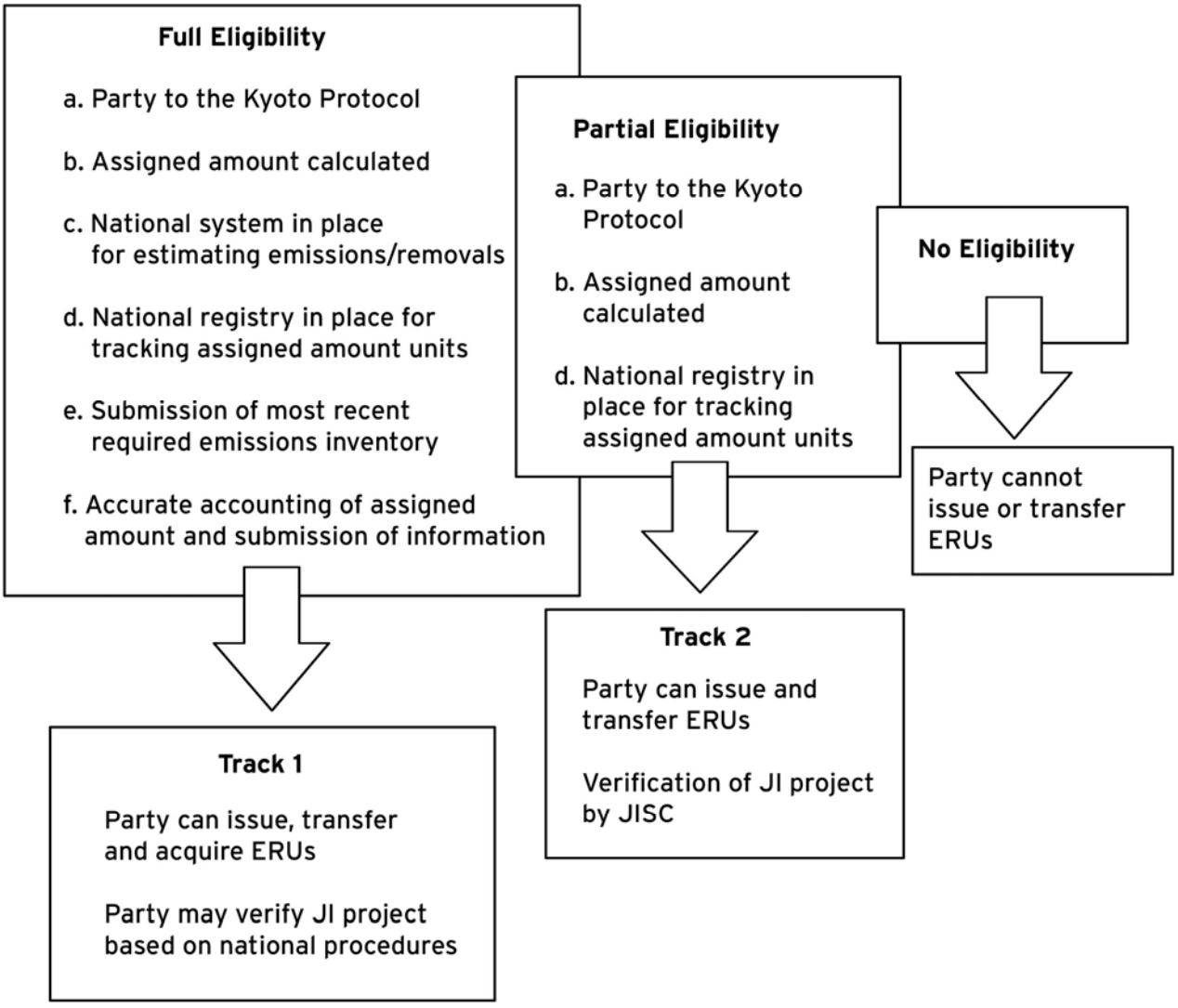

Figure 2: Eligibility criteria of the host country for JI Track 1 and Track 2

In case the host country only complies with a subset of the eligibility criteria, the JI project has to pass through a project cycle which includes third party certification of emission reductions and is similar to the project cycle under the CDM. This procedure is called **Track 2** and is supervised by an international body established under the Kyoto Protocol, called the 'JI Supervisory Committee (JISC)'. A host country may, however, only issue and transfer ERUs upon meeting the requirements (a), (b) and (d) listed in Figure 2. The UNFCCC secretariat will maintain a publicly accessible list of Parties that meet the eligibility requirements and of those that have been suspended.

Host countries eligible for JI Track 1 may choose between Track 1 and Track 2. Although, it may imply more complex procedures, using Track 2 reduces or eliminates some risks inherent to Track 1 which are:

1. **Loss of Track 1 eligibility by the host country**:
   The host country may loose its Track 1 eligibility in the future due to incompliance with one or more than one of the eligibility criteria (e.g. because it did not submit a GHG inventory of satisfying quality).
2. **Limitations due to commitment period reserve**
   The limitations on the sale of units related to the commitment period reserve and other limitations to international emission trading[23] do not apply to ERUs generated under JI Track 2 (see also section 4.1)

The fulfilment of the eligibility criteria of a Party to the Kyoto Protocol is checked by the so-called 'Enforcement Branch' of the Compliance Committee under the UNFCCC. Each country has to submit material (Initial report under the Kyoto Protocol[24]) documenting its compliance with these criteria and the Enforcement Branch of the Compliance Committee has to decide on the eligibility of the respective country 16 months after the submission of this documentation.

Germany is eligible for JI Track 1 since 27 April 2008. Information on the eligibility of host countries[25] is provided online by the UNFCCC.

[23] See Annex of Decision 11/CMP.1
[24] http://unfccc.int/national_reports/initial_reports_under_the_kyoto_protocol/items/3765.php
[25] http://ji.unfccc.int/Eligibility/index.html

3.3. Eligible projects

According to the international rules, all projects reducing emissions or enhancing removals of any of the six GHGs in any of the sectors included in Annex A of the Kyoto Protocol[26] are eligible as a JI project.[27]

With one exception, JI projects cover the same sectoral scopes as the CDM.[28] The difference with regard to CDM is that under JI, not only afforestation and reforestation, but all land use, land-use change and forestry (LULUCF) activities mentioned in Art. 3.3 and Art. 3.4 of the Kyoto Protocol are eligible[29]. However, LULUCF projects enhancing carbon removal are not eligible JI projects taking place in Germany.

- Energy industries (renewable-/non-renewable sources)30
- Energy distribution26
- Energy demand26
- Manufacturing industries
- Chemical industries
- Construction
- Transport
- Mining/mineral production
- Metal production
- Fugitive emissions from fuels
- Fugitive emissions from production and consumption of halocarbons and sulphur hexafluoride
- Solvent use
- Waste handling and disposal
- Agriculture

[26] Annex A of the Kyoto Protocol specifies the six target gases (CO_2, CH_4, N_2O, HFC, PFC, SF_6) and sector/source categories where emission reduction activities can take place. http://unfccc.int/resource/docs/convkp/kpeng.pdf
[27] For limitations in the use of these credits under the EU ETS, see section 2.4
[28] AIEs have to qualify for certain sectoral scopes which are based on this categorisation of sectors.
[29] Annex I countries have to account for afforestation, reforestation and deforestation (Art. 3.3 Kyoto Protocol) and may account for forest management, cropland management, grassland management and revegetation (Art. 3.4 Kyoto Protocol) during the first commitment period.
[30] Germany has not established a set-aside. Thus, double-counting has to be avoided.

Nuclear projects are not allowed under the Marrakech Accords. Furthermore, projects reducing emissions or enhancing removals of greenhouse gases have to lead to additional emission reductions/removals and have to be approved by the Parties involved (for further details, see section 4.1). Host and investor countries may establish their own national criteria for JI projects.

3.4. Crediting period

The crediting period is the phase in which a project is allowed to generate carbon credits (see Figure 3). JI projects can generate emission reductions only after the beginning of 2008. Projects starting as of the year 2000 and generating additional emission reductions are eligible for JI, but emission reduction units can only be generated after 1 January 2008.[31]

The 'Guidance on criteria for baseline setting and monitoring', (Version 01) specify[32] that

- The project participants have to choose the starting date of the crediting period to be on or after the date the first emission reductions or enhancement of net removals are generated by the project;
- The crediting period cannot extent beyond the operational lifetime of the project;

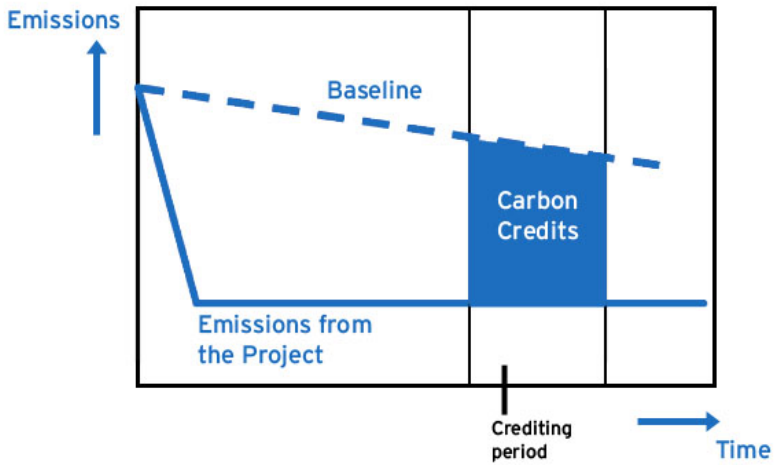

Figure 3: Concept of the crediting period

[31] This is contrary to the arrangements made for the CDM under the Marrakech Accords under which projects can generate emission reduction credits as of the year 2000.
[32] See B. 16. http://ji.unfccc.int/Ref/Documents/Baseline_setting_and_monitoring.pdf

Due to the uncertainty of the structure of a post-2012 climate regime, project proponents can currently only count on the ERU flow during the first commitment period (1 January 2008 till 31 December 2012).[33] Therefore, there is a closing window of opportunity for the development of JI projects, at least until it is clear that a post-2012 agreement under the UNFCCC will allow JI in its current form. According to German guidelines[34], the crediting period of JI project hosted by Germany may not extend beyond the 31 December 2012. In principle ERUs[35] held in a national registry are allowed for carry over to the subsequent commitment period. Please note that the total of this carry over has a maximum of 2.5 per cent of the Assigned Amount of the Party[36].

3.5. Small-scale projects

JI projects considered as small scale project activities can benefit from simplified modalities and procedures which aim at reducing transaction costs related to the project cycle. The threshold criteria for the definition of small scale projects[37] have been revised by COP/MOP (CMP) 2 for CDM and JI project activities at the same time, and define small-scale projects as follows (see Decision 1/CMP.2)[38]:

- Type I: Renewable energy project activities with a maximum output capacity of 15 MW (or an appropriate equivalent);
- Type II: Energy efficiency projects reducing energy consumption on the supply and/or demand side with a maximum output of 60 GWh per year (or an appropriate equivalent);
- Type III: Other project activities resulting in emission reductions of less than or equal to 60 ktCO_{2eq} annually.

[33] Some host countries do however allow a crediting period which extends beyond 2012.
[34] See Section 5 (3) ProMechG
[35] Only ERUs converted from AAUs are allowed for carry over. ERUs converted from RMUs are excluded.
[36] See Decision 19/CP.7/CMP.1 Annex F, No. 15.a)
[37] http://unfccc.int/resource/docs/2006/cmp2/eng/10a01.pdf#page=8
[38] See decision 1/CMP.2 and 3/CMP.2

Debundling, meaning the fragmentation of a large JI project into many small-scale projects is not allowed. According to the JISC, a proposed JI SSC project can be considered a debundled component of a large project, if a small-scale project with a publicly available determination already exists,

a. which has the same project participants;
b. which applies the same technology/measure and pertains to the same project category;
c. whose determination has been made publicly available within the previous two years;
d. whose project boundary is within one km of the project boundary of the proposed JI small-scale project at the closest point.

The German DFP allows using SSC methodologies, but it is expected to demonstrate additionality in a clear and satisfactory manner. Therefore, it might not be sufficient to use the simplified additionality test provided for SSC projects only. In this case, the applicant should use the additionality tool for large scale projects.

3.6. Program of Activities under Track 1

The concept of programmatic CDM was introduced to the international negotiations in 2005 with the goal to promote those activities involving a large number of end users in order to cover the so far untapped potential under the CDM. With regard to programmatic CDM, the COP/MOP decided that "a local/regional/national policy or standard cannot be considered as a clean development mechanism project activity, but that project activities under a programme of activities can be registered as a single clean development mechanism project activity provided that approved baseline and monitoring methodologies are used that, inter alia, define the appropriate boundary, avoid double counting and account for leakage,ensuring that the emission reductions are real, measurable and verifiable, and additional to any that would occur in the absence of the project activity." In the following, modalities and procedures as well as the respective forms for submission of Programs of Activities (PoA) were elaborated. They can be found at the UNFCCC website on PoAs. [39]

[39] http://cdm.unfccc.int/ProgrammeOfActivities/index.html

A **Program of Activities (PoA)** operates on two levels: the program level and the program activity level. A PoA is defined as a "voluntary coordinated action by a private or public entity which implements any voluntary or mandatory policy/measure or stated goal (i.e., incentive schemes and voluntary programmes) which leads to GHG emission reductions…"

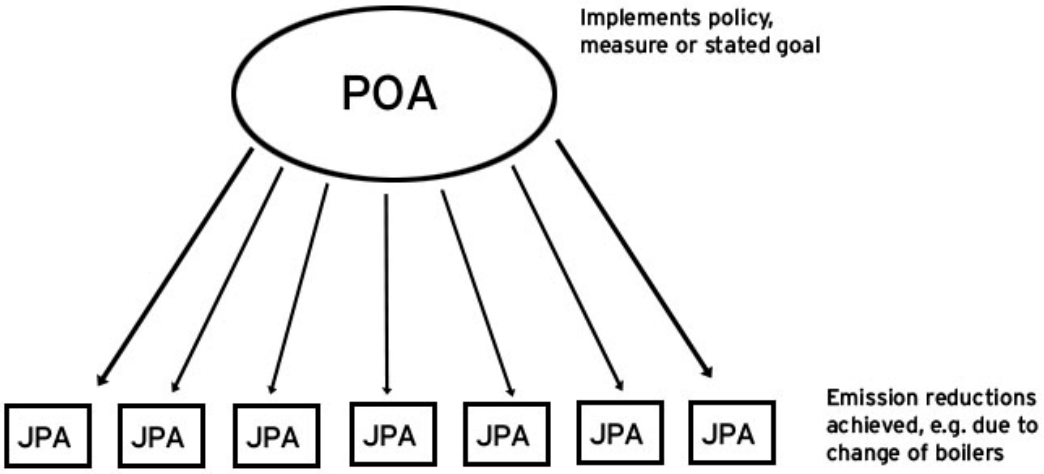

Figure 4: The concept of a PoA

The program provides the organizational, financial, and methodological framework for the emission reductions to occur. The emission reductions are however actually taking place in the so called program activities (JPA), which are consolidated and registered as a single JI project. A program activity under the CDM is called 'CDM program activity' (CPA), while under JI it is referred to as '**JI program activity' (JPA**).

Currently[40], JI projects in the form of a Programme of Activities (PoA) are not possible under international JI rules (Track 2). Nevertheless, they are an option for investors wishing to undertake Track 1 JI projects in Germany. The PoA concept for JI (Track 1) is illustrated in Figure 4. Examples of a PoA are an incentive scheme to replace inefficient boilers and an investment program to increase energy efficiency of buildings.

A **JPA** is a 'single, or a set of interrelated measure(s), to reduce GHG emissions applied in either a single or many locations of the same type, within an area that is defined in the baseline methodology.'

[40] Status August 2008

JPAs which fulfill the initially defined characteristics can be added to the PoA at any time during the crediting period of the PoA, but terminate at the end of the crediting period of the PoA. Because of this openness, the number and exact location of participants joining the project activity, which is possible even after the start of the PoA, do not have to be predetermined. However a maximum mitigation potential of the PoA will be defined in the German LoA as a safeguard. In this, the PoA distinguishes itself from a bundle which 'bundles' a certain type and number of projects which are known in advance. Furthermore, JPAs are all identical to each other, can be identified clearly, and take place in the same type of facility or installation.

As far as eligibility and approval procedures are concerned, the same rules apply to a Programme of Activities as to any other German JI project under Track 1 (see section 4.1.4.2). However, additionality[41] has to be demonstrated at the level of the PoA (by the project initiator) as well as for a representative sample on the JPA level.

For JI Track 1 projects taking place in Germany certain deviations from international CDM rules are allowed. E.g. while according to international CDM rules, the PoA can apply no more than one baseline and monitoring methodology to all its CPAs, the application of two or more methodologies is permissible for PoAs under Track 1 in Germany. Another difference is that it suffices to prove additionality for an exemplary JPA if the relevant data is collected for each JPA during the project activity. PoA specific difficulties in proving additionality for single JPAs can thus be overcome by using conservative statistical estimates as a baseline. Compared to the requirements of relevant CDM guidance, Germany does not necessarily require that the PoA demonstrates that net reductions in emissions for each CPA under the PoA are real and measurable, if only the aggregate statistical emission reduction truly depicts the overall effect. This is necessary to keep transaction costs low and avoid frustrating the specific advantage of PoAs to tap the potential of a large number of small sources. This can be achieved by choosing a sound and conservative blanket approach to defining the appropriate baseline.

[41] For details on additionality, see section 4.1.4.2.3.

Possibility to tap the reduction potential of a large number of small activities, as

- the number and location of single JPAs does not have to be identified in advance
- additionality on the project activity level has only to be proven for one or a small number of exemplary JPAs
- baseline setting can follow a blanket approach which only has to be monitored in a representative sample of JPAs
- transaction costs per JPA are significantly lower compared to other JI project activities

Box 1: Advantages of a PoA

Further details on the international concept of Programmatic CDM can be found e.g. in the publication 'Scaling Up Demand-Side Energy Efficiency Improvements through Programmatic CDM'[42].

Programmatic JI projects taking place in Germany have already been approved by the DEHSt. For information on JI projects in Germany (including a list of JI projects under validation and JI projects approved by the DEHSt), see the DEHSt website[43].

3.7. Institutions relevant to JI (Track 2)

3.7.1. The CMP

As the highest body of the Kyoto Protocol, the CMP (short for COP/MOP)[44] has the authority over the flexible mechanisms. The Parties to the Kyoto Protocol meet annually at the COP/MOP to discuss issues of with regard to the further development and implementation of the Kyoto Protocol.

[42] ESMAP Technical Paper 120/07, December 2007, available for download at: http://www.esmap.org/filez/pubs/112120071250 14_ScalingUpDemandSideEE.pdf

[43] http://www.dehst.de/cln_090/nn_476696/DE/JI__CDM/JI/JI__Zustimmung/JI__Zustimmung__node.html?__nn=true

[44] COP/MOP is the abbreviation for 'Conference of the Parties (to the UNFCCC) serving as the Meeting of the Parties (to the Kyoto Protocol)'.

3.7.2. The JI Supervisory Committee (JISC)

The JI Supervisory Committee (JISC) supervises the actual operation of JI Track 2, under the authority and guidance of the CMP. The most important responsibilities[45] of the JISC are:

- The elaboration of rules of procedure for JI additional to those contained in the JI guidelines;
- The elaboration of templates for JI project design documents (PDD);
- The review and revision of reporting guidelines and criteria for baseline and monitoring;
- The accreditation of Independent Entities.
- The publication of a list of all approved JI projects and the assignment of unique project identifiers

The JISC consists of ten members and ten alternate members of the Parties to the Kyoto Protocol.[46] Since February 2006, it has held meetings every few months.

Agendas of these meetings, meeting reports, relevant documents and webcasts are available at the JISC website.[47]

In case of a review of JI projects, the JISC sets up review teams (JISC-RTs) on a case-by-case basis to assist it in conducting reviews. A review team consists of two JISC members who are responsible for supervising the review, and external experts, as appropriate. For the detailed procedures regarding the JISC-RTs, see the document 'Terms of reference for experts appraising determinations or participating in review teams under the verification procedure under the Joint Implementation Supervisory Committee'[48].

[45] For more details see the JI guidelines in 9/CMP.1, Annex, paragraph 3.
[46] Three members from an Annex I Party with an economy in transition, three members from an Annex I Party not belonging to those with an economy in transition, three members from a non-Annex I Parties and one from the group of small island developing states.
[47] http://ji.unfccc.int/Sup_Committee
[48] http://ji.unfccc.int/Sup_Committee/Meetings/003/Reports/JISC03report_Annex_4.pdf

3.7.3. Subcommittees, panels and working groups

The JISC may establish subcommittees, panels or working groups to assist it in performing its functions. As of June 2006, the JISC has established an accreditation panel (JI-AP).

JI Accreditation Panel (JI-AP)
Under the guidance of the JISC, the JI-AP is supposed to elaborate recommendations to the JISC on accreditation of applicant independent entities as well as on accreditation, withdrawal of accreditations and re-accreditation of Accredited Independent Entities (AIEs).

The JISC can at any time establish new subcommittees, working groups and panels. For the current status on panels and working groups, see the JISC website[49].

3.7.4. Designated Focal Points (DFP)

Besides the institutions and bodies at the international level, the Kyoto Protocol requires that all Annex I Parties participating in JI projects designate a national authority responsible for JI, called Designated Focal Point (DFP). The DFP is the analogue to the Designated National Authority (DNA) under the Clean Development (CDM).

A list of established DFPs[50] and their contact information is available at the UNFCCC secretariat's website. The German DFP is the German Emissions Trading Authority (Deutsche Emissionshandelsstelle, DEHSt[51]) at the Federal Environment Agency (Umweltbundesamt). Approval procedures of the DEHSt are described in section 4.1.4.1.

[49] http://ji.unfccc.int/Panel_WG
[50] http://ji.unfccc.int/JI_Parties
[51] http://www.dehst.de/EN

3.7.5. Accredited Independent Entities (AIE)

An Accredited Independent Entity (AIE) is an independent entity accredited by the JISC based on a set of internationally agreed standards and procedures. Under JI Track 2, AIEs are responsible for determining if the PDD and the ensuing emission reductions or removals meet the requirements of Article 6 of the Kyoto Protocol and the JI guidelines.

For decisions on accreditation of independent entities, the status on accreditation of AIEs, as well as a list of applicant IEs (and the respective sectoral scopes they are applying or are accredited for), see the respective section at the UNFCCC website[52].

[52] http://ji.unfccc.int/AIEs

4. THE JI PROCEDURES IN GERMANY

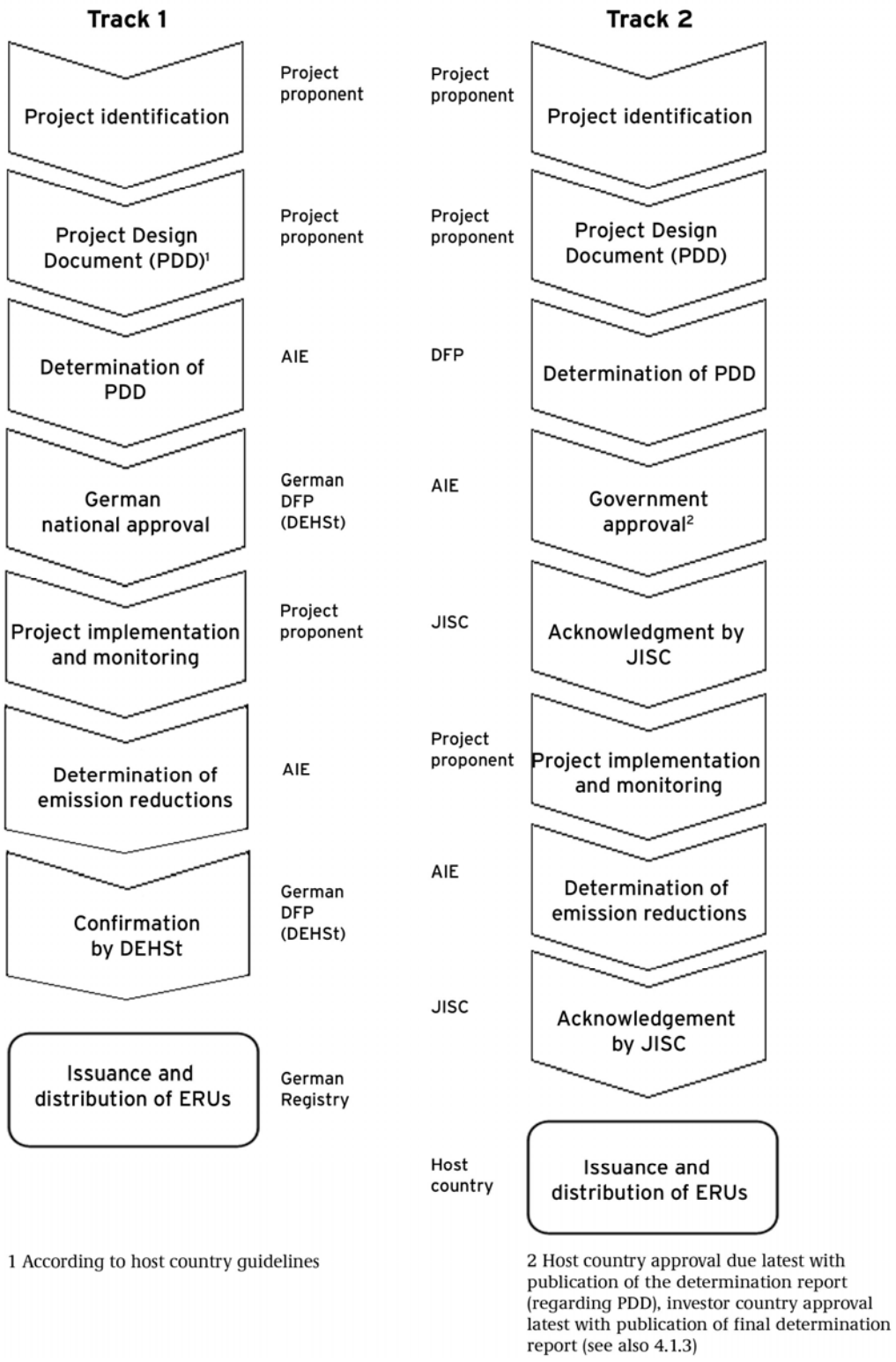

Figure 5: JI project cycle

4.1. Rules and procedures for JI in Germany

4.1.1. Track 1 vs. Track 2

The project cycle under JI Track 2 is based on international rules and modalities. Since the implementation of the CDM is far ahead of the one of JI, the JI project cycle under Track 2 to some extent draws on the CDM rules and modalities. The verification procedure under Track 2 which was launched by the JISC on 26 October 2006 is illustrated in the right part of Figure 5. The terminology referring to the element of the project cycle for JI is less clear than under the CDM, as under JI the term 'determination' is used for the validation of the PDD as well as the verification of emission reductions, while the whole project cycle under Track 2 is often called the 'verification procedure' under JI Track 2. In order to clarify which step of the project cycle is referred to, the terms 'determination of the PDD' (equal to validation under the CDM) and 'determination of emission reductions' (equal to verification under the CDM[53]) are used.

Under Track 1, the host country carries out the verification of the JI project based on its own national rules and procedures. Germany's guidelines for the approval of JI projects hosted by Germany are laid down in Section 5 of the 'Act Implementing the Project-Based Mechanisms of the Kyoto Protocol'[54] (ProMechG).[55] The left part of Figure 5 illustrates the JI project cycle under Track 1 in Germany. JI projects implemented in Germany require a formal approval by a foreign investor party. According to the ProMechG, the requirements for project documentation and the application procedure (e.g. PDD, determination of PDD by AIE, investor country approval) for Track 1 are the same as those under Track 2. The main difference for Track 1 is that there is no involvement of the JISC.

In case a country is eligible for Track 1, project participants can choose between Track 1 and Track 2. While the project cycle under Track 1 depends on the respective host country procedures, Track 1 projects may be subject to additional risks. One of these risks relates to the possibility that a host country can lose its Track 1 eligibility in the future. In this case, a project developed or even implemented under Track 1 has to pass the verification procedure of the JISC, which is an additional effort delaying the generation of ERUs and implying the risk of potential refusal of the project.

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[53] The determination of emission reductions is often also called the 'final determination'.
[54] http://www.gesetze-im-internet.de/promechg/index.html
[55] Guidelines for the approval of JI projects outside of Germany are laid down in Section 3 ProMechG.

Another advantage of choosing Track 2 is that the limitations for the transfer of emission units, especially those relating to the commitment period reserve, do not apply to ERUs generated under Track 2. The commitment period reserve consists of a share of units that Parties with targets under the Kyoto Protocol are not allowed to sell in order to avoid overselling. As ERUs generated under Track 2 are exempt[56] from this limitation, a Party which has generated credits successfully under JI Track 2 is allowed to transfer these independently of the amount of credits held in its commitment period reserve. A disadvantage of Track 2 is however that there are additional fees to be paid at international level which project proponents do not have to incur under Track 1.

In the following, we describe the project cycle for JI projects hosted by Germany under both tracks. Special rules apply to small-scale projects (see section 3.5)

4.1.2. Project identification

Most of JI project starts with a project idea submitted by the project initiator. Usually, project proponents conduct a feasibility study in order to assess if it is worth proceeding with a project idea. A feasibility study includes a rough estimation of the potential emission reductions of the project, the cost to achieve these emission reductions, a check if the project is in line with the international JI guidelines as well as an appraisal of the likelihood of project approval by the Parties involved.

A Project Idea Note (PIN) is elaborated either as part of the feasibility study or as a next step, based on a positive judgment on the suitability of the projects under JI. A PIN is a document providing a rough overview of the project, including indicative information on anticipated emission reductions, information regarding the additionality and a preliminary overview of the financials of the project. Although, the development of a PIN is not an obligatory step of the project cycle under Track 2, it is useful for the presentation of the project to the host and investor country authorities (DFP) and potential investors.

It is recommended that project proponents contact the German DFP (DEHSt) at this stage in order to check for the exact requirements of the participating bodies. The DEHSt offers a range of services to support project developers at this stage. One of these is e.g. the provision of a Letter of Endorsement (LoE) [57].

[56] The exemption also applies other limitations to transfer units under Art. 17 (emission trading).
[57] Sometimes also called 'Letter of no objection' (LoNo)

A 'Letter of Endorsement' (LoE) represents a legally non-binding statement that the DEHSt generally supports the respective project. A LoE is issued if – based on the information available and provided in the PIN– the DEHSt has come to the conclusion that a later approval of the project is very likely. In order to apply for a LoE, applicants have to submit following documents to the DEHSt:

1. Written request for endorsement;
2. Filled in form of the 'Project Idea Note (PIN)' or a similar project description

The written requests and the accompanying documents can be submitted in German or English. While the written request should be sent in hard copy, other required documents can be provided in digital format (e.g. by e-mail or CD-ROM).

A PIN form for host country approval by Germany is provided by the DEHSt. It helps project proponents to check eligibility criteria and baselines for JI projects implemented in Germany, offers guidance on the information which needs to be provided to the DEHSt for obtaining a Letter of Endorsement (LoE).

4.1.3. Development of the Project Design Document (PDD)

The next step in the project cycle under both tracks is the development of the project design document (PDD) which contains information on the essential technical and organizational aspects of the project (project, baseline, additionality, monitoring, project participants, crediting period etc.). The PDD is the key input for the determinations of the JI project and its emission reductions.

Similar to the EB for the CDM, the JISC has elaborated a JI PDD form and guidelines for project proponents using the PDD form. The most recent versions of the official PDD forms are available in the section 'Forms' of the UNFCCC secretariat's website.[58] Please note that different PDD forms have to be used for small-scale projects, bundled small-scale projects and large projects. The JISC has provided guidelines for completing the PDD form[59] which can be downloaded from the documents section of the UNFCCC secretariat's website.

[58] http://ji.unfccc.int/Ref/Forms.html
[59] http://ji.unfccc.int/Ref/Docs.html

While the forms have been elaborated for the international project cycle under Track 2, JI Track 1 projects hosted by Germany should use the same forms and documentation as used for the Track 2 procedures.

The main sections of a JI - PDD include the following:

A. General description of the project
B. Baseline
C. Duration of the project / crediting period
D. Monitoring plan
E. Estimation of greenhouse gas emission reductions
F. Environmental impacts
G. Stakeholders' comments

Annex 1: Contact information on project participants
Annex 2: Baseline information
Annex 3: Monitoring plan

International requirements for JI projects with regard to the baseline and monitoring plan included in the PDD are specified in the JI guidelines[60] and the 'Guidance on baseline setting and monitoring'[61] agreed on by the JISC. Specific aspects considered by the German DFP for approval of JI projects taking place in Germany are elaborated below (see section 4.1.4.2).

[60] http://unfccc.int/resource/docs/2005/cmp1/eng/08a02.pdf#page=2
[61] http://ji.unfccc.int/Ref/Documents/Baseline_setting_and_monitoring.pdf

4.1.4. Government approval

The JI guidelines (Track 2) stipulate that for the determination of the PDD, project participants have to submit information to the AIE on whether the project has been approved by the Parties involved (meaning by the host and the investor country). The JISC at its sixth meeting clarified by what point in time host and investor country approval have to be provided to the AIE[62]:

a. When the AIE submits the **determination report regarding the PDD** for publication, only host country approval has to be provided to the AIE;
b. When the AIE submits the **final determination report** for publication, investor country approval by at least one country other than the host country has to be provided to the AIE.

Such a government approval comprises the issuance of a so-called 'Letter of Approval, LoA' by the respective DFP. Each DFP can decide how to structure its approval procedure and criteria. Project proponents should therefore get in touch with the DFP(s) at an early stage of project development in order to find out about the respective requirements and procedures (see also section 4.1.1)[63].

Under Track 2, (host) government approval is a pre-requisite for the acknowledgement by the JISC of the determination of the PDD and thus, the acceptance of the project under international rules. However, under Track 1 the host country government - in this case Germany - takes the final decision (without involvement of the JISC). In the following, the German approval procedure is described in more detail.

4.1.4.1. Approval procedure of the DEHSt

The German DFP (called Deutsche Emissionshandelsstelle, DEHSt) is located in the Federal Environment Agency (UBA), an affiliated agency of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (abbreviated in German, BMU).

The ProMechG distinguishes approval and endorsement of a JI project by the DEHSt. For further details on the endorsement, see section 4.1.1.

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[62] See agenda sub-item 5 c) of the JISC 6 meeting report.
[63] It is common to request a 'Letter of Endorsement (LoE)' at an early stage of project development. For more details on the LoE, see the section on project identification.

'Approval' as defined by the ProMechG is the official authorisation by the German DFP of a project generating emission reduction credits.

According to ProMechG, the DEHSt checks the project documentation and the validation report and acknowledges that the projects fulfills the criteria laid out in Section 5 ProMechG by providing a 'Letter of Approval'. For the issuance of a letter of approval, project proponents also have to name an investor country.

A project is officially registered in the German national project registry after the Letter of Approval has been issued by the DEHSt and the investor country approval has been received. All JI projects hosted and approved by Germany will be registered in a national registry and in the official JI database of the JISC[64].

The following documentation has to be submitted for receiving a Letter of Approval (LoA):

1. Written request for approval;
2. Project Design Document (PDD)
3. Determination Report (determination of the PDD);

Requests and the accompanying documents can be submitted in German or English. The signed request has to be sent in hard copy, while the other required documents can be provided in digital format (e.g. by e-mail or CD-ROM).

The DEHSt decides within two months after the receipt of the complete documentation on the request for approval of a JI project.

The DEHSt charges fees for the endorsement and approval of projects based on the cost ordinance (see ProMechGebV)[65]. In Section 14 of the revised ProMechG, a new fee structure for the German approval process is outlined. Section 14 states that fees range from 20 to 600 €, depending on the amount of credits generated by the project and the administrative effort needed. For information on currently applicable fees, please consult the DEHSt website[66].

[64] http://ji.unfccc.int/JI_Projects/ProjectInfo.html
[65] A new cost ordinance (ProMechGebV) is available: http://bundesrecht.juris.de/promechgebv/
[66] http://www.dehst.de/nn_484538/EN/JI__CDM/JI__CDM__node.html?__nnn=true

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Email: German.dna.dfp@uba.de

For further information visit the DEHSt website under http://www.dehst.de/EN

4.1.4.2. Criteria considered for approval

The DEHSt has to approve those JI projects taking place in Germany which – based on the submitted documentation - fulfill the criteria laid down in Section 5 para. 1 ProMechG. Thus, approval is given, if

1. based on the project documentation and the validation report, the project can be expected to generate additional emission reductions
2. the project does not cause any significant, negative environmental impacts.

In the following, the most important criteria evaluated in the approval process of JI projects taking place inside Germany are described in more detail.

4.1.4.2.1. Eligible projects

Only projects with emission reductions at the source are eligible for JI in Germany, thus excluding Land use, Land-use change and Foresty projects. Projects involving nuclear installations are also not eligible for JI in Germany. On the other hand, when calculating the baseline emissions for a project replacing conventional energy the share covered generally by nuclear energy in the specific region has to be deducted.

Emission reductions due to electricity consumption from nuclear energy are not accounted for in the calculation of emission reductions due to the project activity.

- No sink projects, i.e. Land use, Land use change and Forestry activities (LULUCF)
- No projects involving nuclear installations

Box 2: Excluded project types

4.1.4.2.2. Project and leakage emissions

To calculate the actual net emission reductions achieved in a JI project, emissions resulting from the project activity have to be subtracted from the emission reductions. This covers direct and indirect emissions including those occurring outside the project boundary. Important is the inclusion of leakage emissions for accounting of the project emissions when a connection to the project activity is possible and emissions are measurable. Leakage emissions can have a positive or negative effect on, e.g. the generation of more emissions or additional savings. Such increase of emissions is possible in connection with a change of the behaviour of consumers and an increased demand or project performance.

Example 1: A project achieves emission reductions by substituting the conventional diesel used in construction machines with biodiesel. In calculating the net project emission reductions, the project proponent has to include the indirect emissions resulting from the production of the biodiesel, e.g. production of fertilizers, fertilizer use, transport of rape seeds, etc.

Example 2: The energy consumption in areas with poor electrical energy penetration will be increased due to the construction of a power station.

4.1.4.2.3. Additionality and baseline

Additionality is a fundamental concept under the Project-Based Mechanisms of the Kyoto Protocol and is one of the approval criteria mentioned in Section 5 ProMechG. A JI project is additional if emissions are reduced below those that would have occurred otherwise. **Additionality** is necessary in order to avoid that credits are granted for emission reductions which would have taken place anyway, and are therefore not real. JI projects can only be approved if they lead to an additional reduction of greenhouse gas emissions, i.e. the amount of emissions is reduced below those of a reference scenario – the **baseline**. The concept of additionality for JI is the same as the one used under the CDM which is clarified through the "Tool for the demonstration and assessment of additionality[67]" by the CDM Executive Board.

This additionality tool guides through the demonstration of additionality of a project, involving the following steps:

1. Identification of alternatives to the project activity;
2. Investment analysis ;
3. Barrier analysis ;
4. Common practice analysis.

In the first step, alternatives to the project activity, which could be the baseline scenario, have to be determined. The investment analysis in step 2 examines if the project activity is economically attractive. If this analysis shows that the project is likely to be financially attractive, and does not face any barriers (step 3), the project is not additional. If the project is not financially attractive, no barrier analysis is necessary. In the common practice analysis (Step 4) it has to be elaborated whether the project activity has already diffused in the relevant sector and region. Thus, this step represents a complementing credibility check of Step 2 and 3.

In order to determine the level of emissions that would have occurred without the implementation of the JI project, the baseline emissions have to be established. The baseline for a certain JI project is the scenario that reasonably represents the emissions that would occur under business as usual conditions.

[67] http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf

The difference between the baseline emissions and the actual emissions after implementation of the JI project determines the amount of emission reductions generated by the project. The baseline is a fundamental concept under the Project-Based Mechanisms of the Kyoto Protocol and is closely related to the concept of additionality.

In the following, principles for the determination of reference emission levels are summarised: The reference emission level which is used to determine the baseline depends on a variety of factors. The baseline does however not automatically equal status quo emissions or projections of hypothetical emissions that would occur if no action was taken. Instead, the current legal requirements, especially those with regard to immission control are taken into account – including 'best available technology' (BAT). In the first place, the DEHSt checks therefore to which extent existing regulations would at all allow emissions or require emissions to be avoided. The emission level based on the legal situation is then taken as the basis for the determination of the reference emission level.

Example 3: An energy provider giving incentives to install modern natural gas heating or heat pumps can claim additional emission reductions for his project, if comparable retrofits have not been required by law and if they happen before the end of the standard life time of the old heating system. Here, the reference scenario and thus baseline would be the continued use of the old heating system. An additional requirement is however that the incentive provided goes beyond programs by other energy providers which can be considered common practice.

In examining the legal requirements for industrial installations (esp. IPPC-installations) which are obliged to hold a permit under German law, the DEHSt refers to the 'best available techniques, BAT' ("state of the art") which are partly specified by the Ordinance for the Implementation of the Federal Immission Control Act (BImSchV) or the administrative fiat (especially 'TA Luft'- Technical Instructions on Air Quality). Otherwise, the BAT will be determined based on the definition in Art. 3 section 6 Federal Immission Control Act (BImSchG) and the criteria included in its Annex, if necessary consulting the BREFs. BREFs are the 'Best Available Technique Reference Documents' published by the European Commission which specify sector-specific emission values based on BAT.

Example 4: According to German regulations (BImSchG, BImSchV and BREFs), a waste incineration plant is obliged to recover waste heat from the burning of trash. The installation of this kind of technology therefore cannot produce an additional emission reduction under JI, although the waste heat recovery systems may have not been required at the time when the incineration plant was initially approved.

For existing installations this consequently means that the emission level of the status quo can only be the baseline if it is in accordance with all the applicable legal requirements. Thus, projects leading to emission reductions, which have to be achieved due to legal requirements, are part of the baseline scenario. This is also the case if a permit for an existing installation has been granted under less stringent legal requirements in the past or a higher emission level has been tolerated by the responsible authority. Projects which are going beyond the legal requirements, can only earn credits for the difference between the emission level representing the legal requirements (as baseline) and the project case.

It has to be noted that the DEHSt considers the 'best available technology' at the time of approval. Thus, in case a project has been implemented before the decision for approval, there may be changes leading to a stricter than expected baseline and lower credited emission reductions. Legal or other developments that have occurred between the time when the project development started and the time when a decision on its approval is made are included in the baseline. This means for example, that in case the immission directives have been strengthened or technology (as in BAT) has evolved, the fulfillment of approval criteria may have changed as compared to the early phase of project development. These changes can however be to the disadvantage, but also to the advantage of the project proponent.

For those emissions having no strict emission limit values, but only a mitigation requirement, the DEHSt considers in the determination of reference emissions to which extent - based on the principle of proportionality - the specific installation has been obliged to reduce emissions.

4.1.4.2.4. Issues with regard to double-counting

Direct or indirect emission reductions that occur in installations that are covered by the EU ETS are, according to Section 5 para. 1 ProMechG, part of the reference emissions. Reductions in these installations are not considered additional. This is in order to avoid double-counting of emission reductions. Double-counting would occur because the proponent of a JI project would gain credits for his reduction activity, while at the same time the owner of the installation would be able to sell the saved allowances under the EU ETS. Further details of the double-counting issue are described in section 2.4.1.

In its National Allocation Plan for 2008-2012, Germany has not included a JI reserve. Due to this, JI projects with an indirect effect on the emissions of a sector covered under the EU ETS (e.g. project produces electricity for the public grid) are not possible in Germany (see also Section 5 para. 1 ProMechG).

Due to this, electricity generated in installations covered by the emissions trading scheme is considered "free of emissions" in calculating the reference scenario because the emissions due to its production is already considered under the EU ETS. For examples of how this was taken into account in the calculation of the baseline, see the German approvals at the DEHSt website.

4.1.4.2.5. Issues with regard to the use of public funding

In case project proponents make use of German public funding mechanisms (for example low-interest loans provided by the KfW Banking Group), the share of emission reductions financed by this support is considered part of the reference scenario. This is necessary in order to avoid that the project proponent would be supported twice for the same emission reductions, through the emission credits and through public financing. Therefore, the project can only earn credits for the part of the emission reductions which are not financed by public funding.

The use of public funding for JI project development in Germany is nevertheless allowed, as long as it is only used to hedge against possible risks of the project investment. This can generally be assumed if the public support is designed as a financial guarantee to cover certain projects risks.

The exclusion of emission reduction financed by public funding also applies mutatis mutandis to electricity generation supported by the German feed-in tariff for renewable energy (Erneuerbare-Energien-Gesetz, EEG) or financial incentives for combined heat and power plants (Kraft-Wärme-Kopplungsgesetz, KWKG). In the past, JI projects taking place in installations supported by one of these mechanisms could receive credits under JI if they show that the emission reductions go beyond those that are achieved due to the public support. The law has however been changed in such a way that from 2009 on, the installations producing electricity which qualify for support by the EEG or the KWKG are generally not eligible as a JI project in Germany.

If the project applicant can prove that the proposed project activity reduces greenhouse gas emissions in a part of the project that is not covered by the above-mentioned schemes – for example downstream emission reductions occurring after electricity generation – these may be considered as a JI project.

Example 5: A project utilising biogas from manure to generate electricity and heat that has profited from EEG (including available bonuses for liquid manure use, CHP and innovative techniques) cannot qualify for additional JI funding because the utilisation of methane and its avoidance is already covered and rewarded through the EEG.

4.1.4.2.6. Environmental impacts

According to Section 5 para. 1 ProMechG, the DEHSt checks if a German JI project leads to significant, negative impacts on the environment, in which case the JI project application has to be rejected. The environmental integrity of the project is checked by means of the validated project documentation, documentation of an environmental impact assessment or other information available.

4.1.4.2.7. Lacking reliability of project proponent

The DEHSt will reject a JI project application in case it has serious, substantiated doubts concerning the proponent's reliability in undertaking the project activity. A positive proof of reliability is however not required.

4.1.4.2.8. Reciprocity of JI rules with investor country

Latest at the time of the first determination of the emission reduction (Verification), a Letter of Approval of an investor country has to be provided. According to Section 5 para. 2 of the ProMechG, only investor countries are acceptable which allow JI projects on their own territory under comparable conditions.

4.1.4.2.9. Memoranda of Understanding

A memorandum of understanding (MoU) is a bilateral agreement between two countries which aims at supporting the development of JI projects between the respective countries as well as to facilitate the transfer of ERUs. A MoU is neither an obligatory element under the international rules nor under the German rules. However, some host countries require the existence of a MoU in order to issue a 'Letter of Endorsement' (LoE) or a 'Letter of Approval' (LoA). No MoU is required in order to receive host country approval by Germany.

The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety has signed Memoranda of Understanding with various CDM countries, but no JI country so far. For a list of currently existing MoUs, visit the CDM/JI section of the DEHSt website[68].

4.1.5. Determination of the PDD

4.1.5.1. Track 1

For JI Track 1 projects hosted by Germany, an AIE undertakes the determination of the PDD, just like under Track 2. Determination (of the PDD) is the process of independent evaluation of a JI project by an Accredited Independent Entity (AIE) against the requirements of JI on the basis of the project design document.

As illustrated in Figure 6, project proponents contract an AIE of their choice (a list of currently accredited AIEs[69] is provided at the UNFCCC secretariat's website). At the beginning of the determination of the PDD, the applicant also has to provide the PDD and the contact of the DOE to the German DFP (DEHSt).

[68] http://www.dehst.de/CDM
[69] http://ji.unfccc.int/AIEs/List.html

The information provided has to be published by the DEHSt according to Section 5 para. 5 ProMechG and the German Environmental Information Law (Umweltinformationsgesetz).

The AIE summarizes its decision and the reasons for them in the determination report. Contrary to Track 2, the 'validation report' elaborated by the AIE is only forwarded to the German DFP (the DEHSt), and not to any international body (JISC). The DEHSt (by issuing a 'Letter of Approval)' is the body taking a final decision on the respective project (see section 4.1.4).

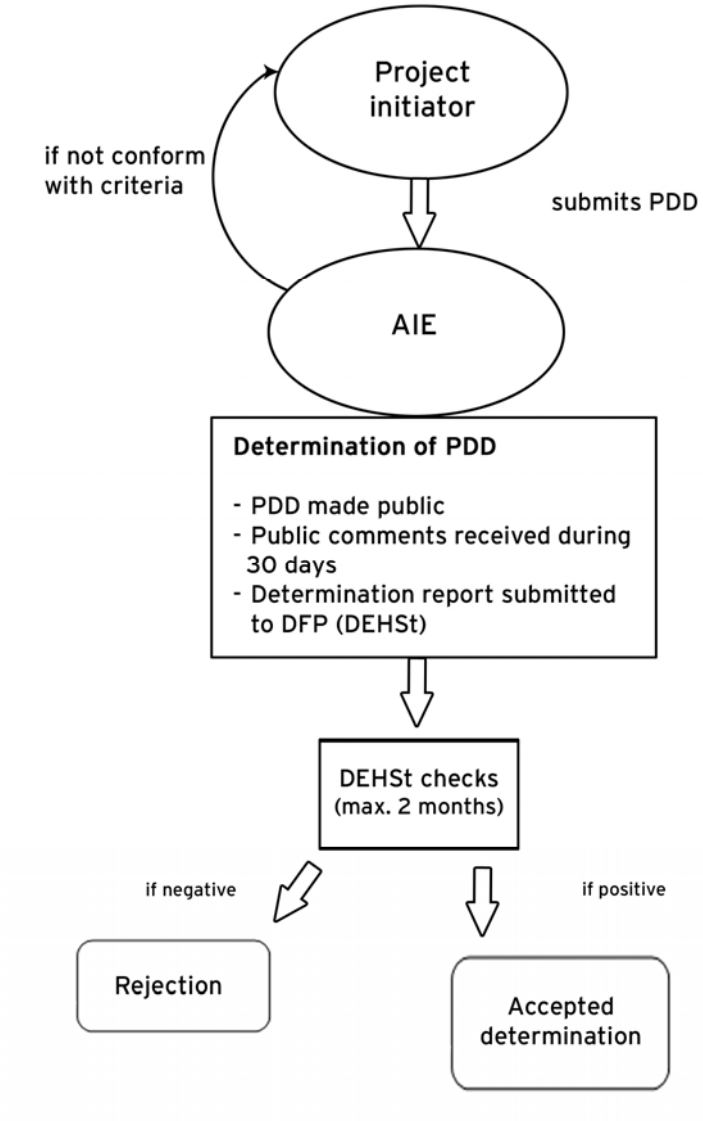

Figure 6: Determination of the PDD under Track 1 hosted by Germany

A project is officially registered in the German national project registry after the Letter of Approval has been issued by the DEHSt and the investor country approval has been received.

4.1.5.2. Track 2

Under Track 2, as illustrated in Figure 7, project proponents contract an AIE of their choice (a list of currently accredited AIEs[70] is provided at the UNFCCC secretariat's website) which makes the PDD publicly available through the secretariat (subject to confidentiality provisions) and invites public comments for a 30 day period after publication of the PDD. The PDDs open for comments[71] are available at the UNFCCC secretariat's website. At the beginning of the determination of the PDD, the applicant also has to provide the PDD and the contact of the DOE to the German DFP (DEHSt). The information provided has to be published according to Section 5 para. 5 ProMechG and the German Environmental Information Law (Umweltinformationsgesetz). For the determination of the PDD, the AIE checks - among others - whether:

- Information provided in the PDD is complete;
- The project has been approved by the host country (see section 4.1.4 on 'government approval');
- The project is additional (see section 4.1.4.2.3 on 'additionality');
- The baseline and monitoring plan are in accordance with the criteria for baseline setting and monitoring;
- The documentation on the environmental impacts of the project activity is accordance with the rules and modalities.

The AIE makes its decision and the reasons for them as well as a summary of public comments publicly available through the secretariat. Determination reports which are not deemed final yet, can be found in the section 'determination reports[72]' of the UNFCCC secretariat's website. The determination of the PDD is considered final 45 days after the publication of the determination report by the AIE if no request for review is made. The determination reports which are considered final are published under 'final determinations[73]' at that website. An advance payment – similar to the registration fee for CDM projects - has to be made at the time of submission of the determination report (regarding the Project Design Document).

[70] http://ji.unfccc.int/AIEs/List.html
[71] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verification/PDD/index.html
[72] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verification/DetRep.html
[73] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verification/FinDet.html

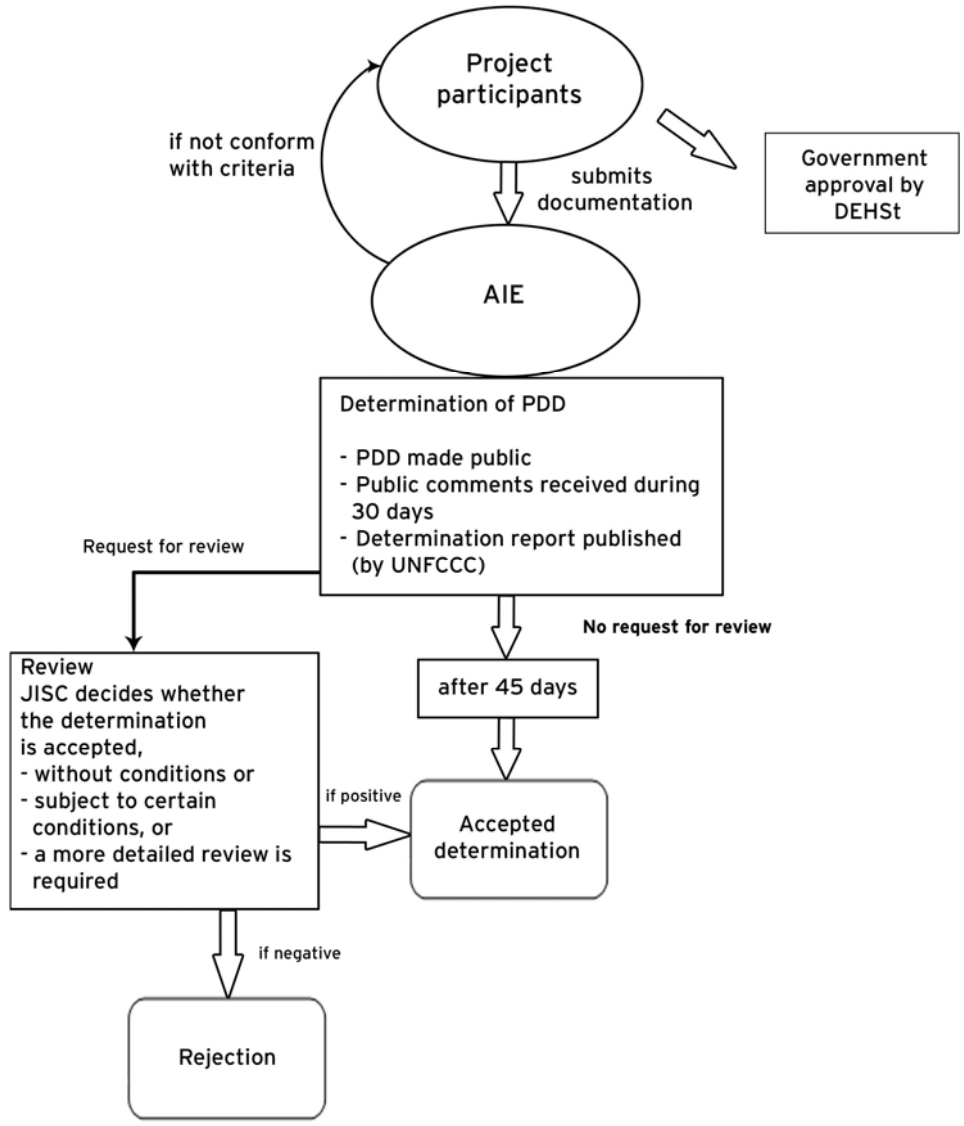

Figure 7: Determination of the PDD under Track 2 hosted by Germany

The JISC undertakes a review, if a Party involved in the project or at least three members of the JISC request a review by the JISC. A list of projects under review can be found in the section 'Reviews'[74] of the UNFCCC secretariat's website. The review has to be finalized latest six month later or at the second JISC meeting following the request for review. Procedures of the review are described in Annex 3 (Procedures for reviews under the verification procedure under the Joint Implementation Supervisory Committee)[75] of the JISC 3 meeting report. The JISC takes the final decision on the determination and has to make it publicly available.

[74] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verification/Req_Rev.html
[75] http://ji.unfccc.int/Sup_Committee/Meetings/003/Reports/JISC03report_Annex_3.pdf

4.1.6. Project implementation and monitoring

On a regular basis during the project lifetime, project participants have to collect and archive data on relevant parameters of the project. Monitoring has to be implemented according to the methodology used and as specified in the monitoring plan submitted together with the PDD. Many JI projects either use the methodologies or elements of methdologies developed and approved under the CDM. This makes it easier for project developers as methdology development is costly and time-consuming. Project proponents have to prepare a monitoring report covering all the items in the monitoring plan. Items to be included in the monitoring plan are specified in Appendix B of the JI guidelines. Necessary elements of the monitoring plan are:

a) Relevant data necessary for estimating or measuring anthropogenic emissions and/or removals within the project boundary during the crediting period;
b) Relevant data necessary for determining the baseline project boundary during the crediting period;
c) The identification of all potential sources, and the collection and archiving of data on increased anthropogenic emissions by sources and/or reduced anthropogenic removals by sinks of greenhouse gases outside the project boundary that are significant and reasonably attributable to the project during the crediting period;
d) Information on environmental impacts, in accordance with procedures as required by the host Party;
e) Quality assurance and control procedures for the monitoring process;
f) Procedures for the periodic calculation of the reductions and removals by the proposed project, and for leakage effects, if any;
g) Documentation of all steps involved in the calculations referred to in subparagraphs (b) and (f) above.

4.1.7. Determination (of emission reductions)

4.1.7.1. Track 1

Under Track 1, project proponents have to submit to an AIE a report which specifies in accordance with the monitoring plan the emission reductions and removals having taken place (see Figure 8). The AIE then determines if the monitored emission reductions claimed in the monitoring report of the respective project have actually occurred. This step corresponds to the verification conducted by Designated Operational Entities (DOE) under the CDM. The AIE determines the amount of emission reductions achieved by the project and elaborates a report on the results of the determination including an explanation of its reasons.

A special approval of the verification report by the DEHSt is necessary for all JI projects hosted by Germany (see Section 6 ProMechG). Therefore, the project proponent has to send a request to the DEHSt, asking for approval of the verification report. For this, the following documentation is required:

- written request for approval of the verification report,
- the monitoring report,
- the verification report.

The DEHSt has to approve the verification report, if

- the registered project activity has been implemented according to the project documentation which had been submitted to the DEHSt for host country approval (especially the monitoring complies with the validated monitoring plan);
- the verification report has been elaborated appropriately;
- the verification report shows that double-counting due to direct or indirect emission reductions or doubled benefits due to public funding (according to Section 5 para. 4 and 5 ProMechG) are excluded.

In case the DEHSt plans to reject a verification report, it has to give opportunity to the project proponent and to the AIE responsible for the determination of the emission reductions to provide explanations of the relevant aspects identified by the DEHSt.

Under Track 1, there is no involvement of the JISC or any other body at the international level. The approval of the verification report by the DEHSt, is the final acknowledgement which leads directly to the issuance and transfer of the respective amount of ERUs (for details on issuance and transfer, see section 4.2.).

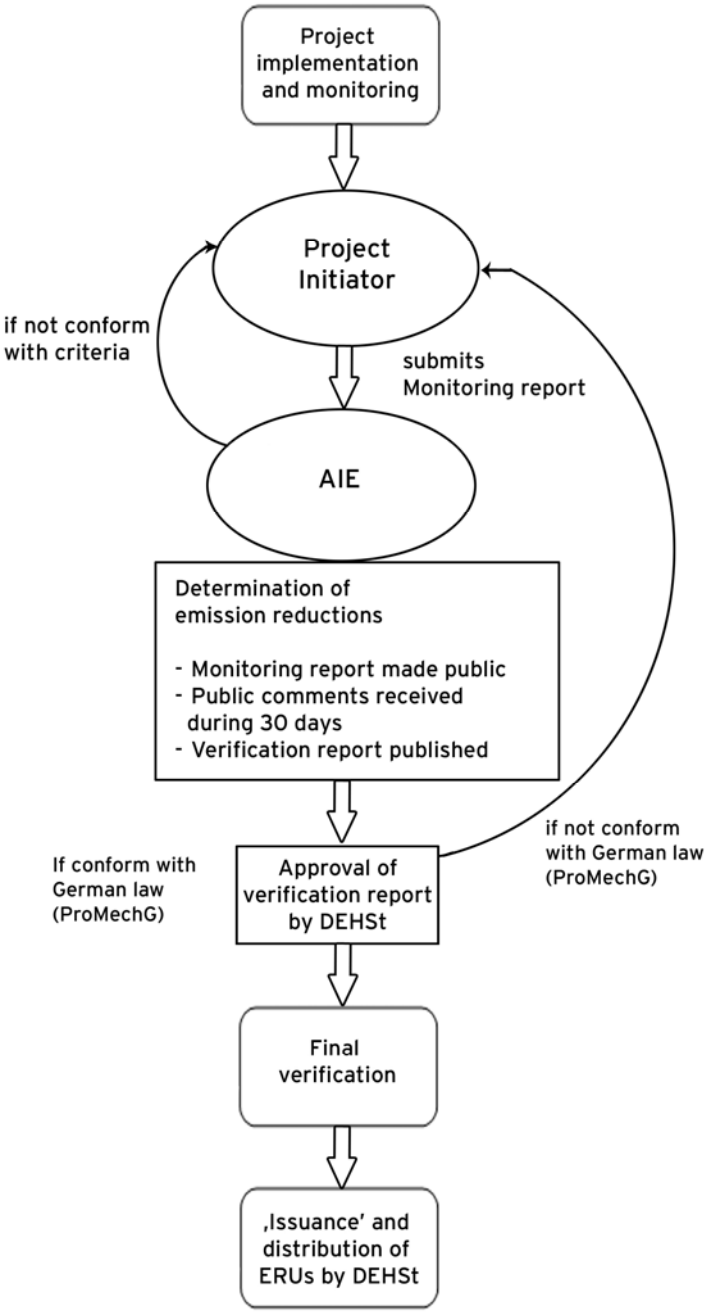

Figure 8: Determination of emission reductions for JI project under Track 1 hosted by Germany

4.1.7.2. Track 2

As illustrated in Figure 9, under Track 2 project participants have to submit to an AIE a report in accordance with the monitoring plan specifying the emission reductions and removals having taken place. The report will be made publicly available at the UNFCCC secretariat's JI website in the section 'Monitoring reports'[76]. A list of currently accredited AIEs[77] can be found there.

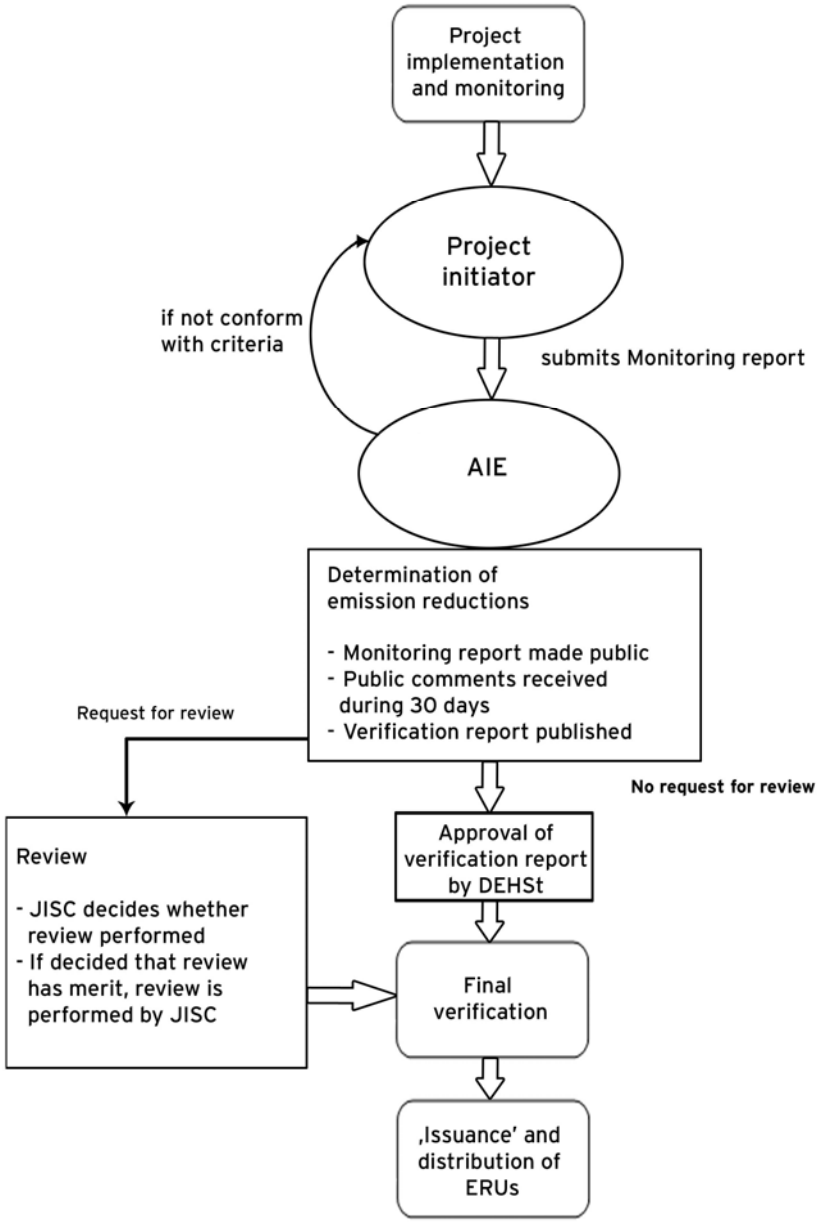

Figure 9: Determination of emission reductions for JI projects under Track 2 hosted by Germany

[76] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verif/MonRep.html
[77] http://ji.unfccc.int/AIEs/List.html

As described for Track 1, the AIE then determines if the monitored emission reductions claimed in the monitoring report of the respective project have actually occurred (determination of emission reductions). The determination report is published on the UNFCCC secretariat's JI website in the section 'Verification reports'[78]. Under Track 2, verification reports of JI projects hosted by Germany also need the approval of the verification report by the DEHSt. For this, the same documentation and criteria apply as described for Track 1 above.

Note that investor country approval by at least one country other than the host country has to be provided to the AIE by the time it submits the first verification report for publication.

Under Track 2, the determination regarding the emission reductions/removals is considered final 15 days after the date on which it is made public, unless a request for review is made by a Party involved in the project or at least three members of the JISC. Final verifications are published at the website in the section 'Final Verifications'[79].

If a review is requested by a Party involved in the project or at least three members of the JISC shall

- Decide at its next meeting or no later than 30 days after the formal request for the review on its course of action. If it decides that the request has merit, it shall perform a review;
- Complete its review within 30 days following its decision to perform the review;
- Inform the project participants of the outcome of the review, and make public its decision and the reasons for it.

Information on projects currently under review or request for review of determinations (regarding emission reductions) can be found at the UNFCCC secretariat's JI website in the section 'Requests for Review/Reviews'[80].

[78] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verif/VerifRep.html
[79] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verif/FinVerif.html
[80] http://ji.unfccc.int/JI_Projects/DeterAndVerif/Verif/ReqRev.html

Besides the fees charged by the DFPs for endorsement and approval of a JI project (see section 4.1.4), certain fees have to be paid at the international level under Track 2. At its eighth meeting, the JISC considered a revision of the fee structure. This revision has been endorsed by CMP3 and can be found in Annex I of the Annual report of the JISC 2007 (Part I)[81].

4.1.7.2.1. Fees for processing the verification report

A fee is raised in order to cover the administrative expenses relating to the activities of the JISC. The level of the fee is (equivalent to the share of proceeds to cover administrative expenses (SOP-Admin) under the CDM):

- USD 0.10 per ERU issued for the first 15,000 t CO_{2eq} per year;
- USD 0.20 per ERU issued for any amount in excess of 15,000 t CO_{2eq}.

4.1.7.2.2. Advance payment

An advance payment similar to the registration fee for CDM projects has to be made at the time of submission of the determination report (regarding the Project Design Document). The advance payment is equivalent to the expected average annual generation of emission reductions or enhancements of removals for the project over its crediting period (maximum USD 350,000) and is deducted from the fee to be paid for processing the first verification report on the same project submitted to the secretariat. If a verification report is not submitted, the advance payment above USD 30,000 is reimbursed. No advance payment is necessary for small-scale projects and projects with an expected average annual generation of emission reductions or enhancements of removals over the crediting period below 15,000 tonnes of CO_{2eq}.

4.1.7.2.3. Fees for accreditation

Additional fees arise for independent entities applying for the JI accreditation process:

- Application fee: USD 15,000 per application (one-off payment, non-reimbursable);
- Cost of the work by assessment teams: direct payment from applicant or accredited independent entities.

For any current decisions on the fee structure, project proponents are advised to consult the JISC website.[82]

[81] http://unfccc.int/resource/docs/2007/cmp3/eng/04p01.pdf
[82] http://ji.unfccc.int/Sup_Committee/Meetings

4.2. 'Issuance' and distribution

Upon a successful verification, Germany (the host country) has to transfer the amount of emission reductions units (ERUs) determined by the AIE to the investor country. Eligibility requirements for the issuance and transfer of ERUs are described in section 3.2.2. Before transferring ERUs, the host has to transform Assigned Amount Units (AAU)[83] into Emission Reduction Units (ERUs). Therefore, the country is actually not issuing new units, but just converting one type of unit into another one. In this, JI is different to the CDM, under which new units (CERs) are issued by an international body. When converting units into ERUs, a unique project identifier is added to the serial number and the type indicator in the serial number is changed to indicate an ERU, while other elements of the serial number of the AAU (or RMU) remain unchanged in order to be able to follow its provenience.

One element of the serial number is the unit type and the supplementary unit type, the latter only being used in the EU ETS. The meaning of the unit numbers are specified in the following table 1.

Unit type	0	No Kyoto unit
	1	AAU
	2	RMU
	3	ERU from AAU
	4	ERU from RMU
	5	CER
	6	tCER
	7	lCER
Supplementary unit type (Only used in EU ETS)	None or 0	Kyoto unit
	1	Unit issued since 2008
	2	Unit issued for 2005-2007

Table 1: Unit types

Two examples: 5-0 CERs are Kyoto units of a CDM project and a 1-1 EUA is an emission allowance in Phase II of the EU ETS.

[83] According to international rules, also RMUs can be converted into ERUs. However, this is not relevant for Germany because the ProMechG does not allow JI LULUCF projects enhancing the removal of CO_2 to be hosted in Germany.

For the other elements of the serial number, see the User Manual of the German registry which can be downloaded from the registry website[84]. (in German only)

Upon approval of the verification report (by the DEHSt), the DEHSt informs the German registry which then transfers the respective amount of ERUs to the account of the project participant(s) (see Section 6 para. 3 ProMechG). The ERUs from JI projects taking place in Germany do not necessarily have to be transferred to the national registry of the investor country, but can be transferred to any account(s) specified by the project initiator, as illustrated in Figure 10. The investor country is only involved through the LoA.

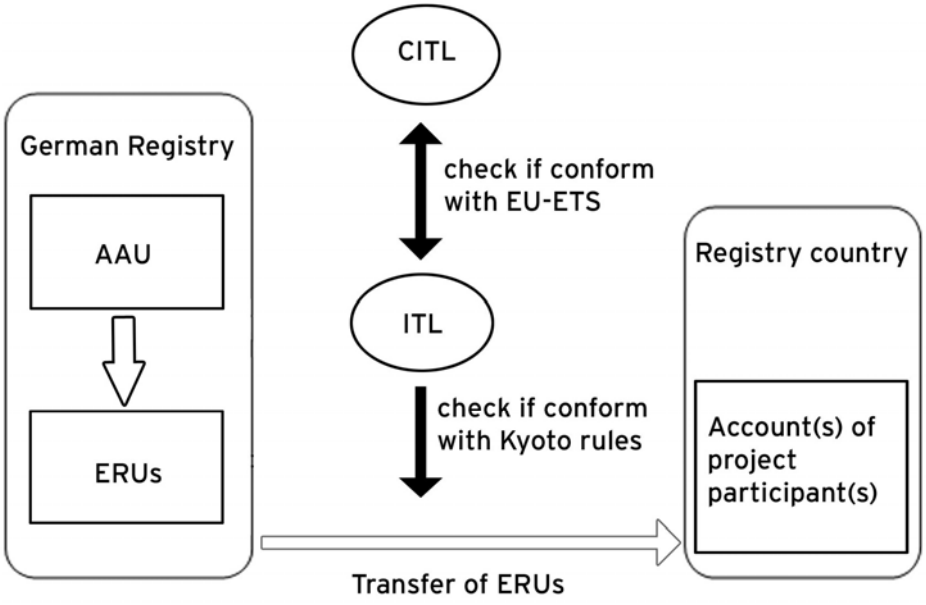

Figure 10: Illustration of the issuance and distribution of ERUs

The transaction of units under the Kyoto Protocol are checked by the International Transaction Log (ITL), an electronic accounting system administered by the UNFCCC. The latter verifies all transactions proposed by national registries to ensure that they are consistent with rules agreed under the Kyoto Protocol. Each registry sends transaction proposals to the ITL, which checks each proposal and returns to the registry its approval or rejection. Once approved, registries complete the transaction. In the event that a transaction is rejected, the ITL sends a code indicating which ITL check has been failed and the registry terminates the transaction.

[84] http://www.dehst.de/cln_090/nn_476386/SharedDocs/Downloads/DE/Register/REG__Nutzerhandbuch.html

Since October 2008, the ITL is connected to the Community Independent Transaction Log (CITL) which is the electronic accounting system of the European Union. The CITL has been operational since 2005 and connects the registries of the EU Member State and maintains an independent record of issuance, transfer and cancellation of units in EU Member State registries. The linking of the two systems will enable companies to transfer certified emission reductions (CERs) issued under the Clean Development Mechanism into their accounts in Member State registries. As CERs can be used for compliance under the EU ETS, the link is crucial to ensure that operators have access to an adequate supply of carbon credits. Since the ITL and CITL are linked, each Member State registry is connected to the ITL only and each transaction involving an EU Member State will be passed on to the CITL which then checks records the transaction and checks if it is conform with the rules under the EU ETS.

Holder of person and operator holding accounts are only allowed to hold and transfer 1-1 EUAs (EU allowances for Phase II), 3-0 ERUs, 4-0 ERUs and 5-0 CERs in the German registry. Furthermore, 1-0 AAUs and 2-0 RMUs and 4-0 ERUs and 6-0 CERs and 7-0 CERs cannot be used for compliance under the EU ETS [85].

A fee of 200 € is raised once for opening an account for each commitment period. Holding of certificates and transactions are free.

According to the Marrakech Accords, 3-0 ERUs[86] held in a national registry are allowed to be carried over to the subsequent commitment period to a maximum of 2.5 per cent of the assigned amount of that Party. The same applies to CERs. Further information on the registry is available at the German Registry website[87].

[85] For further details on the different certificate types and restrictions on holding, trading or carrying them over, see the overview of the German Registry.
[86] Only ERUs converted from AAUs are allowed for carry over. ERUs converted from RMUs are excluded.
[87] http://www.dehst.de/cln_090/nn_484538/EN/Registry/registry__node.html?__nnn=true

5. GLOSSARY

Afforestation/Reforestation projects (A/R)

Projects which lead to direct human-induced conversion of land that has not been forested to forested land through planting, seeding and/or human-induced promotion of natural seed sources.

Accredited Independent Entity (AIE)

An entity accredited by the JISC in accordance with standards and procedures contained in appendix A of the JI guidelines. Under the verification procedure under the JISC (JI Track 2), an AIE is responsible for the determination of whether a project and the ensuing reductions of anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks meet the relevant requirements of Article 6 of the Kyoto Protocol and the JI guidelines.

Applicant Entity (AE)

Entity applying for accreditation as a Designated Operational Entity with the EB. In accordance with the procedure for accreditation, an AE has to carry out activities witnessed by the CDM-AT. Validation and/or verification and certification activities, witnessed during the accreditation procedure, are considered valid if the applicant entity is successfully accredited by the EB.

Assigned amount unit (AAU)

A Kyoto Protocol unit equal to one metric tonne of CO_2 equivalent. Each Annex I Party issues AAUs up to the level of its assigned amount, established pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol. The number of AAU given to each Annex I country equals its total emission budget in the 5 years of the Kyoto period 2008-2012. Assigned amount units may be exchanged through international emissions trading by Parties but are not subject to activities of private entities.

Annex I Parties

The industrialized countries listed in this Annex to the Convention which committed to reduce or stabilize their greenhouse-gas emissions to 1990 levels by the year 2000. They include the 24 original OECD members, the European Union, and 14 countries with economies in transition (Croatia, Liechtenstein, Monaco, and Slovenia joined Annex 1 at COP-3, and the Czech Republic and Slovakia replaced Czechoslovakia.). All Annex I Parties except Turkey have taken over emission targets under the Kyoto Protocol. As these targets are listed in Annex B of the Kyoto Protocol, countries with Kyoto targets are sometimes also called Annex B countries. Frequently, the terms Annex I and Annex B are used interchangeably.

BAT

Best Available Technology (or just BAT) is a term applied with regulations on limiting pollutant discharges with regard to the abatement strategy. It constitutes a moving target on practices, since advancing techniques may change the level of what is currently regarded as "reasonably achievable", "best practicable" and "best available".

BREF

BREFs are the 'Best Available Technique Reference Documents' published by the European Commission which specify sector-specific emission levels based on 'best available technology (BAT)' for industrial activities falling under the IPPC-Directive (1996/61/EC). They can be found on website of the European Integrated Pollution Prevention and Control Bureau.[88]

BMU

German abbreviation for the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

Carbon market

A popular but misleading term for a trading system through which countries may buy or sell units of greenhouse-gas emissions in an effort to meet their national limits on emissions, either under the Kyoto Protocol or under other agreements, such as that among member states of the European Union. The term comes from the fact that carbon dioxide is the predominant greenhouse gas and other gases are measured in units called "carbon-dioxide equivalents."

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88 http://eippcb.jrc.es/pages/FActivities.htm

Certified emission reduction (CER)
A Kyoto Protocol unit equal to one metric tonne of CO_2 equivalent. CERs are issued for emission reductions from CDM project activities. Two special types of CERs called temporary certified emission reduction (tCERs) and long-term certified emission reductions (lCERs) are issued for emission removals from afforestation and reforestation projects.

CFC
Chlorofluorocarbon

CH_4
Methane, GWP 21

CITL
Community Independent Transaction Log (CITL) is the accounting system of the European Union which connects the registries of the EU Member State and maintains an independent record of issuance, transfer, cancellation, retirement and banking of units in EU Member State registries. The CITL has been operational since 2005.

Clean Development Mechanism (CDM)
A mechanism under the Kyoto Protocol through which public or private entities of developed countries may finance greenhouse-gas emission reduction or removal projects in developing countries (non-Annex I countries). Annex I countries may use emission credits generated by CDM projects towards meeting their Kyoto target.

CO_2
Carbon dioxide

Compliance
Fulfilment by countries/businesses/individuals of emission and reporting commitments under the UNFCCC and the Kyoto Protocol.

Conference of the Parties (COP)

The supreme body of the Convention. It currently meets once a year to review the Convention's progress. The word "conference" is not used here in the sense of "meeting" but rather of "association," which explains the seemingly redundant expression "fourth session of the Conference of the Parties." Decisions taken by the COP are numbered as illustrated in the following example: Decision 15/CP.7 (e.g. Decision 15 taken by COP7)

Conference of the Parties serving as the Meeting of the Parties (CMP)

The Convention's supreme body is the COP, which serves as the meeting of the Parties to the Kyoto Protocol (MOP). The sessions of the COP and the CMP are held during the same period to reduce costs and improve coordination between the Convention and the Protocol. Decisions taken by the CMP are labelled as illustrated in the following example: Decision 1/CMP.1 (e.g. Decision 1 taken by CMP1)

Countries with Economies in Transition (EIT)

Countries in a stage of transition from a centrally planned economic system to a social order based on a market economy. These include the Central and Eastern European Countries (CEEC), the New Independent States (NIS) on the territory of the former Soviet Union, and the Southeast Asian countries of Viet Nam, Laos and Cambodia. Some EITs are Annex I countries (e.g. Russia, Ukraine) and are therefore potential JI host countries, while other EITs belong to the potential CDM host countries.

CPA

CDM program activity (which is a project activity under a programme of activities)

CPR

Each Party is required to hold a minimum level of ERUs, CERs, AAUs and RMUs in its national registry. This is known as the "commitment period reserve" (CPR). This reserve is calculated either with 90% of the Party's assigned amount or with the Party's most recent emissions inventory multiplied by five, for the five years of the commitment period.

Decision

A formal agreement that (unlike a resolution) leads to binding actions. It becomes part of the agreed body of decisions that direct the work of the COP.

Deutsche Emissionshandelsstelle (DEHSt)
German Emissions Trading Authority, department of the Federal Environment Agency (UBA) designated to administer the European Union Emissions Trading Scheme (EU ETS). The DEHSt is also the German Designated Focal Point (DFP) as well as the Designated National Authority (DNA) and thus responsible for approval of JI and CDM projects under the Kyoto Protocol.

Designated National Authority (DNA)
An office, ministry, or other official entity appointed by a Party to the Kyoto Protocol to review and give national approval to projects proposed under the Clean Development Mechanism.

Designated National Focal Point (DFP)
An office, ministry, or other official entity appointed by a Party to the Kyoto Protocol to review and give national approval to projects proposed under Joint Implementation.

Designated Operation Entity (DOE)
Independent third party responsible for checking if the project and related documents meet the requirements of CDM/JI projects (validation, or determination of the PDD). Furthermore, DOEs verify the actual emission reductions of projects (verification, or determination of emission reductions) and request the EB to issue CERs accordingly.

Determination
Under the verification procedure under the JISC, an AIE is responsible for the determination of whether a project and the ensuing reductions of anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks meet the relevant requirements of Article 6 of the Kyoto Protocol and the JI guidelines. Determinations of reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks pursuant to paragraph 37 of the JI guidelines are also referred to as verifications (similar to the CDM procedures), whereas determinations pursuant to paragraph 33 of the JI guidelines regarding PDDs are also simply referred to as determinations (in the narrower sense of the term, siilar to the validation in the CDM). In this manual, we use the terms determination of the PDD (validation) and determination of emission reductions (verification).

European Union Emission Trading Scheme (EU ETS)

Cap and trade system which fixes emission limits for installations in the power sector and energy-intensive industries. Installations covered by the EU ETS can trade emission certificates (called EUAs) granted to them. This offers the opportunity for those installations which are 'short' of emission certificates to buy additional certificates on the carbon market, while installations with a surplus of certificates will be able to act as sellers.

Executive Board of the Clean Development Mechanism (EB)

The CDM Executive Board (EB) supervises the actual operation of the CDM, under the authority and guidance of CMP. The EB consists of ten members and ten alternate members of both industrial and developing countries being elected by the Parties to the Kyoto Protocol.

Emission reduction unit (ERU)

A Kyoto Protocol unit equal to one metric tonne of CO_2 equivalent. ERUs are generated for emission reductions or emission removals resulting from Joint Implementation projects. They are generated by conversion of AAUs in the host country's registry.

Flexible mechanisms

Three procedures established under the Kyoto Protocol to increase the flexibility and reduce the costs of reducing greenhouse-gas emissions: the Clean Development Mechanism defined in Article 12, Joint Implementation defined in Article 6 and international emission trading according to Article 17.

Global warming potential

Global warming potentials (GWP) are used to compare the abilities of different greenhouse gases to trap heat in the atmosphere. GWPs are based on the radiative efficiency (heat-absorbing ability) of each gas relative to that of carbon dioxide (CO_2), as well as the decay rate of each gas (the amount removed from the atmosphere over a given number of years) relative to that of CO_2. The GWP provides a construct for converting emissions of various gases into a common measure, which allows climate analysts to aggregate the radiative impacts of various greenhouse gases into a uniform measure denominated in carbon dioxide equivalents. The GWP currently used under the Kyoto Protocol (see Table below) are those specified in the Second Assessment Report of the IPCC (1995).

GHG	GWP
CO_2	1
CH_4	21
N_2O	310
HFC	140-11700
SF_6	23900
CFC	6500-9200

Greenhouse gases (GHGs)

The group of six atmospheric gases responsible for causing global warming and climate change. The major GHGs are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). Further GHGs covered by the Kyoto Protocol are hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6).

HFC

Hydrofluorocarbons

ITL

The International Transaction Log (ITL) is the electronic accounting system of Kyoto units which verifies all transactions proposed by national registries to ensure that they are consistent with the rules agreed under the Kyoto Protocol.

Joint Implementation (JI)

A mechanism under the Kyoto Protocol through which an Annex I country can receive emission reduction units when it helps to finance projects that reduce net greenhouse-gas emissions in another Annex I country. An Annex I Party must meet specific eligibility requirements to participate in Joint Implementation.

Joint Implementation Supervisory Committee (JISC)

The JISC supervises the actual operation of JI Track 2, under the authority and guidance of CMP. It consists of ten members and ten alternate members of the Parties to the Kyoto Protocol, being from industrialised and developing countries.

Kyoto Protocol

An international agreement under the UNFCCC. The Kyoto Protocol, among other things, sets binding targets for the stabilization or reduction of greenhouse-gas emissions by industrialized countries.

Land use, land-use change, and forestry (LULUCF)

A greenhouse gas inventory sector that covers emissions and removals of greenhouse gases resulting from direct human-induced land use, land-use change and forestry activities.

Letter of Approval (LoA)

Official document needed in the project cycle by which a participating government authorises a JI or CDM project.

Letter of Endorsement (LoE)

Preliminary confirmation by a participating government that it generally supports a CDM or JI project. The LoE is issued to the project proponents if the DNA/DFP - based on the information provided in the PIN – comes to the conclusion that a later official approval (Letter of Approval, LoA) is likely. Sometimes this is also called Letter of no-objection (LoNo)

Leakage

The net change of anthropogenic emissions by sources and/or removals by sinks of greenhouse gases which occurs outside the project boundary, and that is measurable and attributable to the JI project.

Memorandum of Understanding (MoU)
Legal document describing a bilateral agreement between Parties. It expresses a convergence of will between the Parties, indicating an intended common line of action, rather than a legal commitment.

N_2O
Nitrous oxide

Non-Annex I Parties
All countries not listed in the annex I of the UNFCCC, among which are all developing countries and some EITs.

PFC
Perfluorocarbon

Parties involved
A Party involved is a country that provides written approval (LoA) for a project (host country or investor county).

Programme of Activities (PoA)
A voluntary coordinated action by a private or public entity which coordinates and implements any policy/measure or stated goal (i.e. incentive schemes and voluntary programmes), which leads to GHG emission reductions or increase net greenhouse gas removals by sinks that are additional to any that would occur in the absence of the PoA, via an unlimited number of CDM program activities (CPA) or JI program of activities (JPA). While the concept of the PoA was first introduced under the CDM, PoAs are also possible under JI Track 1 in Germany.

Project Idea Note (PIN)
Document providing an overview of the project, including indicative information on anticipated emission reductions, information regarding additionality and a preliminary overview of the financials of the project.

Project participant

In accordance with the use of the term "project participant" in the JI guidelines (UNFCCC), a project participant is (a) a Party involved or (b) a legal entity authorized by a Party involved to participate in the JI project. A project participant is not necessarily the project initiator (or project proponent). The latter is, according to Section 2 ProMechG, the person/persons with the power of decision with regard to the project.

Project boundary

The project boundary shall encompass all anthropogenic emissions by sources and/or removals by sinks of greenhouse gases under the control of the project participants that are significant and reasonably attributable to the JI project.

Registries, registry systems

Electronic databases that will track and record all transactions under the Kyoto Protocol's greenhouse gas emissions trading system (the "carbon market") and under mechanisms such as the Clean Development Mechanism and Joint Implementation. Transactions between registries will be checked by the International Transaction Log (ITL) and the Community Independent Transaction Log (CITL).

Removal unit (RMU)

A Kyoto Protocol unit equal to one metric tonne of carbon dioxide equivalent. RMU are generated in Annex I Parties by LULUCF activities that absorb carbon dioxide.

Set-aside (JI Reserve)

The set-aside is a reserve of emission allowances included in the National Allocation Plan (NAP) of EU member states for the period 2008-2012, to prevent indirect double counting. It lists all approved, planned and potentially expected JI (or CDM) projects with indirect effects on emissions in the ETS, hosted by an EU member state and their anticipated emission reductions within the ETS. ERU/CER from these project activities can only be issued, if an equal amount of EU allowances (EUAs) is cancelled from the set-aside.

SF_6

Sulphur hexafluoride

Sustainable development

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

UBA

German abbreviation for the Federal Environmental Agency (Umweltbundesamt)

UNFCCC

United Nations Framework Convention on Climate Change

6. ABBREVIATIONS

A/R	-	Afforestation/Reforestation projects
AIE	-	Accredited Independent Entity
AE	-	Applicant Entity
AAU	-	Assigned amount unit
BAT	-	Best Available Techniques
BImSchG	-	Federal Immission Control Act
BImSchV	-	Ordinance for the Implementation of the Federal Immission Control Act
BREF	-	Best Available Technique Reference Documents
BMU	-	German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
CDM	-	Clean Development Mechanism
CER	-	Certified emission reduction
CH_4	-	Methane
CO_2	-	Carbon dioxide
COP	-	Conference of the Parties
CMP	-	Conference of the Parties serving as the Meeting of the Parties
CPA	-	CDM Program Activity
DEHSt	-	German Emissions Trading Authority (DFP/DNA in Germany)
DNA	-	Designated National Authority
DFP	-	Designated National Focal Point
DOE	-	Designated Operation Entity
EU ETS	-	European Union Emission Trading Scheme
EEG	-	Renewable Energy Act (Erneuerbare-Energien-Gesetz)
EB	-	Executive Board of the Clean Development Mechanism
ERU	-	Emission reduction unit
EUA	-	Emission allowance in the EU ETS
GHG	-	Greenhouse Gas
JI	-	Joint implementation
JI-AP	-	Joint Implementation Accreditation Panel (part of JISC)
JISC	-	Joint Implementation Supervisory Committee
JISC-RTs	-	JISC-Review Teams
JPA	-	JI Program Activity
KWKG	-	Combined Heat and Power Law (Kraft-Wärme-Kopplungsgesetz)
lCER	-	Long-term CER
LULUCF	-	Land use, land-use change, and forestry
LoA	-	Letter of Approval

LoE	-	Letter of Endorsement
MoU	-	Memorandum of Understanding
PDD	-	Project Design Document
PIN	-	Project Idea Note
PoA	-	Programme of Activities
ProMechG	-	German Act Implementing the Project-Based Mechanisms of the Kyoto Protocol (Projekt-Mechanismen-Gesetz)
RMU	-	Removal unit
TA Luft	-	Technical Instructions on Air Quality (Technische Anleitung Luft)
tCER	-	Temporary CER
UBA	-	German Federal Environment Agency
UIG	-	Environmental Information Law (Umweltinformationsgesetz)