

# Experience and future directions for Kyoto's Joint Implementation mechanism

**JISC Q&A session**

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*Benoit Leguet, Chair*

Joint Implementation Supervisory Committee

## Overview

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- Why the JISC has prepared this report
- How far we have come with JI so far
- Action areas for re-orientating the JI work programme
  - Improvements to JISC guidance
  - Enhanced collaboration with DFPs and stakeholders
- Building on the JI approach for beyond 2012
  - Addressing a potential gap in targets
  - Potential changes to the operational and financial models of JI

## Why the JISC has prepared this report

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- CMP 5 requested the JISC to report to CMP 6
  - On its experience with the JISC verification procedure, with a view to making improvements for the future operation of JI
  - A financial projection to 2012 (incl. timing of becoming self-financing)
- Report presents the JISC's assessment of JI experience and possible steps to develop it in the medium and long terms
- Stakeholder responses to a public call taken into account

“Report on experience with the verification procedure under the JISC and possible improvements to the future operation of joint implementation”

*Annex I of the JISC report to CMP 6 (FCCC/KP/CMP/2010/9)*



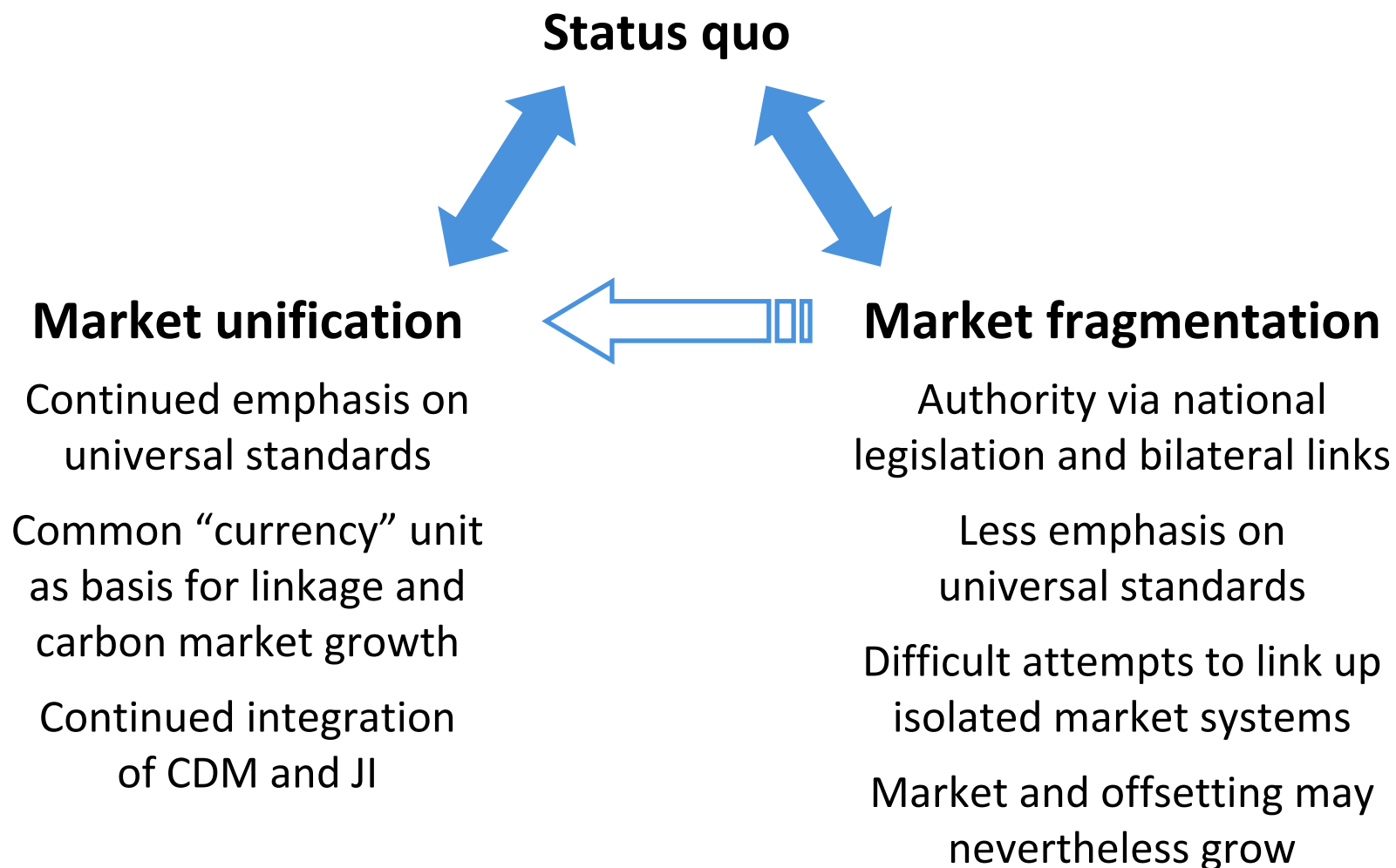
## A unique mechanism

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- JI track 2 is currently the key offset standard for an environment of “capped” emissions
- JI offset credits hold value in the market
  - Comparability – a tonne is a tonne is a tonne
  - Universally accepted units for trading and compliance purposes
  - Integrity of reductions and removals made
- Main characteristics of JI
  - Wide flexibility in allowable project types and sectors
  - Assurance of real and additional emission reductions
  - Engagement of the private sector in mitigation efforts
- Comprehensive and robust procedures and experience in place on which future growth can be built

## Need for JI approach under any potential market direction

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## Overall messages from the JISC's work

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- Enormous potential for growth in offset supply
- Offsetting mechanisms in a capped environment can channel resources towards potentially any mitigation opportunity
- Current levels of JI activity make it difficult to keep momentum in developing and regulating the mechanism
  - Current overall size of the mechanism remains small for now
  - Higher numbers of projects being developed but there is a slow – though increasing – pace in bringing these to market

### → JISC proposes a two-fold response

- JISC to focus its attention in the medium term on increasing the number of JI projects being developed and implemented
- Parties need to consider longer term changes in the operational and financial models on which JI functions



Action areas for re-orientating the  
present work programme



## Action areas: further improving the verification procedure

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- Specific improvements to the clarity and consistency of JISC guidance, in particular on issues between PPs and AIEs
  - Example: Clarify which aspects of the CDM additionality tool are applicable under JI Track 2
  - Example: Merge guidance into a single PDD manual
- Explore time limits for phases during the project cycle, in particular between PDD publication and determination
- Use electronic decisions, in particular for reviews
- Revise guidance to support simple/innovative methodologies
  - Example: application of standardized baselines and default values
  - Example: streamlined demonstration of additionality





## Action areas: increasing the number of AIEs

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- JI may be hindered by the small number of AIEs and delays in the preparation of determinations and verifications
  - JISC has already agreed changes for witnessing activities
    - Replace ex-post witnessing with performance assessments
    - Use Track 1 projects as witnessing for Track 2 accreditation
    - Temporary suspension of requiring additional ex post witnessing activities within 1.5 year of initial accreditation
- JISC to revise accreditation procedure to reflect changes
- JISC to consider further streamlining of the accreditation process by building on synergies with, and lessons learned from, other accreditation processes

## Action areas: enhancing cooperation with DFPs

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- Explore with DFPs the establishment of a DFP forum
  - Create a platform for DFPs to exchange views and experiences
  - Harmonize requirements of the national approval processes
  - Harmonize JI Track 1 verification procedures
  - Provide a basis for capacity-building under both tracks
- Other benefits could arise
  - Enhance and clarify the engagement of DFPs in JI
  - Reduce delays in national approval process
  - Enhance transparency issues in JI Track 1



## Action areas: enhanced communication with other stakeholders

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- Project delays due to low quality of submissions, technical implementation of projects, and slow responsiveness in contract negotiations, decision-making and communication
  - Raise understanding of JI's strengths among policymakers
    - Wide applicability of JI (not just CIS, Central and Eastern Europe)
    - Assurance of real and additional emission reductions
    - Engagement of the private sector in mitigation efforts
    - Cost reduction in mitigation efforts and market-based financing: host Party's best interest
- JISC requests secretariat to enhance outreach activities through a communications strategy, the JI website, support for capacity-building activities, JI related events, etc
- JISC to engage more actively in outreach and with media



## Action areas: enhancing the JISC's financial stability

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- JISC activities continue to be vulnerable to unpredictable funding fluctuations (fees and Party contributions)
- Party contributions continue to be essential in the next years

### → Possible actions now

- Contingency plan to identify further savings in 2010–2011 and prioritize JISC activities (ensuring day-to-day operations)
- Consider bringing forward fee payments by increasing advance fees due at the determination stage

### → Recommend CMP to introduce a fee for Track 1 activities to address current subsidization of Track 1 activities by the JISC

- Example: PP fee upon publication of projects
- Example: PP fee on issuance of Track 1 ERUs



Building on the JI approach for beyond 2012

## CMP recommendation: addressing a post-2012 gap

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- JI projects and verification may continue after 2012
- Rules for reductions in first commitment period are clear
  - Conversion of AAUs/RMUs to ERUs may continue after 31 Dec 2012
  - ERUs converted from AAUs (not from RMUs) may be carried over, up to a Party limit of 2.5% of its assigned amount
- But, in absence of certainty on CP2 targets, it is unclear if reductions achieved from 1 Jan 2013 onwards may be issued

### → Recommends CMP to

- Clarify that the JISC is to continue its work beyond 2012
- Allow ERUs for Track 2 projects to be converted from AAUs or RMUs from the first commitment period, until the end of the true-up period or entry into force of new commitments, whichever is sooner



## Building on JI – getting the best of both worlds

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### Track 1

Pro: Flexibility of host-Party driven definition of procedures

Con: Burden of procedure definition lies with Parties

Con: Stakeholders confronted with many different procedures

Con: Less transparency

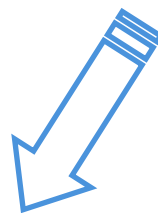
### Track 2

Pro: International oversight guarantees integrity and value

Pro: Stable and consistent procedures, with full transparency

Pro: Takes burden of procedure definition and implementation

Con: Less flexibility for host Parties in defining procedures



**Can we blend the pros while limiting the cons?**

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## Building on JI – key questions to answer

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- What system changes can realize the JI growth potential?
  - Harmonizing standards and procedures
  - Ensuring process simplicity and efficiency
  - Building universal acceptance of standards and tradability of units
  - Concentrating limited number of projects in fewer variants of the mechanism (and sharing administrative costs across all activities)
  - Reducing dependence on development of national procedures
- How to balance harmonization with host Party definition?
  - Ensure host Party involvement in the harmonization process
  - Build institutions to support the harmonization process
  - Host Parties set own criteria for national project approval
  - Host Parties may formulate complementary programmes (eg GIS)





## Need to change the JI operational model

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- **Option 1: formulate a new, single JI track**
  - New standard-setting body to harmonize and strengthen national procedures
  - Emphasize facilitation of offsets through simple, consistent and transparent procedures, while ensuring environmental integrity
  - New track would be positioned between the current tracks
- **Option 2: maintain but strengthen the separate tracks**
  - Track 1: CMP urges or mandates DFP collaboration to harmonize and strengthen national procedures for project approval and verification
  - Track 2: JISC simplifies its procedures, while ensuring both process efficiency and environmental integrity
  - Each track would be improved, though no institutional support would be given and limitations of two-track model may not be overcome



## Potential procedural revisions

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- Streamlined demonstration of additionality
  - Positive technology lists (e.g. renewables, energy efficiency)
  - Greater use of standardized baselines and default values
- National approval only by the host Party
- Harmonized procedures for national approval of projects
- Merging of the CDM and JI accreditation processes
  - Joint CDM/JI committee responsible for process and decisions
  - CDM and JI specific requirements, as necessary
  - Entities accredited for CDM or JI, or preferably both
- Set-aside of AAUs or RMUs by host Parties, upon positive determination of PDDs, for subsequent issuance as ERUs
- Strengthen links with national emissions trading systems



## Potential governance revisions

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- Standard-setting body, not a project assessment body
  - Established by, and accountable to, the CMP
  - Provide policy framework for implementation at national level (recognizing that targets are not inflated by offsets in capped system)
  - Monitor conformity of national implementation and report to CMP
- Improved collaboration with DFPs, AIEs and stakeholders
- Ensure membership reflects necessary skills and expertise
- Consider composition of members in light of any new operational model adopted



## Need to change the JI financial model

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- JISC operational environment is vulnerable to unpredictable fluctuations in fees and Party contributions
- JISC activities subsidize Track 2 activities, with no cost sharing

### → Potential solutions

- Agreed sharing of costs through “mandatory” Party contributions
  - Fixed shares (equal or via an adjusted UNFCCC funding scale)
  - Variable amounts, based on level of ERU issuance
- Scale up JI so that current accreditation/verification fees are enough
- New fees to raise JISC funds from both tracks
  - PP fee on ERU issuance
  - Charge for DFP use of JISC procedures and systems

## CMP recommendation: synergy of model changes

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- CMP should consider the double-solution of merging tracks
  - Best chances to substantially grow JI and bring economies of scale, to provide sufficient fee-based income for sustainable funding
  - Brings all JI activities under one framework and cost structure, to ensure that JI costs are shared across all JI activities
- Also that maintaining separate tracks may bring less scale but JISC could still receive fees and charges from track 1

→ Recommends the CMP to:

- Initiate the first review of the JI guidelines at CMP 7 (see decision 9/CMP.1, para 8)
- Request the JISC to recommend options to CMP 7 for building on the JI approach, as an input to the review

# United Nations Framework Convention on Climate Change

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[www.unfccc.int/ji](http://www.unfccc.int/ji)

