

JI-JISC36-AA-A03

Draft Recommendation

Proposed further recommendations on the review of the joint implementation guidelines

Version 01.0

DRAFT



United Nations
Framework Convention on
Climate Change

1. Procedural background

1. Over the past years, the Joint Implementation Supervisory Committee (JISC) has provided recommendations on the review of the joint implementation (JI) guidelines to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) and to the Subsidiary Body for Implementation (SBI). The CMP at its first session adopted the “Guidelines for the implementation of Article 6 of the Kyoto Protocol” (the JI guidelines).¹ In 2012, the CMP requested the SBI to prepare revised JI guidelines for consideration by the CMP (decision 6/CMP.8). The SBI has since deliberated on this matter at each session.
2. At SBI 41 (December 2014), Parties agreed to continue discussions at SBI 42 (June 2015) and forwarded a draft text for this purpose.² Furthermore, CMP 10 (December 2014) requested the JISC to submit elaborated recommendations on the review of the JI guidelines, for consideration at SBI 42.³

2. Purpose

3. The purpose of this paper is to provide the JISC with draft recommendations that it may wish to submit to the SBI in accordance with the CMP 10 request. In preparing the paper, consideration has been given to the overall context of discussions taking place in relation to the post-2020 international climate regime.

3. Key issues and proposed solutions

3.1. Joint implementation in the future climate regime

4. The review of the JI guidelines was mandated by CMP 1⁴ to build the experiences and lessons learned from the operation of the mechanism during the first commitment period of the Kyoto Protocol (CP1, 2008–2012) into the second commitment period (CP2, 2013–2020). The current status and timelines indicate that the revised JI guidelines will not be operational before the second half of CP2 – due to the need to finalize negotiations and manage the transition from one set of guidelines to the other.
5. Furthermore, it is likely that JI will suffer from a prolonged period of low demand in the period up to 2020, given the prevailing levels of mitigation ambition. The progress in the ratification of CP2 and the current inability to issue CP2 emission reduction units (ERUs) also present important threats to the continued operation of the mechanism.
6. At the same time, the work that Parties are conducting under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) on the 2015 agreement indicates that different commitment structures and mechanisms will be relevant as of 2020,

¹ Decision 9/CMP.1.

² FCCC/SBI/2014/L.34

³ Decision 5/CMP.10, paragraph 8

⁴ Decision 9/CMP.1, paragraph 8.

accompanied by changes to rules for measurement, reporting and verification (MRV) and for the accounting of progress towards commitments.

7. It is expected that, over time, more countries will take on quantitative emission limits, although these may often be of a sector-based nature as well as economy-wide. This is of particular relevance for JI, as it is a mechanism that provides for the crediting of activities in sectors or economies that are subject to quantitative emission limits (environments with “capped” emissions). However, the long-term perspective of JI would require it to be integrated into the underlying MRV and accounting systems that will be developed for the 2015 agreement.
8. It is therefore recommended that, in continuing their review of the JI guidelines, Parties consider them in light of the emerging picture of mechanisms for the post-2020 period. The growing number of Parties that could make use of the mechanism, and the developments in MRV and accounting rules, are of particular relevance.

3.2. Net atmospheric benefits

9. The draft modalities and procedures refer to net atmospheric benefits in a number of places.⁵ In general terms, a net atmospheric benefit may be achieved when the number of ERUs from an activity used for meeting an emissions target is lower than the actual emission reductions or avoidance resulting from that activity. In this context, “net” refers to the difference between actual emission reductions/avoidance and the portion used.
10. Under the JI environment of capped emissions, it would be important that any such net atmospheric benefit be implemented through cancelling units (under the Kyoto Protocol, this would mean either ERUs or other units) so that the net benefit is not left as units that can be used by a Party to meet its emissions commitment. For example, as ERUs are “issued” by converting assigned amount units (AAUs), if the net atmospheric benefit were to be sought through issuing fewer ERUs than the emission reductions achieved by the activity, either through conservative calculations, shorter crediting periods or discounting prior to issuance, this would leave AAUs that are not converted into ERUs and these would remain available to cover emissions in a Party.⁶
11. The cancellation of units could be done either by the host Party at the time of issuance or by the buying Party at the point at which the units are received or used for compliance, as the environmental impact would be the same. Either way, it would be reasonable to expect the burden of the cancellation to be borne by the buyer side, as the reduced volume of available units would tend to raise unit prices.
12. Provisions for net atmospheric benefits may be expressed in the draft modalities and procedures as either a mandatory benefit implemented through rules set by the JISC, or as the voluntary application of such benefits by host or buyer Parties. If Parties wish to incorporate a mandatory level of net atmospheric benefit in JI, the appropriate percentage would be best decided by the CMP through the modalities and procedures, as this would be a political decision that the JISC would not be able to make. Host and

⁵ FCCC/SBI/2014/L.34, appendix, paragraph 11(b) and 33.

⁶ The achievement of net atmospheric benefits under JI differs in this way from the available methods under crediting where there are no emission caps, such as the clean development mechanism (CDM).

buyer Parties may, nevertheless, on a voluntary basis, set requirements for net atmospheric benefits that go beyond any mandatory requirement set by the CMP.

13. It is therefore recommended that the following amendments be made in the draft “Modalities and procedures for the implementation of Article 6 of the Kyoto Protocol”:
- (a) Replacement of paragraph 11(b): “Provide for net atmospheric benefits from activities through requiring the cancellation of [10] per cent of issued ERUs directly upon their issuance and before the transfer of ERUs for the activity from the host Party”;
 - (b) Replacement of paragraph 33: “A host Party may, on a voluntary basis, exceed the cancellation requirement contained in paragraph 11(b) by cancelling a greater percentage of ERUs directly upon their issuance”;
 - (c) Additional paragraph 33bis: “Notwithstanding paragraph 11(b) above, a Party receiving ERUs from a host Party may, on a voluntary basis, cancel a proportion of ERUs upon their receipt in a holding account in its national registry”;
 - (d) Additional paragraph 33ter: “Any arrangements by a Party to apply paragraphs 33 and 33bis shall be elaborated in the Party’s national requirements and procedures and shall be indicated prior to the registration of the JI activity for which units are to be cancelled, identified as a condition for the activity’s registration, and made publicly available through the secretariat”.

3.3. JISC conformity assessment process

14. One of the proposed functions of the JISC is the assessment of the conformity of JI host Parties with the modalities and procedures adopted by the CMP and the minimum requirements and procedures set by the JISC.⁷ Parties would be required to rectify any identified non-conformities and provide evidence of the rectification to the JISC.⁸
15. Further provisions would also be needed with regard to any consequences of non-conformities being identified or left unaddressed. The environmental integrity of JI would necessitate that a continuing failure to rectify identified non-conformities should trigger a sufficient consequence to incentivize compliance, such as suspending a Party’s ability to submit a notice of acceptance of the verification of emission reductions and removals. This would effectively suspend the ability of the Party to issue ERUs.
16. It is therefore recommended that the following amendments be made in the draft “Modalities and procedures for the implementation of Article 6 of the Kyoto Protocol”:
- (a) Amendment of paragraph 56: “Unless non-conformities raised in accordance with paragraph 13(e) above have not been rectified in accordance with paragraph 36 above, the JISC shall ...”;
 - (b) Additional paragraph 13bis: “The JISC shall elaborate its procedures for the implementation of paragraph 13(e) above, for consideration by the CMP, and shall subsequently recommend to the CMP revisions to such rules as needed.”

⁷ FCCC/SBI/2014/L.34, appendix, paragraph 13(e).

⁸ FCCC/SBI/2014/L.34, appendix, paragraph 36.

3.4. JISC review processes

17. A further proposed function of the JISC under the draft JI modalities and procedures is to review the registration of JI activities and the issuance of ERUs by host Parties.⁹ The current text suggests that reviews should be conducted on a random basis. Such random selection in auditing is generally used where there is a low risk of error, the error has low impact and all activities have a similar chance of error. This would appear to be insufficiently robust to support the international oversight role of the JISC. It would also be necessary to clearly state the consequences of a review identifying problems.
18. It is therefore recommended that the following amendment be made in the draft “Modalities and procedures for the implementation of Article 6 of the Kyoto Protocol”:
 - (a) Amendment of paragraph 13(f): “Undertaking reviews of JI activities as set out in paragraphs 48 and 56 below and, where appropriate, postponing or declining its recording of a registered JI activity or its endorsement of an issuance of ERUs.”

3.5. Convergence of common functions

19. The draft modalities and procedures include references to synergy between JI and the clean development mechanism (CDM) with regard to minimum technical requirements and the accreditation of entities to validate activities and verify emission reductions.¹⁰ Indeed, these paragraphs point to technical work which is of the same nature and is needed by both mechanisms. Both the CDM and JI have technical panels working on the accreditation of third-party entities. While JI does not have a methodological panel, it uses the CDM methodologies developed by the CDM methodological panels and working groups or the secretariat.
20. The case of minimum technical requirements refers to standards and procedures that define the nature of crediting activities and the MRV rules for estimating emission reductions and removals. Technically, the issues and challenges associated with these requirements are the same, irrespective of which mechanism the activities are registered under. The mechanisms stand to benefit from combining resources in undertaking this work, as participants in the mechanisms would benefit from being able to work within the same or similar requirements in their activities under both mechanisms and across all the regions in which they are active.
21. In the case of accreditation, synergy and alignment between the mechanisms could be expected to improve quality and efficiency in operating the mechanisms and reduce transaction costs for those being accredited.¹¹ It would provide for the consistent use of best practices, consistency in approach to the same issues and standards, and significant cost savings for the regulatory bodies, the secretariat, project participants and other stakeholders.

⁹ FCCC/SBI/2014/L.34, appendix, paragraph 13(f). This could also potentially extend to reviews of any post-registration changes to a JI activity (see paragraph 49).

¹⁰ FCCC/SBI/2014/L.34, appendix, paragraphs 8 and 40, respectively.

¹¹ Recommendation of the JISC on the accreditation system for JI aligned with that of the CDM (see document FCCC/SBI/2014/5).

22. While the immediate examples considered in the current draft modalities and procedures concern JI and the CDM, in the longer term it would be worthwhile considering synergy in the context of any mechanisms under the 2015 agreement.
23. It is therefore recommended that Parties consider ways to encourage and build upon synergy between JI and the CDM, as well as with other mechanisms that may become relevant under the 2015 agreement.

3.6. Crediting periods

24. A number of issues relating to crediting periods remain open in the draft JI modalities and procedures.¹² The period over which a JI activity can generate credits is a fundamental determinant of whether the activity is financially viable. Longer crediting periods will tend to increase financial viability but provide less long-term confidence that the emission reductions remain real and additional. Shorter crediting periods with options for renewal allow for more frequent reassessment of the baseline, and potentially additionality, thus increasing the assurance that emission reductions are real and additional, but also reducing certainty on the volume of ERUs issued over the life of a JI activity and increasing transaction costs associated with the JI activity.
25. The draft modalities and procedures currently allow flexibility to the participants in a JI activity to choose the length of their crediting period, up to a maximum number of years. It would be beneficial to include an assessment of the appropriate length of the crediting period within the minimum technical requirements set for JI. A number of factors would be relevant in this assessment, such as technology, activity type, activity scale, barriers, lifetime of equipment, country contexts and others.
26. The draft modalities and procedures link crediting periods to the commitment period of the underlying agreement. Such timing is very arbitrary for participants in JI activities and bears no relation to the period needed for financial viability or environmental integrity. As such, there is merit in setting the crediting period at the appropriate length for the JI activity while being clear that issuance can only occur when the host Party has established a quantified emission limit for the relevant period. This would allow JI activities to be implemented for the long term in the context of governments undertaking to take on long-term quantitative commitments.
27. It is therefore recommended that the following amendments be made to the draft modalities and procedures:
 - (a) Additional paragraph 10(a)bis: “Ensure that the length of crediting periods, and renewals thereof, are appropriate to the JI activity”;
 - (b) Deletion of elements in paragraph 43 referring to the expiry of the commitment period.

¹² FCCC/SBI/2014/L.34, appendix, paragraph 43.

3.7. Scope of appeals

28. Under the draft JI modalities and procedures it is stated that any decision taken by the JISC may be subject to appeal by affected stakeholders. The appeals process is to be conducted in accordance with provisions to be determined by the CMP.¹³
29. The implications of the wording “any decision” are very broad and could be interpreted to extend to decisions of a procedural or intermediate nature. To prevent the appeals process from becoming overly complex and a burden on procedural decisions, it would be beneficial to narrow the scope of appealable decisions to those of a final nature where they impact directly on stakeholders or Parties. In particular, this would be final decisions in relation to an activity, accreditation of independent entities and conformity assessments.
30. It is therefore recommended that the following amendment be made in the draft “Modalities and procedures for the implementation of Article 6 of the Kyoto Protocol”:
 - (a) Amendment of paragraph 59: “A final decision in relation to an activity, accreditation of independent entities or conformity assessments taken by the JISC in accordance with these modalities and procedures may be subject to appeal by affected stakeholders, in accordance with provisions to be determined by the CMP.”

4. Proposed work and timelines

31. Following the consideration and possible amendment by the JISC of the draft recommendations contained in section 3, the secretariat will include the agreed recommendations in a draft document for submission to the SBI, which will be finalized in consultation with the Chair and Vice-Chair of the JISC.

5. Recommendations to the JISC

32. The secretariat recommends that the JISC consider, amend as necessary, and agree on its recommendations to SBI 42, on the basis of the draft recommendations contained in section 3 of this document.

¹³ FCCC/SBI/2014/L.34, appendix, paragraph 59.

Document information

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