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Matters relating to joint implementation

**Annual report of the Joint Implementation Supervisory
Committee to the Conference of the Parties serving as
the meeting of the Parties to the Kyoto Protocol**

Summary

This report covers the work carried out by the Joint Implementation Supervisory Committee (JISC) from 1 October 2015 to 21 September 2016. The work carried out in the reporting period included the preparation of mandated recommendations relating to the implementation of the draft joint implementation (JI) modalities and procedures, which were submitted to the Subsidiary Body for Implementation at its forty-fourth session, and reflections on and analysis of experiences and lessons learned from JI, which are included in this report for the consideration of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. The JISC also adopted changes to the JI accreditation system, allowing designated operational entities under the clean development mechanism to serve as accredited independent entities under JI.

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I. Introduction

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), by decision 10/CMP.1, established the Joint Implementation Supervisory Committee (JISC) to supervise, inter alia, the verification of emission reductions or removal enhancements generated by projects under Article 6 of the Kyoto Protocol (hereinafter referred to as JI¹ projects) in accordance with the “Guidelines for the implementation of Article 6 of the Kyoto Protocol” (hereinafter referred to as the JI guidelines).²

2. In accordance with paragraph 3(a) of the JI guidelines, the JISC is required to report on its activities to each session of the CMP. The CMP provides guidance regarding the implementation of Article 6 of the Kyoto Protocol and exercises authority over the JISC.

B. Scope of the report

3. This annual report of the JISC to the CMP covers joint implementation (JI) activities carried out between 1 October 2015 and 21 September 2016 (hereinafter referred to as the reporting period). The Chair of the JISC, Mr. Konrad Raeschke-Kessler, will highlight any relevant subsequent matters in his oral report to CMP 12.

4. This report describes the status of the JI mechanism and covers the work undertaken by the JISC during the reporting period, including its responsibilities relating to the operation of the verification procedure under the JISC (hereinafter referred to as JI Track 2),³ the operation of the JI accreditation process and the financial status of the JI mechanism.

5. Full details of the operation and functions of the JISC are available on the web pages on JI on the UNFCCC website, which are the central repository for reports on meetings of the JISC, JI project- and accreditation-related information and documents adopted by the JISC.⁴

C. Possible action to be taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

6. The CMP may wish to review this report and take note of the oral report by the Chair of the JISC to CMP 12.

7. In accordance with paragraphs 4 and 5 of the JI guidelines, the CMP is to elect JISC members for a term of two years, upon receipt of nominations from Parties, as follows:

(a) Two members and two alternate members from Parties included in Annex I that are undergoing the process of transition to a market economy;

(b) Two members and one alternate member from the Parties included in Annex I not referred to in paragraph 7(a) above;

(c) One member and one alternate member from Parties not included in Annex I.

¹ Joint implementation.

² Annex to decision 9/CMP.1.

³ Outlined in paragraphs 30–45 of the JI guidelines.

⁴ <<http://ji.unfccc.int>>.

8. The CMP may wish to review the recommendations of the JISC contained in annexes I and II and to take any action it deems appropriate.

II. Status of joint implementation

9. Activity under JI virtually ceased at the end of the first commitment period of the Kyoto Protocol in 2012. The last issuance of emission reduction units (ERUs) under JI Track 1⁵ was reported in August 2015, whereas the last Track 2 ERU issuance was reported in October 2014 (see chapter III.D below).

10. As ERUs are created by converting part of a country's assigned amount units under the Kyoto Protocol into ERUs, host Parties for JI are currently unable to issue ERUs for the second commitment period. They will not be able to do so until the Doha Amendment enters into force, and enters into force for that Party.

11. The JISC continues to fulfil its mandate, keeping JI available for use by Parties and responding to requests from Parties. However, as the Subsidiary Body for Implementation (SBI) has now completed its review of the JI guidelines and made a recommendation to the CMP, unless instructed otherwise by Parties the JISC will pursue no further developmental work on the mechanism.

III. Work undertaken in the reporting period

A. Implementation of the draft joint implementation modalities and procedures, including changes

12. In response to the request contained in decision 7/CMP.11, paragraphs 4 and 5, the JISC agreed at its 38th meeting on two recommendations, which were subsequently submitted to SBI 44, on the following:

(a) Actions that would be necessary to implement the draft JI modalities and procedures;⁶

(b) Options to address concerns raised by stakeholders and validation by an accredited independent entity (AIE) of post-registration changes, in the context of the review of the JI guidelines.⁷

B. Lessons learned from and uses for joint implementation

13. In response to the request contained in decision 7/CMP.11, paragraph 7, to reflect on synergies between joint implementation and other mitigation mechanisms to ensure the cost-efficient use of resources, the JISC considered this matter during the reporting period and agreed on its final recommendations, as contained in annex I.

⁵ In accordance with paragraph 13 of the JI guidelines, under JI track 1, national governments, not the JISC, are responsible for the oversight of projects and for the issuance of ERUs from those projects.

⁶ See document FCCC/SBI/2016/INF.7.

⁷ See document FCCC/SBI/2016/INF.8.

C. Accreditation of independent entities

14. The JISC extended the term of the Joint Implementation Accreditation Panel members until 1 August 2016, and elected Mr. Benoît Leguet as the Chair and Mr. Carlos Fuller as Vice-Chair for that period.

15. The Joint Implementation Accreditation Panel did not hold a meeting during the reporting period, but conducted its work through electronic means to ensure continuity of the accreditation processes.

16. Since the inception of the JI accreditation process, 14 independent entities have been granted accreditation. At the end of the reporting period, there were two AIEs. Ten AIEs voluntarily withdrew and two accreditations expired, all in previous reporting periods.

17. In order to reduce costs, after careful consideration of the current demand, impacts and risks, the JISC decided to allow designated operational entities (DOEs) accredited under the accreditation rules of the clean development mechanism (CDM) to act voluntarily as AIEs under JI, and agreed to rely on the CDM accreditation system for all accreditation functions, while taking measures to safeguard environmental integrity (see para. 18 below). The decision was effective from 2 August 2016. On that date, meetings of the Joint Implementation Accreditation Panel, AIE assessment activities, calls for JI assessment team experts and the primacy of regulatory documents related to JI accreditation adopted by the JISC ceased.

18. In order to address any issues that may arise from DOEs acting as AIEs, given that neither the JISC nor the Executive Board of the CDM will actively review DOEs acting as AIEs during the determination and verification of JI activities, the JISC agreed to adopt a revised complaint procedure and make it effective as of 2 August 2016. The JISC also agreed to maintain the current appraisal and review procedures.

19. DOEs were invited to express interest in voluntarily acting as AIEs and declare competence to determine and verify JI projects as of 2 August 2016 by completing a declaration form. Those DOEs designated for sectoral scope 14 under the CDM may act as AIEs for the JI sectoral scope for land use, land-use change and forestry.

20. By the end of the reporting period, 12 DOEs were deemed accredited to act as AIEs.

D. Verification procedure under the Joint Implementation Supervisory Committee

21. In the reporting period, and as in the previous reporting period, no determination or verification cases were submitted for processing under JI Track 2.

22. Since the inception of JI, 597 JI projects have been published under Track 1, of which 548 have received unique project identifiers and have been submitted to the international transaction log. Information on 332 projects and 1 programme of activity under JI Track 2 has been made available on the JI web pages. A total of 52 determinations regarding project design documents have been published, of which 51 have been deemed final, while of the 129 published verifications 128 have been deemed final.⁸ A total of 871,893,629 ERUs have been issued, of which 846,477,357 were under Track 1 and 25,416,272 under Track 2.

⁸ The determinations and verifications have been published on the JI web pages. Of 129 published emission reductions, 128 were deemed final in accordance with paragraph 39 of the JI guidelines and 1 was withdrawn (as opposed to 130 verifications published and 129 verifications deemed final as reported in document FCCC/KP/CMP/2015/4).

IV. Governance and management matters

A. Interaction with bodies and stakeholders

23. The JISC continued its regular interactions with independent entities and AIEs and project developers in the reporting period, encouraging them to provide written inputs and inviting the Chair of the Designated Operational Entities/Accredited Independent Entities Coordination Forum and the Chair of the Project Developer Forum to meetings of the JISC.

24. The JISC made itself available to registered observers at its meetings and held a special side event at CMP 11 titled “The potential for crediting mitigation actions across countries with different types of INDCs”.⁹ An audio file of the panel discussion is available on the UNFCCC JI web pages.¹⁰

B. Outreach activities

25. The secretariat supported the JISC in reaching out to the media, promoted JI through social media, supported the JISC in holding a side event at CMP 11 (see para. 24 above), and maintained the JI web pages as a promotional tool and repository of information relating to the mechanism.

C. Membership issues

26. CMP 11 elected new members and alternate members of the JISC to fill vacancies arising from the expiration of the terms of tenure of outgoing members and alternate members. During the reporting period, the JISC comprised the members and alternate members listed in table 1.

27. The JISC wishes to highlight to the CMP the importance of constituencies filling vacant seats and the impact of vacant seats on constituting a quorum. The JISC encourages constituencies with vacant seats to nominate individuals to join the JISC.

Table 1

Members and alternate members of the Joint Implementation Supervisory Committee elected by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eleventh session

<i>Member</i>	<i>Alternate member</i>	<i>Constituency</i>
Ms. Veneta Borikova ^a	Ms. Irina Voïtekhovitch ^a	Parties included in Annex I with economies in transition
Vacant ^{b, c}	Mr. Carlos Fuller ^{b, d}	Parties not included in Annex I
Ms. Julia Justo Soto ^a	Mr. Komi Tomyeba ^a	Parties not included in Annex I
Mr. Benoît Leguet ^a	Mr. Jakob Lenz ^a	Parties included in Annex I
Ms. Gherghita Nicodim ^a	Mr. Mykhailo Chyzenko ^a	Parties included in Annex I with economies in transition
Mr. Guoqiang Qian ^b	Vacant ^{b, e}	Parties not included in Annex I

⁹ INDCs = intended nationally determined contributions.

¹⁰ <<http://ji.unfccc.int/Workshop/1115.html>>.

<i>Member</i>	<i>Alternate member</i>	<i>Constituency</i>
Mr. Konrad Raeschke-Kessler ^b (Chair)	Ms. Vanessa Leonardi ^b	Parties included in Annex I
Mr. Takahiko Tagami ^a	Vacant ^{a,f}	Parties included in Annex I
Mr. Albert Williams ^b (Vice-Chair)	Mr. Derrick Oderson ^b	Small island developing States
Ms. Izabela Zborowska ^b	Ms. Iryna Rudzko ^b	Parties included in Annex I with economies in transition

^a Term: two years, ending immediately before the first meeting of the Joint Implementation Supervisory Committee (JISC) in 2017.

^b Term: two years, ending immediately before the first meeting of the JISC in 2018.

^c Ms. Carola Borja resigned effective 26 February 2016.

^d Nomination pending since the eleventh session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). Mr. Fuller remains in office until his successor is nominated by the respective regional group/constituency.

^e Mr. Chebet Maikut resigned effective 18 May 2016.

^f Nomination pending since CMP 10.

D. Election of the Chair and the Vice-Chair of the Joint Implementation Supervisory Committee

28. At its 38th meeting, the JISC elected by consensus Mr. Raeschke-Kessler, a member from a Party included in Annex I, as its Chair, and Mr. Albert Williams, a member from a Party not included in Annex I, as its Vice-Chair. Their tenures will end immediately before the first meeting of the JISC in 2017.

29. The JISC expressed its deep appreciation to the outgoing Chair, Ms. Julia Justo Soto, and Vice-Chair, Mr. Raeschke-Kessler, for their excellent leadership during 2015.

E. Meetings in 2016

30. The JISC held two meetings in 2016: its 38th meeting, on 17 and 18 March, and its 39th meeting, on 20 and 21 September, both in Bonn, Germany.

31. The annotated agendas for the JISC meetings, documentation on supporting agenda items and reports containing all agreements reached by the JISC are available on the JI web pages.¹¹

V. Status of financial resources for the work of the Joint Implementation Supervisory Committee and its supporting structures

32. In accordance with decision 5/CMP.10, the JISC is ensuring sufficient infrastructure and capacity for Parties to use the mechanism until at least the end of the additional period for fulfilling commitments under the second commitment period of the Kyoto Protocol.

33. During the reporting period, the JISC continued to carefully monitor¹² the status of, and prudently utilize, the resources available for the work on JI. Resources were used in

¹¹ <http://ji.unfccc.int/Sup_Committee/Meetings/index.html>.

support of the approved two-year business plan and management plan for 2016–2017, as detailed in the JISC workplan for 2016,¹³ including:

- (a) Two meetings of the JISC;
- (b) Work in response to decision 7/CMP.11;
- (c) Activities relating to the JI accreditation system.

34. In order to fully meet the mandate in decision 5/CMP.10, in relation to the efficient, cost-effective and transparent functioning of JI, the JISC considered a set of potential additional efficiency measures and agreed to make recommendations to the CMP in this regard, as set out in annex II.

35. A summary of the income of the JISC in 2016 is provided in table 2. Tables 3 and 4 contain information on income and expenditure for the reporting period, including the status of income and expenditure against budget.

Table 2

Income for the work of the Joint Implementation Supervisory Committee for 2016

(United States dollars)

	<i>Amount</i>
Carry-over from 2015 ^a	5 285 401
Contributions received in 2016	-
Total joint implementation Track 1 fees for 2016	-
Total joint implementation Track 2 fees for 2016	-
Total income with 2015 carry-over	5 285 401

Note: The financial reporting period in 2016 is from 1 January to 31 August.

^a Includes joint implementation Track 2 fees previously held in reserve and exchange rate losses on fund balance held as a result of exchange rate fluctuations between euros and United States dollars. At the time of reporting, exchange rate losses amounted to USD 972,454.32. Accordingly, the carry-over figure of USD 6,399,988 from 2015 has been reduced to USD 5,285,401.

36. The JISC, while acknowledging that the secretariat operates internationally and is exposed to foreign exchange risk arising from various currency exposures, at its 39th meeting requested the secretariat to manage its investment holdings to correspond to the foreign currency needed for operational purposes, in order to recognize that constituted bodies managing budgets need to be able to plan for the long term.

37. The budget and expenditure of the JISC for 2016 is shown in table 3.

Table 3

Comparison of the actual expenditure versus the budget of the Joint Implementation Supervisory Committee for 2016

(United States dollars)

<i>Comparative status of expenditure against budget</i>	<i>2016^a</i>
Budget	826 998
Expenditure	600 811

¹² The CMP, by decisions 3/CMP.2, 3/CMP.3, 5/CMP.4, 3/CMP.5, 4/CMP.6, 11/CMP.7 and 6/CMP.8, requested the JISC to keep the JI management plan under review and to make adjustments as necessary to continue ensuring the efficient, cost-effective and transparent functioning of the JISC.

¹³ <<http://ji.unfccc.int/UserManagement/FileStorage/F2P8IN05HAE79L1V64WRQ3CDKUYGJT>>.

<i>Comparative status of expenditure against budget</i>	2016 ^a
Difference	226 187

^a The financial reporting period in 2016 is from 1 January to 31 August.

38. Table 4 summarizes the financial status of the JI mechanism for 2016, showing a balance at the end of the reporting period of around USD 4.7 million.

Table 4

Financial status of the Joint Implementation Supervisory Committee for 2016

(United States dollars)

<i>Summary of current financial status as at 31 August 2016</i>	<i>Amount</i>
Carry-over from 2015	5 285 401
Contributions from Parties in 2016	-
Income from joint implementation fees (tracks 1 and 2)	-
Subtotal	5 285 401
Expenditure in 2016	600 811
Balance	4 684 590

VI. Recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

39. The JISC invites the CMP to consider its recommendation related to reflections on and analysis of experiences and lessons learned from JI, as contained in annex I.

40. The JISC also invites the CMP to consider its recommendations related to additional efficiency measures for the operation of the JISC, as contained in annex II.

Annex I

Reflections on and analysis of experiences and lessons learned from joint implementation

I. Procedural background

1. At its eleventh session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) requested¹ the Joint Implementation Supervisory Committee (JISC) to reflect on synergies between joint implementation (JI) and other mitigation mechanisms. These reflections should focus on the cost-efficient use of resources, the coherence of mitigation instruments and the avoidance of double counting, in particular regarding the infrastructure and technical arrangements, tools, governance structures and processes.

2. The CMP also requested² the JISC to prepare an analysis of the experiences and lessons learned from JI for the possible design of mitigation mechanisms and on links and interactions with other tools. Such an analysis is to take into account submissions from Parties and admitted observer organizations and any other relevant materials. The CMP requested that the analysis by and reflections of the JISC be forwarded to CMP 12.

II. Purpose

3. The objective of this annex is to provide to the CMP:

(a) The analysis by the JISC of experiences and lessons learned from JI for the possible design of future mitigation mechanisms and of links and interactions with other tools;

(b) The reflection of the JISC on synergies between JI and other mitigation mechanisms.

III. Recommendation of the Joint Implementation Supervisory Committee to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

4. The JISC recommends that the CMP take note of the reflections and analysis presented below.

A. Experiences and lessons learned from joint implementation for the possible design of mitigation mechanisms

5. This chapter outlines the areas that have been identified as key while considering experiences and lessons learned from JI. Each area described below includes an analysis of its importance for the possible design of mitigation mechanisms. On a broader level, JI is a mechanism that provides for the crediting of activities in sectors or economies that are subject to quantitative emission limits. JI operations have shown how a crediting

¹ Decision 7/CMP.11.

² As footnote 1 above.

mechanism can work within quantitative emission limits and/or targets. This operational experience should be taken into account whenever drawing from experiences and lessons learned from JI.

1. Modalities and procedures for high-level requirements

6. The decisions of the CMP on the JI guidelines and also on the clean development mechanism (CDM) modalities and procedures are more detailed than necessary in some parts. These can be procedurally difficult to change and could unnecessarily restrict and complicate the work of the regulatory bodies charged by the CMP to administer the mechanisms. In addition, the decisions sometimes do not elaborate principles that could guide implementation when issues emerge that were not foreseen at the time of their adoption.

7. An important lesson from JI for the design of a future crediting mechanism may therefore be to concentrate the modalities and procedures on principles and criteria that need to be fulfilled as well as on the roles and responsibilities of various actors in the mechanism for the fulfilment of those principles and criteria, and perhaps to provide an overview of the processes foreseen. Ultimately, when designing a new mechanism, the criteria for inclusion in the modalities and procedures could be whether it requires political guidance by Parties and whether the governing body is given sufficient clarity in operationalizing the mechanism.

2. International oversight

8. An important lesson from JI is that the authority of a regulatory body, when working in an objective manner to supervise a mechanism, has a substantial impact on the way that the mechanism is perceived. The activities credited under JI and other mechanisms have substantial value and, in this context, it is almost inevitable that host governments will at times be perceived as having a conflict of interest. In particular, it has been observed that the lack of international oversight under JI Track 1, which was governed exclusively by host Parties, may have affected the integrity of JI activities. This includes the quality of auditing services, the use of inappropriate and inconsistent methodological approaches, project approval, post-registration changes and monitoring of emission reductions.³

9. Based on this understanding, the JISC had previously proposed to merge the two tracks of the JI project cycle. The need for greater international oversight of JI is reflected in the annex to document FCCC/SBI/2016/L.8, entitled “Work undertaken by the Subsidiary Body for Implementation on the review of the joint implementation guidelines”, which outlines a single track for JI under the supervision of the JISC. Under this, JI activities were to be implemented by the host Party at the national level based on mandatory international standards and procedures and under the supervision of the JISC. The work undertaken by the SBI on the review of the JI guidelines stipulates that in exercising its supervision, the JISC shall evaluate the conformity of the national implementation of JI against international standards. The JISC can also review the registration of JI activities as well as the issuance of emission reduction units (ERUs) by the host Party to the JI activity.

³ Kollmuss A, Schneider L and Zhezherin V. 2015. *Has Joint Implementation reduced GHG emissions? Lessons learned for the design of carbon market mechanisms*. Stockholm Environment Institute, Working Paper 2015-07. Available at <<http://www.sei-international.org/mediamanager/documents/Publications/Climate/SEI-WP-2015-07-JI-lessons-for-carbon-mechs.pdf>>.

3. Transparency

10. Transparency, in the context of carbon crediting mechanisms, means the extent to which information regarding an emission reduction activity is disclosed to the public. This disclosure involves explaining the assumptions and methodologies applied in establishing the emission reductions achieved by the activity clearly and in such a manner that the results can be independently replicated.

11. JI Track 1 previously suffered criticism for the lack of transparency regarding the public availability of information on JI activities. In response, the CMP requested that all JI Track 1 key project documentation, such as project design documents, monitoring reports, and determination and verification reports, be submitted to the secretariat to be made available (in English) on a central registry.

12. This valuable lesson from JI Track 1 has already been reflected in the text on the work undertaken by the Subsidiary Body for Implementation (SBI) on the review of the JI guidelines referred to in paragraph 9 above, which included requirements to ensure the transparency of decision-making processes and local stakeholder consultation and the rights of directly affected entities to hearings prior to decision-making, timely decisions and appeals against decisions. The importance of ensuring transparency would be a useful lesson in the design of future crediting mechanisms.

4. Standardization of common approaches

13. The general experience under JI Track 1 was the non-standardization of methodologies being applied as each host Party developed its own approach. This led to similar activities being treated differently and resulting in different outcomes depending on the host Party where the activities were located. By contrast, under both JI Track 2 and the CDM, project participants have benefited from uniform approaches, processes and standards being available to them, irrespective of where in the world they operate. This significantly reduces the capacity and transaction costs required for entities to operate in multiple jurisdictions.

14. In the case of methodologies, standardizing parameters in an objective manner across many activities, instead of calculating them for each activity individually, can significantly simplify their implementation, reduce transaction costs, enhance transparency, and facilitate objectivity and predictability. Standardization can be achieved through various means, including emission intensity benchmarks,⁴ default values,⁵ positive lists of activities that are considered automatically additional⁶ and barrier tests.⁷ As an example, standardized baselines have been emerging under the CDM and are able to cover whole sectors of economies without excluding the additionality requirements. These standardized approaches are most welcomed by developers of mitigation activities that aim to go beyond project-specific approaches.

⁴ Where emission rates are per unit of output and are based on the current and/or future performance of a peer group of similar plants or installations.

⁵ This could include, for example, grid emission factors, Intergovernmental Panel on Climate Change default values for fuel characteristics and other common values, as well as conservative estimates of the emission reductions per unit for a given activity/product (e.g. a solar lamp or a compact fluorescent lamp), which can be multiplied by the number of units installed in order to calculate the total emission reductions achieved without monitoring each unit.

⁶ These positive lists may be applied to activities that face high barriers to investment and/or those that have no, or few, financial benefits other than the revenues from certified emission reductions/ERUs.

⁷ Where activities are considered additional if the technology used has not reached a certain level of market penetration in a particular country or region.

15. In the case of accreditation, synergy and alignment between the mechanisms could be expected to improve quality and efficiency in operating them and reduce transaction costs for those being accredited. A lesson learned from JI is that it can be costly and cumbersome to maintain separate accreditation systems as this can act as a disincentive for participation, particularly when one system is smaller than the other. A single system that offers similar services would provide for the consistent use of best practices, consistency in approaches to the same issues and standards, and significant cost savings for the regulatory bodies, the secretariat, project participants and other stakeholders.

16. The design of future crediting mechanisms could draw upon these lessons from JI and the CDM on standardized common functions as much as possible while still allowing flexible application of the standards.

5. Building on existing infrastructure

17. For more than a decade there has been considerable investment in the processes, standards, systems and capacity of JI and to a greater extent the CDM. In the design of future mechanisms, particularly if they follow a baseline-and-crediting approach, the mechanisms will need to apply the same or similar infrastructure and there may be benefit in integrating the infrastructure, or at least aspects of it, directly into the design of future mechanisms. This would still allow for adjustments to be made to further streamline the implementation of the infrastructure and the activities conducted under it. Such aspects of the infrastructure may include:

- (a) The modalities and procedures for JI and/or the CDM;
- (b) The project cycle developed for activities under the JI/CDM and/or as envisioned by Parties in the proposed JI modalities and procedure;
- (c) The system for accrediting independent third-party validators and verifiers under the JI and/or CDM;
- (d) The registry for any internationally issued emission reduction credits, possibly building on the existing CDM registry;
- (e) The international transaction log (ITL) for tracking internationally transferred credits.

18. A further lesson learned from the experience of JI and the CDM for the design of a future mechanism would be the advantage of starting with a digitized system that can help reduce the overall complexity of the system, improve user-friendliness and reduce overall transaction costs.

6. Ensuring opportunities for early action or a 'prompt start'

19. The decision by the CMP not to allow early action under JI by not allowing issuance of ERUs for pre-2008 emission reductions hampered the early development of JI. For the CDM, on the other hand, Parties actively facilitated a prompt start through decision 17/CP.7 by providing for the CDM Executive Board to commence the establishment of the CDM system immediately after the Marrakesh Accords had been adopted in 2001. The scope of retroactive crediting for emission reductions achieved prior to the registration of CDM project activities was ultimately decided by the CMP after it commenced its functions with the entry into force of the Kyoto Protocol. On the other hand, it has also been argued that the retroactive crediting of emission reductions seriously compromised the

integrity of JI,⁸ and possibly of the CDM, by allowing for existing emission reduction activities to compete with and potentially undermine investment in new activities.

20. However, unlike both JI and the CDM, the design of a future mitigation mechanism will not start from scratch; instead it has almost 15 years of experience and activity to draw upon. In the CDM, and to a lesser extent JI, there exists a pipeline of activities that could, if Parties so wish, benefit from emission credits beyond 2020 through their potential crediting periods. Unfortunately for JI, crediting periods were often limited by national legislation, and in many cases ended in 2012. As JI and CDM were relatively new mechanisms without any previous experience to draw upon, stakeholders and investors understood the merits of the learning by doing approach taken by the regulatory bodies and accepted the need for changes necessary to address problems and difficulties that have arisen in the implementation of these mechanisms. In particular, where the achievement of the objective of the mechanisms has been at risk, such modifications took precedence over seeking stability. The JISC holds the view that any strengthening of the mechanisms in order to better serve the ultimate objective of the Convention should be interpreted as a positive signal by the investment community. However, the JISC cautions against creating the impression of arbitrariness of reforms, which could undermine the credibility of any future crediting mechanism that Parties establish. Therefore, in order to protect reasonable expectations, the JISC recommends basing the design of new mechanisms, inter alia, on lessons learned and experiences gained with JI. The JISC further recommends limiting the modifications of existing elements to modifications that are necessary to achieve the objective of the future mitigation mechanism and the long-term objectives of the Paris Agreement.

21. There is considerable mitigation potential that could and should, to the greatest extent possible, be mobilized pre-2020 through recognizing “early action”. Furthermore, an early start and piloting can also allow Parties to build experience in national strategies and policies and the management of the national mitigation potential, and can reveal the cost-saving potential of the international exchange of carbon assets. Therefore, providing a clear pathway, including clear conditions, for existing activities to be included in future crediting mechanisms could be of benefit.

B. Synergies between joint implementation and other mitigation mechanisms

1. Scope

22. The scope of this analysis is limited to JI and the CDM, both established under the Kyoto Protocol, as the only existing mitigation mechanisms. Voluntary offsetting schemes have not been considered as they cannot be used by Parties to demonstrate mitigation under the UNFCCC process.

23. This analysis examines seven issues: the governing body, national focal points, registries, standards, the project cycle, accreditation and the pipeline. In accordance with the request from the CMP for this analysis⁹, for each issue, potential synergies were assessed for cost-efficiency, coherence and avoidance of double counting, where applicable.

⁸ As footnote 3 above.

⁹ Decision 7/CMP.11.

2. Governing body

24. The JISC was established at CMP 1, in conjunction with the adoption of the Marrakesh Accords, to supervise, under the authority of the CMP, the JI Track 2 procedure.¹⁰ The CDM Executive Board was established much earlier, however, holding its inaugural meeting immediately after it was established at the seventh session of the Conference of the Parties in order to supervise the CDM under the authority of the CMP and allow for a prompt start of the mechanism.

25. JI was implemented under a dual governance structure, whereby the Track 1 procedure was governed exclusively by host Parties and the Track 2 procedure was implemented under the supervision of the JISC and under the authority of the CMP. During its operation, the lack of international oversight has been one of the main criticisms of JI Track 1. This was reflected in one of the revisions agreed by Parties:¹¹ a single track implemented by host Parties with supervision by the JISC. This was incorporated in the text on the work undertaken by the SBI on the review of the JI guidelines referred to in paragraph 9 above. During discussions on the review of the CDM modalities and procedures, there has been no examination and no further debate to date on the CDM governing body, the Executive Board.

26. The consolidation of market mechanisms could provide opportunities for the cost-efficient use of infrastructure and the greater overall coherence of the system compared to having multiple mechanisms that fulfil broadly similar functions. Due to similarities in the functions exercised by the JISC and the CDM Executive Board in relation to their supervision of the respective mechanisms and of the emission reduction activities that are undertaken, the consolidation of the supervision of the two mechanisms under a single governing body is an option Parties may wish to consider exploring.

3. National focal points

27. The two mechanisms of the Kyoto Protocol have specific national focal points with slightly different functions. Designated focal points (DFPs) in JI not only approve JI projects, including the approval of baseline and monitoring methodologies, they also process the requests for issuance of ERUs for these projects. The main tasks of the designated national authorities (DNAs) in the CDM are to assess potential CDM projects to determine whether they will assist the host country in achieving its sustainable development goals and to provide a letter of approval to project participants in CDM projects.

28. Due to the rules of JI and the CDM, some Parties have already established two national focal points: a DFP and a DNA. For some Parties, these have been consolidated into a single focal point exercising both roles, which can potentially provide cost-efficiency and coherence in participation in both mechanisms.

4. Registry

29. Currently two types of registries exist under the Kyoto Protocol:

(a) National registries, implemented by the governments of Parties to the Convention that are also Parties to the Kyoto Protocol with commitments inscribed in Annex B to the Kyoto Protocol, containing accounts within which units are held in the name of the government or legal entities authorized by the government to hold and trade units;

¹⁰ Decision 9/CMP.1, annex.

¹¹ Decision 6/CMP.8.

(b) The CDM registry, operated by the UNFCCC secretariat under the authority of the CDM Executive Board, for issuing certified emission reductions (CERs) and forwarding them to project participants in national registries. Parties not included in Annex I and CDM project participants can also maintain accounts in the CDM registry; however, the registry does not allow for trading CERs between accounts.

30. Each registry operates through a link established with the ITL administered by the secretariat. The ITL verifies registry transactions in real time to ensure that they are consistent with the rules agreed under the Kyoto Protocol. The ITL ensures trust in the system and is well established.

31. This system has already been synergized in the UNFCCC process and provides a cost-efficient means of ensuring that there can be no double counting, as a unit is transferred or cancelled only in accordance with the rules and can only be in one place at a time.

5. Standards and procedures

32. Under the proposed draft JI modalities and procedures, the JISC is to develop, inter alia, technical requirements to ensure additionality and provide objective criteria for the establishment of baselines and set minimum requirements to facilitate the development of project cycle procedures by host Parties. The host Party is to develop national standards, procedures and guidelines for all aspects of the implementation of JI at the time the decisions are to be taken by the DFP.

33. In the CDM, the Executive Board has developed and approved detailed procedures and standards for the administration of the mechanism. These include a consolidated CDM project standard, the CDM validation and verification standard, and the CDM project cycle procedure. The future JISC, under the proposed draft JI modalities and procedures, could consider using these standards and procedures as best practice guidance for host Parties in the implementation of a single-track JI.

6. Accreditation

34. The functions of the CDM Executive Board and the JISC in relation to the accreditation of their respective mechanisms are very similar:

(a) Under decision 3/CMP.1, annex, paragraph 5(f), the CDM Executive Board is responsible for the accreditation of operational entities, in accordance with the accreditation standards contained in appendix A to that annex, including decisions on reaccreditation, suspension and withdrawal of accreditation;

(b) The JISC, pursuant to decision 9/CMP.1, annex, paragraph 3(b) and (c), is responsible for the accreditation of independent entities in accordance with the standards and procedures contained in appendix A to that annex and for the review of these standards and procedures, giving consideration to relevant work of the CDM Executive Board.

35. The two accreditation systems were operating with very similar standards, which were set at the CMP level. The CMP had also requested that possible arrangements for synergies between the JI and CDM accreditation systems be explored, including a joint accreditation committee.¹² However, the CDM Executive Board agreed that there was no need for a common body and the JISC decided to rely fully on the CDM accreditation system as of 2 August 2016 by allowing any designated operational entity under the CDM to voluntarily act as an accredited independent entity under JI.

¹² Decision 6/CMP.10.

36. Using one system provides for both cost-efficiency and coherence of the validation and verification functions across the mechanisms while providing cost savings in the operation of an accreditation system for the JISC and the CDM Executive Board, as well as for the entities that wish to provide validation and verification services in both of the mechanisms.

C. Summary of synergies, lessons learned and experiences with joint implementation and outlook for the design of a future mitigation mechanism

37. The JI mechanism has been a valuable, proven tool that countries have used to focus climate investment where it is needed. It has delivered over 871 million tonnes of greenhouse gas emission reductions and, together with the CDM, has contributed to the mitigation of more than 2.5 billion tonnes of greenhouse gas emissions. By using JI, or a mechanism that has been designed taking into account the lessons learned from experience with JI, to mobilize investment from the private sector or to direct public funds to targeted sectors and activities, countries could consider greater ambition in their national plans in the context of the Paris Agreement.

38. Such a mechanism can also be used by governments or constituencies to monitor, report and verify emission reductions. Thus, such a mechanism can have a role in ensuring the results of national actions, reporting those results transparently and avoiding double counting of emission reductions.

39. The JISC is of the view that the JI mechanism can contribute to the international response to climate change not only as a functioning mechanism but also as a source of lessons to support implementation of the Paris Agreement, most clearly in the creation of the new mechanism established in Article 6, paragraph 4, of the Paris Agreement. In this context, the JISC believes that:

(a) The design of the rules, modalities and procedures for a future mitigation mechanism should concentrate on higher-level principles and criteria while leaving the details of day-to-day operation to the regulatory body;

(b) Oversight by an international regulatory body operating in an objective manner to supervise the mechanism would be a valuable tool for ensuring the integrity and reputation of the mechanism;

(c) Transparency of decision-making processes, local stakeholder consultations, the rights of directly affected entities to hearings prior to decision-making, timely decisions and appeals against decisions would all be valuable components of a future mitigation mechanism;

(d) Standardizing common functions as much as possible while still allowing flexible application of the standards would be an important attribute for a future mitigation mechanism. In this respect, the design of a future mitigation mechanism should seek to maximize its synergies with elements of existing and possible future systems, inter alia, by building on existing infrastructure, using uniform approaches, process and standards, standardizing parameters and using a single system for accreditation;

(e) The designers of a future mitigation mechanism should be cognizant of the almost 15 years of experience and activity represented in the CDM and JI. Rather than starting from scratch, any future mitigation mechanism should build on the lessons learned and experiences with the CDM and JI, in order to ensure the achievement of the objectives of the future mitigation mechanism and the long-term objective of the Paris Agreement;

(f) A clear pathway, including clear conditions, could be provided for existing activities to be included as eligible activities in the future mitigation mechanism.

Annex II

Recommended additional efficiency measures for the operation of the Joint Implementation Supervisory Committee

I. Procedural background

1. By decision 5/CMP.10, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) requested the Joint Implementation Supervisory Committee (JISC) to keep the joint implementation (JI) management plan under review, making necessary adjustments to ensure the efficient, cost-effective and transparent functioning of JI and to ensure sufficient infrastructure and capacity for the mechanism's use by Parties until at least the end of the additional period for fulfilling commitments under the second commitment period of the Kyoto Protocol.

2. Project-related activity under JI has ceased since 2014, with no determination or verification cases having since been submitted to the JISC. It is now nearly four years after the conclusion of the first commitment period of the Kyoto Protocol, with the Doha Amendment not having entered into force (or entered into force for the Parties that may host JI projects). This means that new projects are not seeking approval and current projects are not requesting the issuance of emission reduction units. The CMP is aware of this, and through decision 7/CMP.11, paragraph 3, it reiterated its concern regarding the difficult market situation currently faced by participants in JI, with projects declining to a point where the mechanism is practically non-existent.

3. Furthermore, over the past few years, the work of the JISC has been highly focused on providing recommendations to the CMP and the Subsidiary Body for Implementation (SBI) on how to improve the Kyoto Protocol mechanisms, in particular in relation to the review of the JI guidelines. The process of review by the SBI has now concluded, with the SBI making recommendations for consideration at CMP 12. This also means that the policy work of the JISC has drawn to a conclusion.

4. At recent JISC meetings, it has been observed that reaching quorum is becoming a challenge due to: (1) various seats in the JISC not being filled due to pending nominations; (2) unexpected resignations; and (3) the falling participation of members and alternate members.

II. Purpose and scope

5. The purpose of this recommendation is to comply with the CMP mandate to the JISC to make prudent use of its resources by using additional measures for the operation of the JISC,¹ in particular for its meetings.

6. The JISC notes that it would make use of some but not necessarily all of the proposed additional measures for its operation in 2017. In particular, it would not implement virtual meetings unless agreed by the JISC beforehand.

7. However, the approval of these proposed additional measures at CMP 12 would provide the JISC with the full range of possibilities identified, to be used as needed in the

¹ As discussed in document JI-JISC39-AA-A02, paragraphs 16–20, available at <http://ji.unfccc.int/MeetingInfo/DB/C0BRXFOZM7K843E/view>.

future, including in the longer term. As such, all proposed additional measures are included in the recommendation.

III. Recommendation of the Joint Implementation Supervisory Committee to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

8. The CMP may wish:

(a) To affirm that, in order to continue the prudent management of resources, the JISC may meet less than twice a year, and may implement additional efficiency measures for its operation, such as virtual participation in meetings, electronic consultation and electronic decision-making;

(b) To also affirm that virtual participation of members or alternates acting as members in meetings of the JISC shall count towards the quorum and that virtual meetings of the JISC are meetings of the JISC as described in the rules of procedure;²

(c) To further affirm that electronic submission of the signed oath of service by members and alternate members of the JISC is sufficient to fulfil the requirements of the rules of procedure.

² Available at <http://ji.unfccc.int/Ref/Documents/JI_proc01.pdf>.