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P.O Box 330022
14191 Berlin
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emissionshandel@uba.de
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Editors:

Martina Jung, Julia Fleck, Christian Ellermann, Markus Hagemann, Janusz Mizerny
Ecofys Germany GmbH
Niederlassung Köln
Eupener Straße 59
D-50933 Köln
info@ecofys.de
www.ecofys.de

Technical and scientific supervisors:

Malin Ahlberg, Timo Hohmuth, Karsten Karschunke, Wolfgang Seidel, Angelika Smuda
Section E 1.5 JI/CDM of the German Emissions Trading Authority (German DNA and DFP)

ABBREVIATIONS

A/R	-	Afforestation/Reforestation projects
AIE	-	Accredited Independent Entity
AE	-	Applicant Entity
AAU	-	Assigned amount unit
BMU	-	German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
CDM	-	Clean Development Mechanism
CER	-	Certified emission reductions
CH_4	-	Methane
CO_2	-	Carbon dioxide
COP	-	Conference of the Parties
CMP	-	Conference of the Parties serving as the Meeting of the Parties
DEHSt	-	Deutsche Emissionshandelsstelle (DFP/DNA in Germany)
DNA	-	Designated National Authority
DFP	-	Designated National Focal Point
DOE	-	Designated Operation Entity
EU ETS	-	European Emissions Trading System
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
LULUCF	-	Land use, land-use change, and forestry
LoA	-	Letter of Approval
LoE	-	Letter of Endorsement
MoU	-	Memorandum of Understanding
PDD	-	project design documents
PIN	-	Project Idea Note
ProMechG	-	German Act Implementing the Project-Based Mechanisms of the Kyoto Protocol (Projekt-Mechanismen Gesetz)
RMU	-	Removal unit
UBA	-	German Federal Environment Agency

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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) 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 cycle under JI track 2 and its related procedures. It is intended to offer guidance to project proponents wishing to submit to the German Designated Focal Point (DFP) a request for approval for JI projects taking place outside of Germany. A separate manual will be provided for domestic JI projects and related procedures. 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

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),

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

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':

- Emissions trading (ET)
- 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 'CO2eq'. For each ton of CO2eq 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 (ERU): Credits generated by JI projects (in Annex I countries)[4]
- Removal Units (RMU): Certificates granted for removal of CO2 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 at the German registry website (www.umweltbundesamt.de/emissionshandel).

2.3. The European Emissions Trading Scheme

For the first commitment period (2008-2012) of the Kyoto Protocol, the European Union has taken over an emission reduction target[5] 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[6] 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 European 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

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

emission limits of the EU ETS apply to installations (of certain sectors in the EU) and not to countries. 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[7] amending the EU Emissions Trading Directive[8] 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 (tCERs, lCERs, RMUs and ERUs converted from RMUs) 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'[9]
- In order to avoid double counting, ERUs[10] 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.

[7] 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/pdf/l_31620061116en00120017.pdf

[8] 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

[9] http://www.dehst.de/cln_006/SharedDocs/Downloads/DE/JI__CDM/Leitfaden__WCD__Empfehlungen__engl., templateId=raw,property=publicationFile.pdf/Leitfaden_WCD_Empfehlungen_engl.pdf

[10] 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. The limit on the use of CERs and ERUs are included in the National Allocation Plans for the second phase of the EU ETS (2008-2012).

2.4.1. Double Counting

The EU ETS covers only certain industry sectors and only installations of a certain size.[11] 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: A factory 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 factory in this case is covered by the emissions 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 factory 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 the carbon market inoperable.

The above-mentioned Linking Directive (2004/101/EC) solved the problem of double counting in article in 11b (4) by by requiring the JI host country to cancel the same amount of EUAs in the EU registry. For the above example of a direct emission reduction, the excess certificates

[11] 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.

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 emissions 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, emissions trading and JI, are in a way competing with each other. Emissions trading acts as a substitute for JI in sectors which are covered by the EU emissions trading directive because it makes economical sense and the procedures are less complicated.

However, direct emissions 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 cancelling 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).

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 emissions 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 emissions trading period show that most of the new EU countries have provided for a reserve, which can only cover JI projects that were already approved or planned. Thus, new type two projects, which indirectly affect the EU ETS, are not possible anymore in most countries (see Table 1).

2.4.2. Changing Baselines due to EU Legislation (Additionality)

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[12] 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)[13] 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. Table 1 shows which new EU countries have negotiated transition periods for the three relevant directives.

As the procedures under JI Track 2 are to a great extent drawing from the experiences gained in the CDM, it is worth to consider decisions taken by the CDM Executive Board. The common practice of the CDM Executive Board shows that not all national regulations necessarily determine the baseline scenarios. In certain cases, if it can be proven that there are barriers preventing compliance with a regulation in a country or in the case of soft law with non-binding commitments, the Executive Board accepted lower baseline assumptions than the regulations would suggest for CDM projects. The same will probably be the case for JI project baselines. Prescriptive legislation which is directly effective and binding in all EU Member States will determine the baseline. As far as EU directives give leeway to national legislation, baselines are determined by the particular implementation of the Member State.

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 ("The IPPC directive")**
- **Directive 1999/31/EC on the landfill of waste ("The Landfill directive")**
- **Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants ("The LCP directive")**

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.

[12] Acquis Communautaire is the name for the total body of EU legislation.
[13] Amended by the EU Linking Directive (2004/101/EC).

Table 1 summarizes transitional periods for the mentioned directives as agreed for the EU accession countries.

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 defined differently in the new Member Countries 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 the raised baseline.

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

On 22 September 2006, the "Act Implementing the Project-Based Mechanisms of the Kyoto Protocol" (ProMechG)[14] 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.

Figure 1 illustrates the international context of the ProMechG. Since this act has entered into force, German companies involved in the scheme can fulfill a part of their reduction commitments by using emission certificates (CERs/ERUs) from climate change projects abroad.

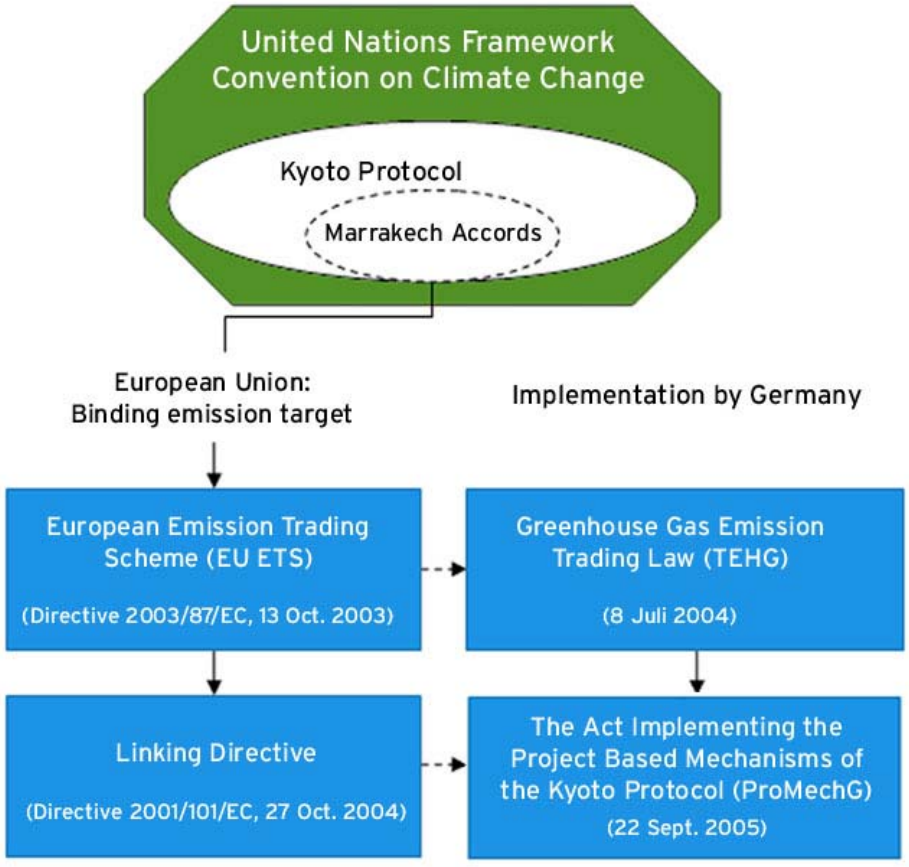

Figure 1: The international context of the ProMechG

The Federal Environment Agency (in German 'Umweltbundesamt', abbreviated UBA) which is the affiliated agency of the Federal Ministry for the Environment, Nature Conservation and

[14] In German called the Projekt-Mechanismen-Gesetz (ProMechG).

Nuclear Safety (abbreviated in German, BMU) is the legal authority for the administration of matters related to emissions trading as well as CDM and JI. The division of the Federal Environment Agency , the DEHSt ('Deutsche Emissionshandelsstelle'), 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).

A revision of the ProMechG was done in 2007 which took into account the developments at the international level (operational Track 2 procedure) as well as with reduced fees for the German approval process.

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)[15] 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, ERUs) towards meeting their Kyoto target. Contrary to the CDM, under JI there are no new units generated, but existing units (AAUs or RMUs) held by the registry of the host country are converted into so-called Emission reduction units (ERUs) 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[16] 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 refert 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'[17]) Depending on the fulfilment of eligibility criteria by the host country, JI projects can follow two different tracks which are illustrated in Figure 2.

[15] http://unfccc.int/parties_and_observers/parties/annex_i/items/2774.php
[16] http://ji.unfccc.int/JI_Parties
[17] 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.

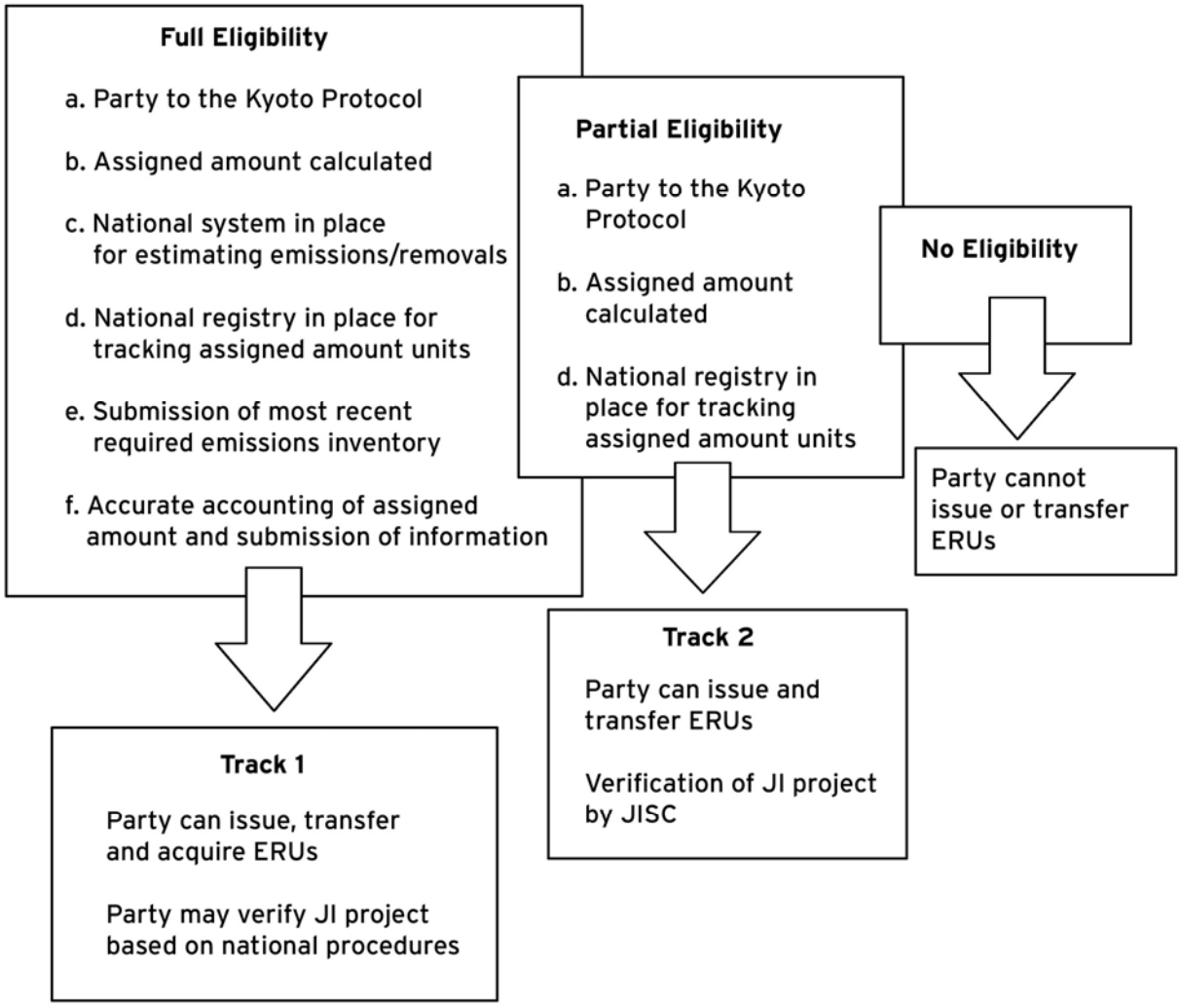

Figure 2: Eligibility criteria of the host country for JI track 1 and track 2

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 emissions trading[18] do not apply to ERUs generated under JI track 2 (see also 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[19]. Each country has to submit material 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.

Decisions on the eligibility of most Annex I countries are still forthcoming and Germany is expected to be eligible for JI track 1 on 27 April 2008. Information on the eligibility of host countries[20] is provided online by the UNFCCC.

[18] See Annex of Decision 11/CMP.1
[19] http://unfccc.int/kyoto_protocol/compliance/enforcement_branch/items/3785.php
[20] http://unfccc.int/files/kyoto_protocol/compliance/enforcement_branch/application/pdf/eligibility_list_20071210_for_website_posting.pdf

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[21] are eligible as a JI project.[22]

With one exception, JI projects cover the same sectoral scopes as the CDM.[23] 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[24].

- Energy industries (renewable - / non-renewable sources)
- Energy distribution
- Energy demand
- 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
- Land use, land-use change and forestry[25]
- Agriculture

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

[21] Annex A of the Kyoto Protocol specifies the six target gases (CO_2, CH_4, N_20, HFC, PFC, SF_6) and sector/source categories where emission reduction activities can take place. http://unfccc.int/resource/docs/convkp/kpeng.pdf
[22] For limitations in the use of these credits under the EU ETS, see section 2.4.
[23] AIEs have to qualify for certain sectoral scopes which are based on this categorisation of sectors.
[24] 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.
[25] As mentioned above, credits from LULUCF projects cannot be used toward compliance in the EU ETS.

reductions/removals (for details on additionality, see section 7.2.3), and have to be approved by the Parties involved.

Host and investor countries may establish additional criteria for JI projects. Therefore, it is recommended to contact the respective Designated Focal Points (DFP) with respect to national criteria and requirements for JI projects. Project proponents have to list host country requirements in the respective section of the PIN form provided by the DEHSt ('Project idea note (PIN) for JI investor country approval by Germany') and explain why the project is fulfilling them.

3.4. Crediting period

JI projects can generate emission reductions only after the beginning of 2008 (see Figure 3). Projects starting as of the year 2000 may be eligible for JI, but emission reduction units can only be generated after 1 January 2008.[26] The option of international emissions, however, leaves it open to countries to trade emission reductions (due to a JI project) which have taken place prior to the year 2008 as Assigned Amount Units (AAUs). The amount of units traded under this so-called 'Early crediting' has to be negotiated between host and investor country (as well as project developer) and is not considered a JI transaction. Holder of person and operator holding accounts are not allowed holding and trading AAUs in the German registry.

The 'Guidance on criteria for baseline setting and monitoring', (Version 01) specify[27] 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;
- The crediting period can extend beyond 2012 subject to host country approval;
- The status of emission reductions or enhancements of net removal generated by JI after the first commitment period may be determined by any relevant agreement under the UNFCCC.

[26] 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.
[27] See B. 16. http://ji.unfccc.int/Ref/Documents/Baseline_setting_and_monitoring.pdf

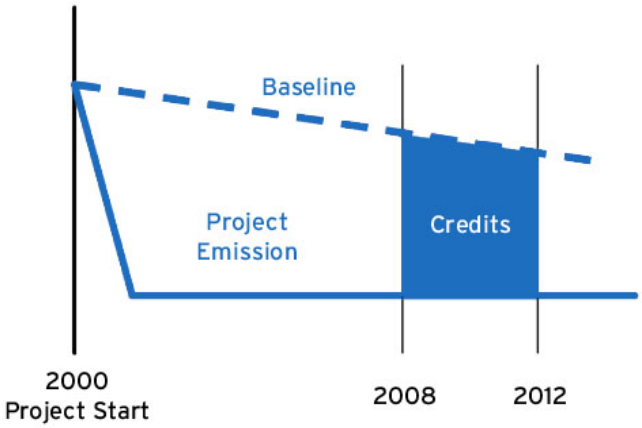

Figure 3: JI crediting period

Due to the uncertainty of the structure of a post-2012 climate regime, project proponents can currently mainly count on the ERU flow during the first commitment period (1 January 2008 till 31 December 2012).[28] Therefore, there is a closing window of opportunity for the development of JI projects, at least until is it clear that a post-2012 agreement under the UNFCCC will allow JI in its current form. In principle ERUs[29] held in a national registry are allowed for carry over to the subsequent commitment period. Please note that this carry over has a maximum of 2.5 per cent of the Assigned Amount of the Party[30].

3.5. Small-scale projects

JI projects considered as small scale project activities can benefit from simplified modalities and procedures under JI track 2 which aim at reducing transaction costs related to the project cycle. The threshold criteria for the definition of small scale projects[31] have been revised by CMP 2 for CDM and JI project activities at the same time, and define small-scale projects as follows:[32]

- 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);

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

- Type III: Other project activities resulting in emission reductions of less than or equal to 60 ktCO2eq annually.

Separate small-scale rules exist for LULUCF projects under JI. The differences in modalities and procedures for small-scale projects under JI track 2 are described in chapter 6.

3.6. Institutions relevant to JI

3.6.1. The CMP

As the highest body of the Kyoto Protocol, the CMP (short for COP/MOP)[33] has the authority over the flexible mechanisms. The Parties to the Kyoto Protocol meet annually at the COP/MOP to discuss issues of the further development and implementation of the Kyoto Protocol.

3.6.2. 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[34] of the JISC are:

- The elaboration of rules of procedure for JI additional to those contained in the JI guidelines;
- The elaboration of JI project design documents (PDD);
- The review and revision of reporting guidelines and criteria for baseline and monitoring;
- The accreditation of Independent Entities.

The JISC consists of ten members and ten alternate members of the Parties to the Kyoto Protocol.[35] 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[36].

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

[33] COP/MOP is the abbreviation for 'Conference of the Parties (to the UNFCCC) serving as the Meeting of the Parties (to the Kyoto Protocol)'.
[34] For more details see the JI guidelines in 9/CMP.1, Annex, paragraph 3.
[35] 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.
[36] http://ji.unfccc.int/Sup_Committee

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'.[37]

3.6.3. 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[38].

3.6.4. 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[39] and their contact information is available at the UNFCCC secretariat's website. The German DFP is the German Emissions Trading Authority ('Deutsche Emissionshandelsstelle, DEHSt'[40]) at the Federal Environment Agency (Umweltbundesamt). Approval procedures of the DEHSt are described in section 5.2.3.1.

[37] http://ji.unfccc.int/Sup_Committee/Meetings/003/Reports/JISC03report_Annex_4.pdf
[38] http://ji.unfccc.int/Panel_WG
[39] http://ji.unfccc.int/JI_Parties
[40] www.umweltbundesamt.de/emissionshandel

3.6.5. 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[41].

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

4. COUNTRY INFORMATION

Theoretically, each country with an emission reduction target listed in Annex B of the Kyoto Protocol can host JI projects. East European, countries with economies in transition to a free market system are however the main suppliers of JI units (ERUs), because they still have a large potential for relatively inexpensive emission reductions. Currently, thirteen transition countries belong to Annex B of the Kyoto Protocol. Some useful information on those countries will be listed in the table below.

Table 1: Conditions for JI in important host countries

				EU relevant Information			
				EU NAP	Transitional Periods for EU directives		
	Ratification of the KP	JI Guidelines and Procedures available on UNFCCC web page	EU status	NAP II reserves for new JI projects*	IPPC directive	Landfill directive	LCP directive
Bulgaria	yes	yes	member	yes	2011	X	2014
Croatia	yes	no	candidate	-	-	-	-
Czech Republic	yes	yes	member	no	X	X	2007
Estonia	yes	no	member	no	X	2009	2015
Hungary	yes	yes	member	no	X	X	2004
Latvia	yes	no	member	no	2010	2004	X
Lithuania	yes	no	member	yes	X	X	2015
Poland	yes	no	member	no	2010	2012	2015
Romania	yes	yes	member	yes	2009/2015	2017	2017
Russia	yes	no	non-EU	-	-	-	-
Slovakia	yes	no	member	no	2011	X	2007
Slovenia	yes	no	member	no	2011	X	X
Ukraine	yes	yes	non-EU	-	-	-	-

*not yet approved by the EU Commission

For further detail on the transitional periods, please refer to the EU accession treaties.[42]

[42] http://ec.europa.eu/enlargement/glossary/terms/accession-treaty_en.htm

Table 2: Contact details of Designated Focal Points (DFP)

National Focal Points/ Designated Focal Points (http://unfccc.int/parties_and_observers/parties/annex_i/items/2774.php http://ji.unfccc.int/JI_Parties/Parties/index.html)					
	Person	**Institution**	**Address**	**Phone**	**E-mail**
Bulgaria	Mrs. Ivona Grozeva	Ministry of Environment and Water (MOEW), Climate Change Policy Department	67 William Gladstone St. Sofia	+359 2 940 61 01	ji_grozeva@moew.government.bg
Croatia	Ms. Jasenka Necak	Ministry of Environmental Protection, Physical Planning and Construction	Ulica Republike Austrije 14 Zagreb	(+385-1)378-2444	jasenka.necak@mzopu.hr
Czech Republic	Mr. Pavel Zámyslický	Ministry of Environment, Department of Climate Change	Vrsovická 65 Prague 10	(+420-2)6712-2937	pavel_zamyslicky@env.cz
Estonia	Mr. Andres Kratovits	Ministry of the Environment	Narva mnt 7A Tallinn	(+37-2)6262-800	min@envir.ee, Andres.Kratovits@envir.ee
Hungary	Mr. József Feiler	Ministry for Environment and Water (MoEW), Climate Protection and Energy Unit	P.O. Box 351 H-1394 Budapest	+36 1 457 3339	feiler@mail.kvvm.hu
Latvia	Ms. Ingrida Apene	Ministry of Environment	Peldu Str. 25, Riga	(+37-1) 702 6508	ingrida.apene@vidm.gov.lv
Lithuania	Ms. Jurga Rabazauskaite	Ministry of Environment, Air Division Environment Quality Department	A. Jaksto 4/9 Vilnius	+370 5 266 3508	j.rabazauskaite@am.lt
Poland	Ms. Maria Klokocka	Ministry of Environment	52/54 Wawelska St. Warsaw	(+48-22)579-2761	maria.klokocka@mos.gov.pl

	Person	Institution	Address	Phone	E-mail
Romania	Mr. Vlad Trusca	Ministry of the Environment and Sustainable Development, Climate Change Division	12 Libertatii Blvd, Sector 5 Bucharest	(+40-21)316-2220	vlad.trusca@mmediu.ro, vladtrusca@yahoo.com
Russia	H.E. Mr. Alexander Bedritsky	Russian Federal Service for Hydrometeorology and Environmental Monitoring (Roshydromet)	Novovagan'kovsky Street 12 Moscow	(+7-495)255-13-85	prruk@mcc.mecom.ru, bedr@mecom.ru
Slovakia	Ms. Gabriela Fischerová	Ministry of Environment	Námestie Ludovíta Stúra 1 Bratislava	(+421-2)5956-2546	gabriela.fischerova@enviro.gov.sk
Slovenia	Mr. Matej Gasperic	Ministry of the Environment and Spatial Planning	Dunajska 48 Ljubljana	+386 1 478 4558	matej.gasperic@gov.si
Ukraine	Mr. Sv'atoslav Kurulenko	Ministry of Environmental Protection	35, Uritskogo Street Kiev	(+380-44)206-3302	kurulenko@menr.go.ua

5. THE JI PROCEDURES

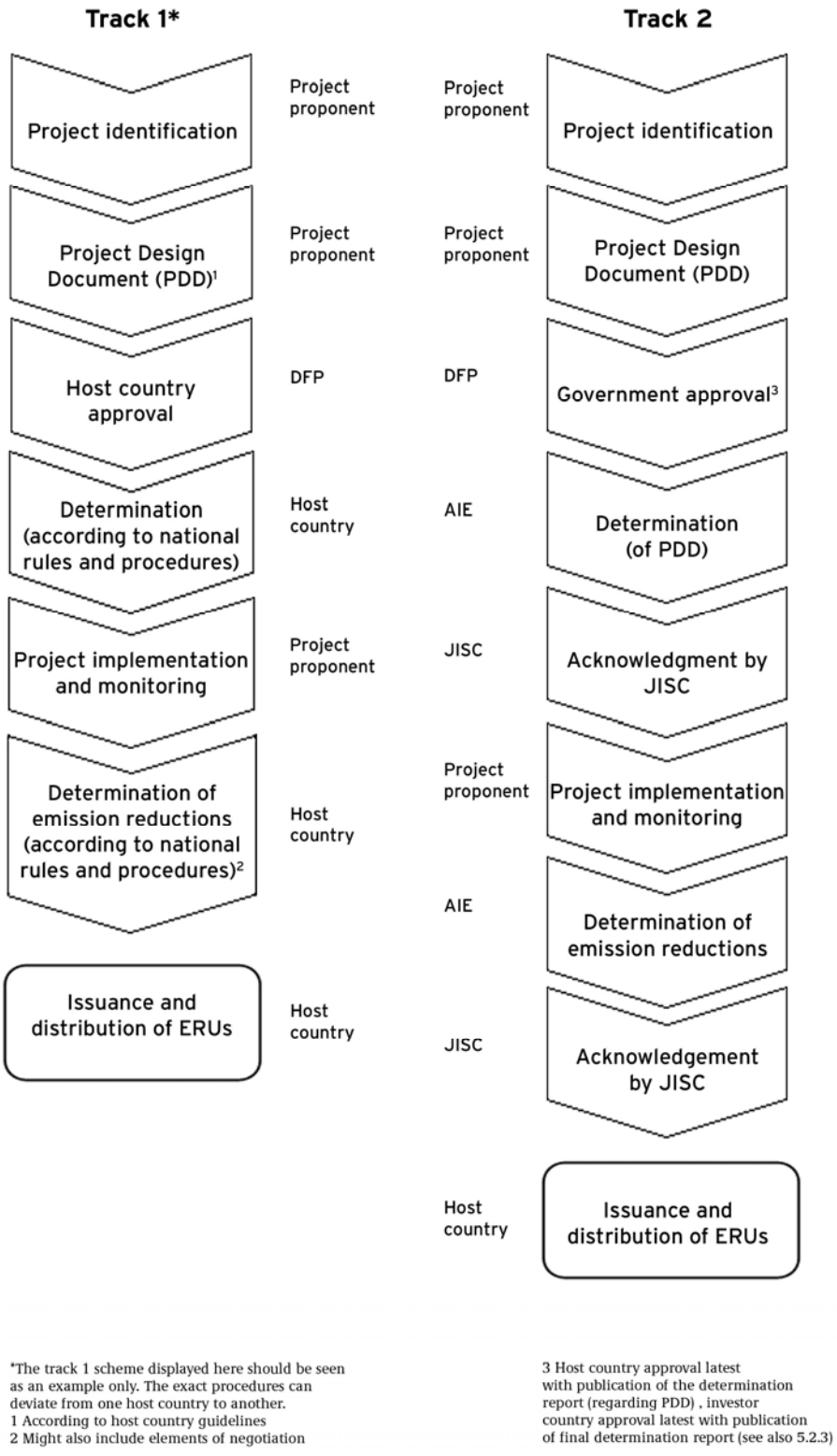

Figure 4: JI Project Cycle

5.1. Track 1

Under track 1, the host country carries out the verification of the JI project based on its own national rules and procedures. In order to deal with JI track 1 projects, a country can develop national JI guidelines concerned with the setting of the baseline and monitoring and approval of JI projects. However, a JI track 1 transaction can take place even without such guidelines. The amount of ERUs to be issued and transferred by the host country can as well be a result of a negotiation or a simple agreement between the investor and a host country. Figure 4 illustrates the JI project cycle under track 1. The track 1 project cycle is determined by host country rules. National guidelines of the host country determine at which point in time host country approval is required. The German DFP for example requires the determination report for issuing a letter of approval.

It will therefore depend on the national rules and procedures of host countries how 'fast' the so-called 'fast track' will actually be. In case of a more or less negotiated outcome, the transaction costs related to the project cycle can be reduced. It however depends on the credibility and effectiveness of the procedures of the respective host country, if track 1 is preferred over track 2.

Germany's guidelines for the approval of JI projects (taking place outside of Germany) are laid down in §3 of the 'Act Implementing the Project-based Mechanisms of the Kyoto Protocol'[43] (ProMechG).[44] For details on the approval procedures by the DEHSt, see section 5.2.3.1. According to ProMechG, requirements for project documentation (PDD, Government Approval, etc.) for track 1 are comparable to those under track 2.

5.2. Track 2

Contrary to track 1, international rules and modalities for the project cycle exist under track 2. The procedures under track 2 are similar to the CDM project cycle. 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 Figure 4.

The terminology under 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

[43] http://www.gesetze-im-internet.de/promechg/index.html
[44] Guidelines for the approval of domestic JI projects are laid down in §5 ProMechG.

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[45]) are used.

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 risk 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. 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 is a share of units that Parties with targets under the Kyoto Protocol are not allowed to sell in order to avoid overselling, i.e. industrial countries must maintain a balanced national budget of AAUs. As ERUs generated under track 2 are exempted[46] from this limitation, a country 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.

Table 3: Comparison of track 1 and track 2

	Track 1	**Track 2**
Baseline and monitoring methodologies to be used	Host country based on national guidelines	JISC (based on CDM methodologies)
Determination of the PDD and emission reductions	Host country based on national guidelines	AIE
Transfer of ERUs	Limitations due to commitment period reserve	No restrictions due to commitment period reserve
Procedures	Similarities with emissions trading	Similarities with the CDM

In the following, the project cycle for projects under track 2 are described, while special rules for small-scale projects are addressed in chapter 6.

[45] The determination of emission reductions is often also called the 'final determination'.
[46] The exemption also applies other limitations to transfer units under Art. 17 (emission trading).

5.2.1. Project identification

Each project starts with a project idea by the project proponent(s). 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 or removals 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 DFPs of the participating countries at this stage in order to check for the exact requirements of the participating countries. It is common that at this stage, the DFPs provide a Letter of Endorsement (LoE). This letter is issued to the project proponents if the DFP - based on the information provided in the PIN – comes to the conclusion that a later official approval (Letter of Approval, LoA) is likely.
A PIN form for investor country approval by Germany is provided by the DEHSt. It helps project proponents to check eligibility criteria for JI projects under the different tracks and offers guidance on the information on the project to be provided to the DEHST for obtaining a Letter of Endorsement (LoE).

5.2.2. Development of the Project Design Document (PDD)

The next step in the project cycle 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 under track 2.

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.[47] Please note that different PDD forms have to be used for small-scale projects, bundled small-scale projects and LULUCF projects. The JISC has provided guidelines for completing the PDD form[48] which can be downloaded from the documents section of the UNFCCC secretariat's website.

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

The baseline and monitoring plan included in the PDD has to be in accordance with the provisions on 'Baseline setting and monitoring' as specified in the JI guidelines[49] and the 'Guidance on baseline setting and monitoring'[50] agreed on by the JISC. For details on baseline and monitoring provisions, see chapter 7.

5.2.3. Government approval

The JI guidelines 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:[51]

[47] http://ji.unfccc.int/Ref/Forms.html
[48] http://ji.unfccc.int/Ref/Docs.html
[49] http://unfccc.int/resource/docs/2005/cmp1/eng/08a02.pdf#page=2
[50] http://ji.unfccc.int/Ref/Documents/Baseline_setting_and_monitoring.pdf
[51] See agenda sub-item 5 c) of the JISC 6 meeting report.

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. It is also common to request a Letter of Endorsement (LoE) in order to check if the project would fulfil the general requirements of the respective country. Such a 'Letter of Endorsement' is a preliminary and not legally binding confirmation by the DFP that – based on the information provided in the PIN – the project is likely to be approved at a later point in time.

A list of established DFPs[52] and their contact information is available at the UNFCCC website.

5.2.3.1. 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. A 'Letter of Endorsement' (LoE)[53] represents a non-binding statement that the DEHSt generally supports the respective project. A LoE is issued if – based on the information available – 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 (can be submitted by email);
2. Filled in form of the 'Project Idea Note (PIN)'.

[52] http://ji.unfccc.int/JI_Parties
[53] Sometimes also called 'Letter of no objection' (LoNo)

'Approval' as defined by the ProMechG is the official authorisation by the German DNA/DFP of a project generating emission reduction credits. 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. Final determination report;
4. Approval of the host country (if available);
5. Authorisation of the project initiator to request a LoA and authorisation to participate in the project for any other project participant.

Requests and the accompanying documents can be submitted in German or English. The requests have to be sent in hard copy, while the other required documents can be provided in digital format (by e-mail) or on 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 (ProMechGebV). However, currently this fee structure is under revision and the new legal framework for it will probably be in place in 2008. The fee is stipulated between 20 to 600 €. For information on currently applicable fees, please consult the DEHSt website[54].

German Emissions Trading Authority (Deutsche Emissionshandelsstelle, DEHSt)
Federal Environment Agency (Umweltbundesamt)
Unit E 1.5
P.O Box 330022
14191 Berlin
Tel: +49 (0)30 8903-5050
Fax: +49 (0)30 8903-5010
Email: German.dna.dfp@uba.de

For further information on the DEHSt, visit the DEHSt website under www.umweltbundesamt.de/emissionshandel

[54] www.umweltbundesamt.de/emissionshandel

5.2.3.2. 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 not an obligatory element under the international 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 investor country approval by Germany.

The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety has signed Memoranda of Understanding (MoU) 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 [55]

5.2.4. Determination of the PDD

Determination is the process of independent evaluation of a JI project by an Accredited Independent Entity (AIE) against the requirements of JI (track 2) on the basis of the project design document.

As illustrated in Figure 5, project proponents contract an AIE of their choice (a list of currently accredited AIEs[56] 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 are available at the UNFCCC secretariat's website.[57] 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 5.2.3 on 'government approval');
- The project is additional (see section 7.2.3on 'additionality');
- The baseline and monitoring plan are in accordance with the criteria for baseline setting and monitoring (see chapter 7 on 'baseline setting and monitoring');
- The documentation on the environmental impacts of the project activity is accordance with the rules and modalities.

[55] http://www.dehst.de/cln_007/nn_946798/DE/JI__CDM/CDM/CDM__node.html__nnn=true
[56] http://ji.unfccc.int/AIEs/List.html
[57] http://ji.unfccc.int/JI_Projects/Verification/PDD

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' of the UNFCCC secretariat's website.[58] 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' at that website.[59] 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).

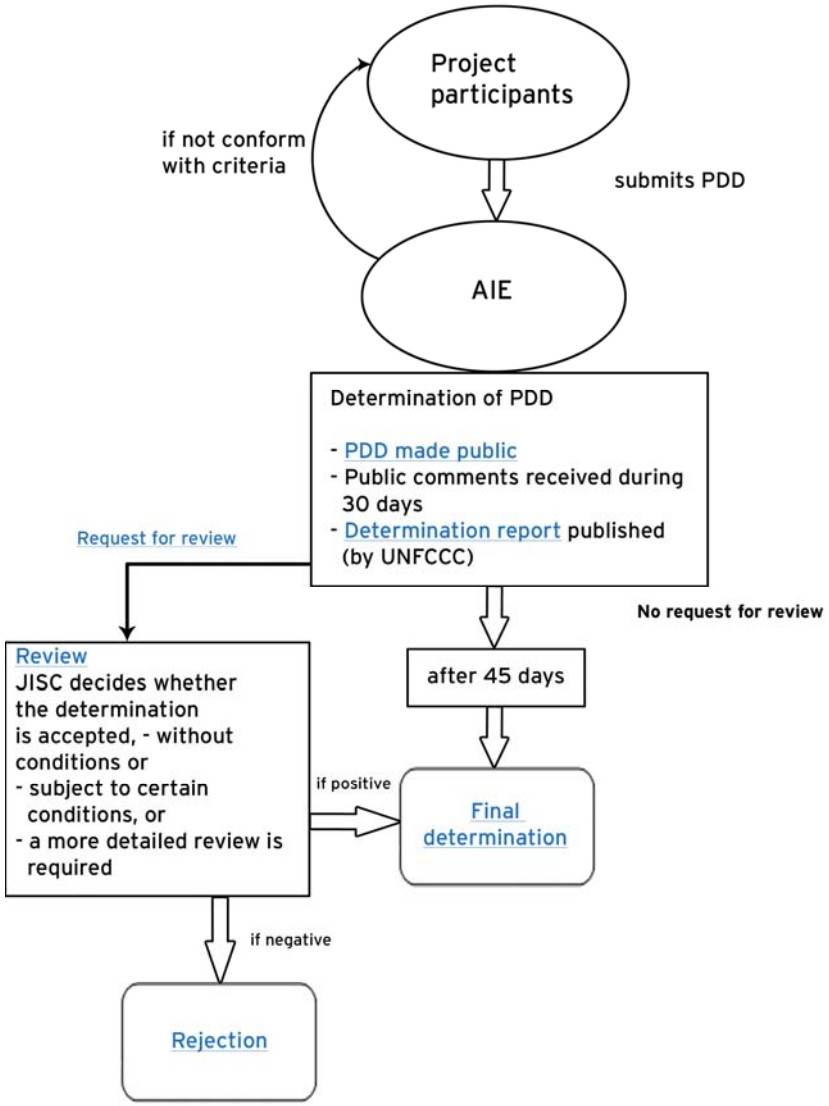

Figure 5: Determination of the PDD

[58] http://ji.unfccc.int/JI_Projects/Verification/DetRep.html
[59] http://ji.unfccc.int/JI_Projects/Verification/FinDet.html

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'[60] 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)[61] of the JISC 3 meeting report. The JISC takes the final decision on the determination and has to make it publicly available.

5.2.5. 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 as specified in the monitoring plan submitted together with the PDD. 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. For further details, see section 7.2.2.

5.2.6. Determination (of emission reductions)

As illustrated in Figure 6, 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'[62].

[60] http://ji.unfccc.int/JI_Projects/Verification/Req_Rev.html
[61] http://ji.unfccc.int/Sup_Committee/Meetings/003/Reports/JISC03report_Annex_3.pdf
[62] http://ji.unfccc.int/ERUs/Verif/MonRep.html

A list of currently accredited AIEs[63] can be found there.

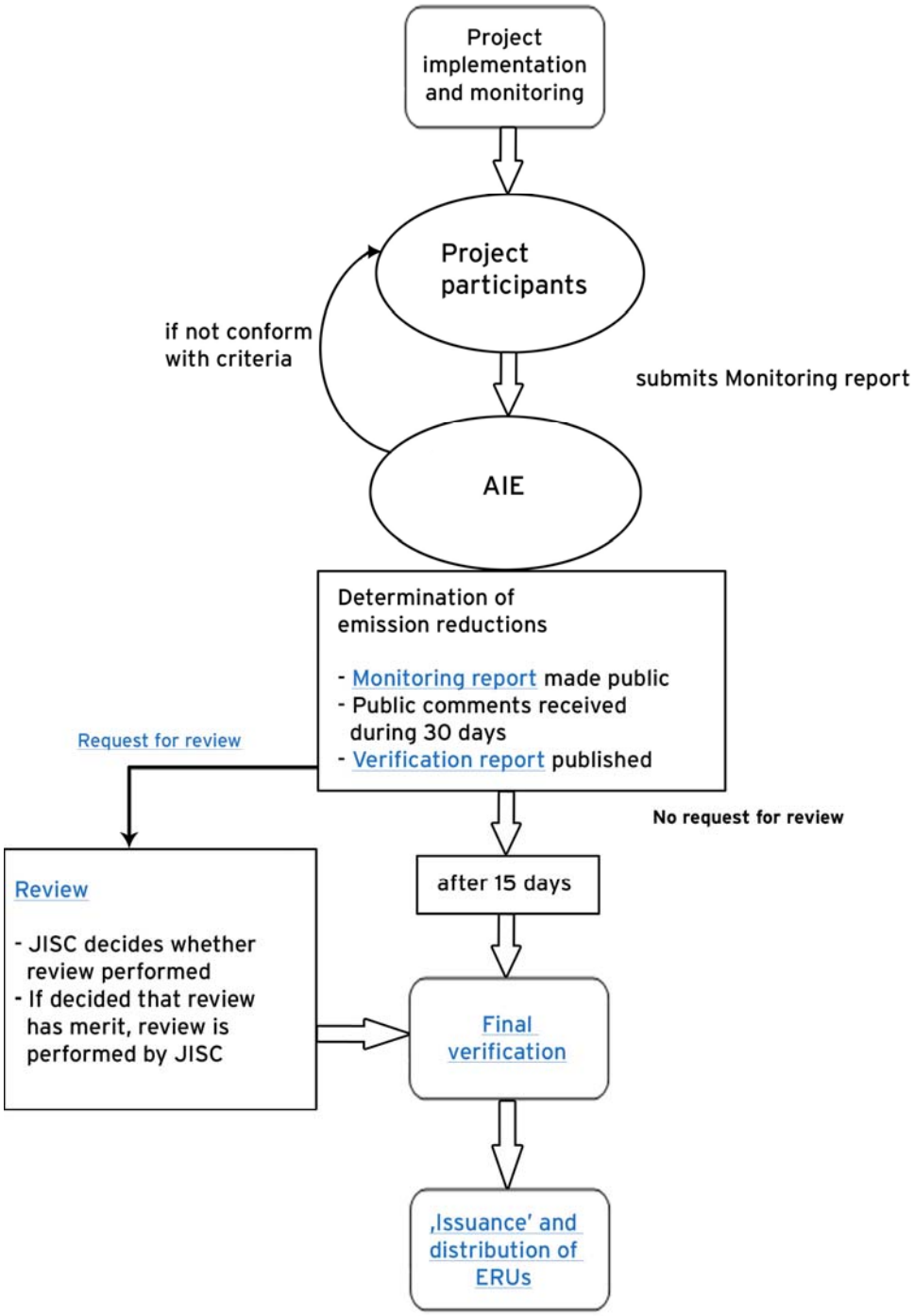

Figure 6: Determination of emission reductions

[63] http://ji.unfccc.int/AIEs/List.html

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 (DOEs) 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 which is published on the UNFCCC secretariat's JI website in the section 'Verification reports'[64]. 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.

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'.[65]

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'[66] and projects 'under review'[67]

5.2.7. Fees

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).

[64] http://ji.unfccc.int/ERUs/Verif/VerifRep.html
[65] http://ji.unfccc.int/ERUs/Verif/FinVerif.html
[66] http://ji.unfccc.int/ERUs/Verif/ReqRev.html
[67] http://ji.unfccc.int/ERUs/Verif/UndRev.html

5.2.7.1. 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 CO2eq per year;
- USD 0.20 per ERU issued for any amount in excess of 15,000 t CO2eq.

5.2.7.2. 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 CO2eq.

5.2.7.3. 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.[68]

[68] http://ji.unfccc.int/Sup_Committee/Meetings

5.3. 'Issuance' and distribution

5.3.1. Issuance and transfer of ERU according to international rules

Upon a successful verification, 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 units, the host country has to transform Assigned Amount Units (AAUs) or Removal Units (RMUs) 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 AAUs or RMUs into ERUs, a 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.

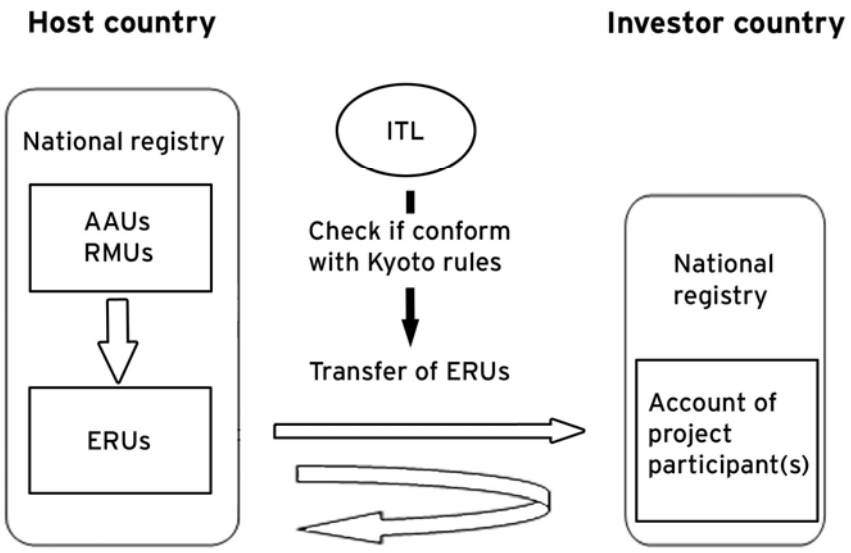

Figure 7: Illustration of the issuance and distribution of ERUs

Transactions can only take place if a confirmation of the UN International Transaction Log (ITL) has been given. The ITL will be responsible for safeguarding the integrity of Kyoto Protocol accounting by performing validations of transactions proposed by national registries and checking that transactions conform to Kyoto rules.

The section 'Transfers of ERUs'[69] of the UNFCCC secretariat's website provides information on transactions of ERUs.

5.3.2. Holding and transferring certificates in the German Registry

All Annex I Parties ratified Kyoto Protocol have to establish and maintain a national registry adequate to requirements for accounting of assigned amounts and transactions under the Kyoto mechanisms. Germany is also involved in the European Emissions Trading Scheme. Hence operator and person holding accounts in addition to the national Kyoto accounts exist in the German registry maintained by the DEHSt.

Every person and legal entity can apply for a person holding account in the German registry. Therefore the DEHSt website under section 'register' provides the form "Antrag auf Einrichtung eines Personenkontos". The German registry permits its account holders holding 1-1 EUA, 3-0 ERU, 4-0 ERU and 5-0 CER. Please note that AAUs are not allowed in Germany. A fee of 200 € is raised only once for opening an account for each commitment period. Holding of certificates and transactions are free.

According to the Marrakech Accords, ERUs[70] held in a national registry are allowed for carry 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 (http://www.umweltbundesamt.de/emissionshandel.de). There you may also find guidance on attributes and the use of Kyoto certificates.

[69] http://ji.unfccc.int/ERUs/Trans/index.html

[70] Only ERUs converted from AAUs are allowed for carry over. ERUs converted from RMUs are excluded.

6. SMALL-SCALE JI PROJECT ACTIVITIES

JI small-scale (SSC) rules draw to a large extent on the rules and modalities established for CDM SSC projects. In order to reduce transaction costs of small-scale projects, those projects which remain below certain threshold criteria are subject to simplified modalities and procedures. The threshold criteria for the definition of small-scale projects have been revised by CMP 2 for the three small-scale project categories and are as follows:

- 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 ktCO2eq annually.

The most important simplified modalities and procedures for JI SSC projects include

- A simplified project design document. For the most recent version of the JI-SSC-PDD[71], see the UNFCCC secretariat's website;
- Simplified methodologies for baseline determination and monitoring. JI SSC projects may apply the most recent versions of the approved CDM small-scale baseline and monitoring methodologies;[72]
- No advance payment at the time of determination (regarding the PDD) with an expected average annual generation of emission reductions or enhancements of removals over the crediting period below 15,000 tonnes of CO2 equivalent.

Furthermore, small-scale projects may be bundled at the stage of

a. Project design document,
b. Determination of the PDD,
c. Monitoring,
d. Determination of the reported emission reductions,

In order to save transaction costs related to the JI track 2 project cycle.

[71] http://ji.unfccc.int/Ref/Forms.html
[72] http://cdm.unfccc.int/methodologies/SSCmethodologies/approved.html

For detailed provisions on bundling of a number of projects to a single project, see Annex 1 and Annex 2 of the documentation resulting from the sixth JISC meeting, or any updated version of these documents.[73]

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 2 years;
d. Whose project boundary is within 1 km of the project boundary of the proposed JI small-scale project at the closest point.

[73] http://ji.unfccc.int/Sup_Committee/Meetings

7. BASELINE SETTING AND MONITORING

7.1. What is a baseline?

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, i.e. in the absence of the envisaged project. 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 which is described below.

7.2. Criteria for baseline setting and monitoring under JI track 2

In order to draw upon the experiences gained under the CDM, CMP1 decided that JI projects may, as appropriate, apply CDM baseline and monitoring methodologies approved by the EB.[74] Appendix B of the JI guidelines[75] specifies 'Criteria for baseline setting and monitoring under JI track 2' to be followed by project proponents. Furthermore, at its fourth meeting, the JISC agreed on 'Guidance on criteria for baseline setting and monitoring'.[76] In the following, we only outline some selected aspects relevant to the baseline setting and monitoring. For more detailed information, project proponents are advised to consult the most current version of the mentioned two documents.

7.2.1. Baseline setting

General principles for establishing the baseline

A baseline shall be established

a. On a project-specific basis and/or using a multi-project emission factor;
b. In a transparent manner with regard to the choice of approaches, assumptions, methodologies, parameters, data sources and key factors;

[74] See Decision 10/CMP.1 para 4 (a).
[75] http://unfccc.int/resource/docs/2005/cmp1/eng/08a02.pdf#page=2
[76] http://ji.unfccc.int/Ref/Documents/Baseline_setting_and_monitoring.pdf

c. Taking into account relevant national and/or sectoral policies and circumstances, such as sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector;
d. In such a way that emission reduction units (ERUs) cannot be earned for decreases in activity levels outside the project activity or due to force majeure (i.e. storms etc.);
e. Taking account of uncertainties and using conservative assumptions.

Gases and sectors included in the baseline

Emissions from all gases, sectors and source categories covered by the Kyoto Protocol[77] and anthropogenic removals by sinks, within the project boundary have to be included in the baseline.

Project boundary

The project boundary must encompass all anthropogenic emissions by sources of GHGs which are

i. Under the control of the project participants;
ii. Reasonably attributable to the project; and
iii. Significant.

7.2.2. Monitoring

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;

[77] see Annex I of the Kyoto Protocol

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.

7.2.3. Additionality

7.2.3.1. The concept of additionality

Additionality is a fundamental concept under the project-based mechanisms of the Kyoto Protocol. A JI project is additional if emissions are reduced below[78] those that would have occurred otherwise.[79] 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. Only those projects for which additionality is demonstrated in the project documentation are eligible to generate credits under JI track 2. As an equal amount of AAUs/RMUs is cancelled from the inventory of the host country when ERUs are transferred to the investor country, the host country should have an interest in the additionality of the ERUs generated on its territory.

7.2.3.2. Additionality under the CDM

Under the CDM, additionality has been discussed intensively and provides guidance to this concept under JI. The importance for additionality under the CDM is due to the fact that CDM host countries do not have emission reduction targets under the Kyoto Protocol, and therefore credits generated by CDM projects can not be cancelled from the account of the host country. Thus, non-additional credits would inflate the overall cap of the Kyoto Protocol and endanger its environmental integrity. In order to clarify the additionality concept, the Executive Board (EB) has elaborated the 'Tool for the demonstration and assessment of additionality'[80] (in the following called 'additionality tool'). The additionality tool is used by the majority of approved CDM methodologies. Project proponents wanting to submit a new methodology can incorporate the existing tool into their methodology, adapt the tool to their specific project type or propose an alternative tool. The use of the tool does not replace the need for the baseline methodology to justify the selection and determination of the most plausible baseline scenarios. The 'Combined tool to identify the baseline scenario and demonstrate additionality'[81] assists proponents of a new CDM methodology in ensuring consistency between the determination of additionality and the baseline scenario.

[78] For LULUCF projects enhancing removals, it should read: 'removals are increased above those...'
[79] See Kyoto Protocol Art. 6 para 1 (b)
[80] http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf
[81] http://cdm.unfccc.int/Reference/Guidclarif/EB28_repan14_Combined_tool_ver02.pdf

A separate additionality tool is available for A/R CDM project activities (Tool for the demonstration and assessment of additionality in A/R CDM project activities).[82] For small-scale projects, only a barrier analysis (see Attachment A to Appendix B: information on additionality[83]) has to be provided.

7.2.3.3. Additionality under JI

Annex I of the 'Guidance for baseline setting and monitoring'[84] states that additionality under JI track 2 can be demonstrated, inter alia, by using one of the following approaches:

a. In case an approved CDM baseline and monitoring methodology is used, all explanations, descriptions and analyses, inter alia with regard to additionality, shall be made in accordance with the selected methodology;

b. In all other cases, inter alia, one of the following options may be applied:

   i. Application of the most recent version of the "Tool for the demonstration and assessment of additionality[85]" approved by the CDM Executive Board (EB);

   ii. Application of any other method for proving additionality approved by the CDM EB;

   iii. Provision of traceable and transparent information showing that the baseline was identified on the basis of conservative assumptions, that the project scenario is not part of the identified baseline scenario and that the project will lead to reductions of anthropogenic emissions by sources or enhancements of net anthropogenic removals by sinks of GHGs;

   iv. Provision of traceable and transparent information that an Accredited Independent Entity has already positively determined that a comparable project (to be) implemented under comparable circumstances (same GHG mitigation measure, same country, similar technology, similar scale) would result in a reduction of anthropogenic emissions by sources or an enhancement of net anthropogenic removals by sinks that is additional to any that would otherwise occur and a justification why this determination is relevant for the project at hand.

[82] http://cdm.unfccc.int/EB/021/eb21repan16.pdf
[83] http://cdm.unfccc.int/methodologies/SSCmethodologies/AppB_SSC_AttachmentA.pdf
[84] http://ji.unfccc.int/Ref/Documents/Baseline_setting_and_monitoring.pdf
[85] http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf

7.2.3.4. The additionality tool

This additionality tool[86] 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.

7.2.3.5. Additionality and the Acquis Communautaire

Baselines of JI projects hosted by EU Member States have to consider the **Acquis communautaire.**[87] This means that the baseline has to represent the implementation of existing EU law. Special attention has to be given to baselines of JI projects taking place in EU accession countries, including agreed temporary exceptions in a transition period. Thus, additionality is only given in those cases, where the JI project activity reduced emissions beyond what is required by EU legislation. For more details, see section 2.4.2.

[86] http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf
[87] See Art. 11 b of the Linking Directive and § 3 (1) ProMechG.

GLOSSARY[88]

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 1 metric tonne of CO2 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 AAUs given for each industrial country equals its emissions budget per year in the Kyoto period 2008-2012. Assigned amount units may be exchanged through emissions trading.

[88] This glossary is based on the 'Glossary of CDM terms, Version 01' elaborated by the EB.

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.

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."

Certified emission reductions (CER)

A Kyoto Protocol unit equal to 1 metric tonne of CO2 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 CDM projects.

CFC

Chlorofluorocarbon.

CH4

Methane.

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.

CO2
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 COP 7)

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 (moP) to the Kyoto Protocol. 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 CMP 1)

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 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". 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)

Department of the Federal Environmental Agency (UBA) designated to implement the market-based climate change mechanisms. The DEHST is 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 for being registered as a CDM project (validation). Furthermore, DOEs verify the actual emission reductions of registered CDM projects (verification) and request the EB to issue CERs accordingly. The EB has to accredit DOEs separately for validation and verification as well as for different sectoral scopes.

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, 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).

European Emissions Trading System (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 the Parties to the Kyoto Protocol.

Emission reduction unit (ERU)

A Kyoto Protocol unit equal to 1 metric tonne of CO2 equivalent. ERUs are generated for emission reductions or emission removals from Joint Implementation projects.

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, Joint Implementation and international emissions trading.

Global warming potential (GWP)

Global warming potentials (GWPs) 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.

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.

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 standing on its own, and requiring separate ratification by governments, but linked to 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 by which a participating government of a CDM project authorizes the respective CDM project. A LoA of the host country is obligatory for registration, while investor country approval is necessary latest for the transfer of CERs to the national registry of the investor country.

Letter of Endorsement (LoE)
Preliminary confirmation by a participating government that it generally supports a CDM project. The LoE is issued to the project proponents if the DNA - 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..

N2O
Nitrous oxide.

Non-Annex I Parties
All countries not listed in the annex 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.

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 (CPAs).

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, a project participant is (a) a Party involved or (b) a legal entity authorized by a Party involved to participate in the JI 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.

Removal unit (RMU)

A Kyoto Protocol unit equal to 1 metric tonne of carbon dioxide equivalent. RMUs 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 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. ERUs/CERs from these projects activities can only be issued, if an equal amount of EU allowances is cancelled from the set-aside.

SF6

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