Appendix IV

BHUTAN

ACTIVITIES IMPLEMENTED JOINTLY PILOT PROJECT, KILUNG CHUU MICRO-HYDEL: GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT: A CASE EXAMPLE FROM BHUTAN

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ACTIVITIES IMPLEMENTED JOINTLY PILOT PROJECT, KILUNG CHUU MICRO-HYDEL: GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT: A CASE EXAMPLE FROM BHUTAN

The Royal Government of Bhutan and the Government of Netherlands have jointly embarked on an Activities Implemented Jointly (AIJ) project, the Kilung Chuu Micro-Hydel. This paper will address the Bhutan-Netherlands cooperation. By installing a micro-hydel system of 100 KW in an area that was previously not electrified, a reduction in deforestation through reduced fuelwood consumption was expected, leading to reduced greenhouse gas emissions from the area. The project aims to reduce greenhouse gas emissions while meeting the basic social and economic development needs of the local people.

The governments of Netherlands and Bhutan believe that in order to implement sustainable development, global partnership is needed. Therefore, the governments of Netherlands, Bhutan, Benin and Costa Rica forged a partnership through the signing of the Sustainable Development Agreement in March 1994. Through this partnership, new concepts could be developed and new experiments in development programs could be conducted.

Bhutan and Netherlands are working towards achieving a sustainable development partnership. Energy, biodiversity and culture have been identified for operationalizing the concept of sustainability. The Bhutanese and Dutch are also exploring new areas such as AIJ. The large forest areas in Bhutan (72% forest cover) could serve as potential carbon sinks to the greenhouse gases emitted by the Netherlands.

The implementation of the Kilung Chuu Micro-Hydel project raised the different visions of AIJ held by both countries. For the Bhutanese, the commitment to sustainable development, the need to get experience and technology were seen as important criteria. While the realization of future commitments and cost-effectiveness were important criteria for the Dutch.

Some of the key lessons learnt from this AIJ project for Bhutan were:
the importance of negotiating power;
the realization that AIJ projects must meet basic development needs and respect national development policies;
technology transfer must take place; and
AIJ projects must bring an increase in resources from the North to the South.

Bhutan has embarked on an AIJ project so that the country can work towards developing methodologies and creating capacity in implementing AIJ projects. The Bhutanese believe that AIJ projects will play a constructive role in overcoming deficit financing for climate change projects and bring about the required global greenhouse gas reduction.

INTRODUCTION

Bhutan is a small country located in the Eastern Himalayas. It is landlocked between China to the north and India to the east, west and south. It covers an area of 46,500 Square Kilometre. The country lies between two biogeographical realms: the Palearctic realm of the temperate Euro-Asia and the Indo-Malayan realm of the Indian sub-continent. The result is a nation rich in biodiversity. The biomes in Bhutan stretch from sub-tropical in the south through temperate in the central interior, to an alpine zone in the north. Bhutan has been declared as one of ten global "hot-spots" for the conservation of biological diversity. Many ecologists believe that Bhutan represents the last best chance for conservation in the Eastern Himalayas, a region considered of critical importance to the global efforts to conserve biological diversity.

While many other countries have witnessed a deterioration of their environment, Bhutan has emerged into the twentieth century with its natural resource base largely intact. The traditional conservation ethic, the Buddhist religion, animism, enlightened leadership and low population pressure have all contributed to the preservation of Bhutan's environment.

The National Assembly mandated the Royal Government to keep forest cover over 60% of the total land area (73rd session, National Assembly, 1995). The government has also set aside 26.23% of the country as protected area. Bhutan, with a population of 639,430.00(Central Statistical Organization, 1996) and only 16% (NES, 1998)
arable land has devoted over 26% of the country to a protected area system and has committed itself to over 60% of the country under forest cover.

Bhutan is a least developed country in South Asia but has made a commitment to pursue a sustainable path of development. This political commitment has resulted in global partnerships for sustainable development. One of the most innovative partnerships is the Sustainable Development Agreement (SDA) with the governments of Netherlands, Benin and Costa Rica. This paper will discuss the factors and address the steps that were undertaken to make the Bhutan-Netherlands cooperation a reality. This paper will also address what lessons there are for other countries intending to follow a similar path. One of the examples of this cooperation is the implementation of the Kilung Chuu Micro- Hydel project.

BHUTAN AND THE NETHERLANDS: SUSTAINABLE DEVELOPMENT AGREEMENT

The development process in Bhutan started in 1961. This late start in economic development, the country's enlightened leadership and the traditional conservation ethic have enabled Bhutan to have its natural resource base largely intact. Bhutan, in the global forum, has stressed that it will not pursue development at the cost of its natural environment. Therefore, Bhutan, a small country has become recognized in the environmental field as a country that is committed to preserve its environmental heritage.

The Government of Netherlands believe that in order to implement sustainable development, global partnership is needed. The Government of Netherlands felt that the United Nations Conference on Environment and Development (UNCED) did not make a real breakthrough. Countries from the North and the South had divergent view points. Therefore, the Government of Netherlands decided to forge a partnership with Bhutan, Benin and Costa Rica through the signing of the Bilateral Sustainable Development Agreement. These countries were identified by the Netherlands as countries that they believed were trying to implement environmentally sound development.

The partners of this Bilateral Sustainable Development Agreement felt that through this partnership new concepts could be developed and new experiments with environmentally sound development programs could be conducted. This agreement was based on the principle that sustainable development is a joint responsibility of both the North and South. The other leading principles of these agreements are reciprocity, equity and participation. The principle of reciprocity recognizes that development partners can contribute to each others development process. This belief runs contrary to the traditional donor-recipient relationship. This principle of reciprocity is an instrument towards the goal of sustainable development. The partners of the Sustainable Development Agreement meet regularly and try to form a global coalition at international conferences to put forward a lobby for sustainable development. The SDA countries aim to put forward a more environmentally sound position at conventions where many countries are mired in regional politics and nation's interests.

Bhutan and Netherlands are currently working on a number of integrated sustainable development projects with the view towards achieving sustainable development models. The Bhutanese benefit from the financial assistance while the Dutch benefit from the traditional conservation ethic and the pristine environment of the Bhutanese people. The

Bhutanese and the Dutch have identified the following areas namely, energy, biodiversity and culture as areas for operationalizing the concept of reciprocity. The Bhutanese and Dutch are also exploring new areas such as carbon trading. The large forest areas in Bhutan could serve as potential carbon sinks to the green house gases (GHG) emitted by the Netherlands.

BHUTAN AND BOX 1.1 SOURCES AND SINKS INVENTORY, 1998

The NEC recognized the importance of evaluating the sources and sinks of GHG in Bhutan. The results of this preliminary study with limited data sources concluded that at current economic development status with existing landuse patterns and forest cover, Bhutan is a net sink of GHG.

Total emissions of greenhouse gases in Bhutan 1994

Sources	CO_2 (Gg)	CH_4 (Gg)	N_2O (Gg)
Energy	91.90	0.00	0
Fuel Combustion	91.90	0.00	0
Fugitive emission	NE	0.00	0
Industrial Processes	159.69	NE	0
Agriculture	NE	12.22	1.40
Land Use change and Forestry	(-) 48,910.29	NE	NE
Net emission	(-) 48,658.70	12.22	1.40

Emissions in Giga grams	**Carbon dioxide**	**251.59**
	Methane	**256.62**
	Nitrous Oxide	**434.00**
Total Emissions		**942.21**
Net Sequestration	**land use change and forestry**	**48910.29**
Total Sequestration		**47968.08**

Based on the Global Warming Potential (GWP) values [21 for methane and 310 for nitrous oxide (*SAEFL*)], the CO_2 equivalents of the methane emission and nitrous oxide in Bhutan are 256.62 Gg and 434.00 Gg respectively.
NE-Not Estimated Gg-Gigagrams.
NEC, 1998

CLIMATE CHANGE

Climate Change is an important area of cooperation between the Governments of Netherlands and Bhutan. Both countries face adverse implications from climate change. In Bhutan, climate change will place additional stress on the already fragile mountain environments. Many species will be vulnerable to global warming because the possibilities for migration to new areas are limited. The other long-term implications of global warming are that mountain species will dwindle and could ultimately go extinct. The threats are greatest for endemic species which are limited to an area.

One of the clearest signals of climate change comes from glaciers, which are in retreat on every continent of the globe. In Europe, the Alps are supposed to be retreating at 10-20% resulting in large runoffs. The costs of engineering works to prevent the torrential runoff

in countries like Switzerland are very high. However, in countries like Bhutan where we have no proper disaster management, glacial melting can result in large floods with heavy human cost. Not only is there the devastation caused by the floods, but there is also the problem of revegetation of exposed areas following deglaciation leaving the ground vulnerable to erosion and rock slides for centuries.

The United Nations Framework Convention on Climate Change identifies both mountain ecosystems and landlocked or transit countries such as Bhutan as areas subject to extreme adverse effects of global climate changes (UN Document, A/AC.237/1818; May 1992).

Bhutan recognizes the significance of a global convention aimed at the prevention of global warming. Bhutan was among the 150 countries that signed the United Nations Framework Convention on Climate Change(UNFCCC) at Rio de Janeiro in 1992. The Royal Government of Bhutan ratified this convention at the 73rd session of the National Assembly on August 25th, 1995. After the ratification of the UNFCCC, the RGOB designated the National Environment Commission (NEC) as the focal point for climate change activities in Bhutan. The Royal Government also set up a National Climate Change Committee headed by the Planning Minister.

TheUnited Nations Framework Convention on Climate Change (UNFCCC), aims to stabilize anthropogenic carbon dioxide (CO2) emissions to levels that do not threaten the global ecosystem. To this end, the Convention calls on its parties to reduce their emissions and to enhance "sinks" of GHGs. One of the innovative and controversial measures that can be used to reduce emissions are Activities Implemented Jointly. This is a set of activities where a country could earn credits towards their commitments under the convention in return for their investment in specific projects that yield reductions of GHG sources or enhancement of sinks in other countries.

Therefore AIJ is reduction of emissions by one Party (investor) on the territory of another (host). Article 4.2 of the convention states specifically that each of the Parties must adopt policies and take corresponding measures on the mitigation of climate change, by limiting its anthropogenic emissions of GHGs and protecting and enhancing its GHG sinks and reservoirs. These Parties may implement such policies and measures jointly with other Parties and may assist other Parties in contributing to the achievement of the objective of the Convention.

The international community has long debated on how to put into effect the actual implementation and practice of AIJ and how crediting should take place. These debates have lead to the conclusion that the actual opportunities and constraints of AIJ can only be adequately discussion in practice. The Conference of Parties to the FCCC therefore decided at the first Conference of Parties in Berlin, 1995 to start a Joint Implementation/Activities Implemented Jointly pilot phase, until the year 2000. During this phase, the achieved mitigation effects from AIJ can not be credited for national obligations. The Secretariat of the UNFCCC have made preliminary conclusions about the AIJ pilot phase. The regional concentration of the pilot phase AIJ projects was pronounced. There were very few projects in Asia and Africa. The Bhutan AIJ project was one of the few AIJ projects in Asia. Most of the projects were in economies in transition (EIT) and in Latin America and the Caribbean. The AIJ projects were also seen to be low investment with limited contributions to GHG abatement. Developing country parties also approached AIJ cautiously.

BHUTAN AND ACTIVITIES IMPLEMENTED JOINTLY

Bhutan is supportive of Activities Implemented Jointly (AIJ) on certain premises namely, that AIJ must be cost effective and must lead to real reductions of GHG.

AIJ could serve to:

- be cost effective as there are large differences in the costs of reducing GHG emissions between countries;
- reduce GHG emissions while at the same time contribute to the socio-economic development of the host country; and
- bring about sustainable development and technology transfer by helping developing countries avoid fossil fuel dependency and the unsustainable pollution burden of the traditional development path.

Some of our reservations with AIJ are:

- this could be a way for industrialized countries to buy their way out of reducing GHG emissions;
- equity issues could prove to be difficult for small nations with little legal expertise to negotiate with large multinational companies;
- the methodologies for transfer of emission offset credits have not been developed;
- that AIJ projects may lead to little GHG emission cuts in industrialized countries; and
- that AIJ funding may take place of traditional donor bilateral funding.

Despite these issues, Bhutan supports AIJ projects that are compatible with our socio-economic development needs along with the scope for mutual crediting. We feel that what is needed is a practical hands-on experience with AIJ.

A CASE STUDY: KILUNG CHUU MICRO-HYDEL, BHUTAN

Therefore the Governments of Netherlands and Bhutan decided to bring the application of AIJ closer to reality and increase the likelihood that such projects can play a constructive role in overcoming deficit financing for climate change related projects and bring about the required global GHG reduction. Under this AIJ pilot phase the Dutch Ministry of VROM/Housing, Spatial Planning and the Environment has initiated an "AIJ" project in Bhutan.

RATIONALE FOR THE PROJECT

Through installing a micro hydel system of 100 KW in a previously not electrified area, a reduction in deforestation through reduced fuelwood consumption was expected, leading to reduced GHG emissions from the area. By spring 1996, the Division of Power had identified the Kilung-chuu river as the most suitable location for the project. Currently in the Lhuntshi district, one of the twenty districts in Bhutan, there is only one micro hydel station, the Luntshi station which is 20 kw and supplies very few villages. The rest of the Dzongkhag, has no power station. Despite the fact that Bhutan generates approximately 1623.3 Gwh (million units per year) from Chukha hydel, micro-hydels are the only option for remote communities in Bhutan. The costs of transmission lines are prohibitively expensive.

Table: National Power Generation Data during 1990-1995 in Gwh (million units)

Source	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995
Mini hydel	6.619	7.364	5.046	5.489	5.880
Micro hydel	0.876	0.876	1.445	2.015	2.015
Chukha hydel	1542.408	1554.370	1677.812	1679.239	1623.310
Diesel Power	0.046	1.315	3.059	1.085	1.069
Total Generation	1549.949	1563.925	1687.362	1687.828	1632.274

PROJECT DESCRIPTION

The Kilung Chuu project is divided into two parts the hardware component which comprises the actual installation of the micro hydel system handled completely by the Division of Power.
The software component aims to assess:

- the impact of the project on net GHG emissions over a substantial time frame;
- socio-economic development impact of the project over a substantial time frame;
- involvement of local stakeholders in the project development and organization;
- quantify the cost-effectiveness of the climate change mitigation through the project;
- develop institutional capacity;
- credit sharing of the project by stimulating effects for and contributions of partners;
- test and adapt the AIJ monitoring methodology; and
- disseminate results in international fora.

The software component is being handled by both the Dutch and the Bhutanese.
To date the project has completed the following steps:

- the project initiation workshop;
- ex-ante assessment of GHG emissions in the project area and socio-economic situation and development relevance of the micro hydel; and development of a project baseline.

The Bhutanese participants to the workshop attributed many positive aspects to AIJ and considered it a priority to start gaining experience with AIJ projects. The participants mainly gave priority to AIJ projects in micro hydropower and energy efficient appliances.

The field assessment addressed the climate change impact of the project and development impact in terms of well-fare and well-being. In this the "objective" actual situation is covered as well as local people's perceived priorities, ideas and impressions. The field assessment also gauged the local people's perception of climate change issues.

The methodology comprised of using questionnaires and using techniques based from Rapid Rural Appraisal, Participatory Rural Appraisal, Participatory Demand Assessment methodologies, e.g. Brainstorming, voting, historical calendar, seasonal calendar, village mapping, power relations mapping, wealth ranking etc..

The main development priorities of the local population are drinking water, irrigation, road and electricity. The women stressed the importance of drinking water, while the men stressed roads and the younger people were more concerned with keeping wild animals off their fields.

GREENHOUSE GAS EMISSIONS

The GHG emissions balance in the project area was mainly dominated by methane emissions, mainly from agricultural practices and burning of biomass fuels.
The main energy sources of GHG emissions are combustion of kerosene for lighting, diesel for milling and fuelwood for cooking, water heating, etc.. With respect to the latter, there appears to be no fuelwood related deforestation, and hence the main climate change effect is from methane production during combustion.

With the current situation, the project is likely to influence only kerosene, diesel and dry cell consumption. The related mitigation potential is very small at approximately 12 tonne CO_2 equivalent.

If a component of electric water heating/cooking were added to the project, a larger mitigation potential of 0.2 kilo-tonne CO_2 equivalent would be present in the energy sector.

For improving the emission analyses of this study, it is recommended that:
- the emission factors are refined notably for agricultural sources;
- satellite images are used to study land-use changes;
- identify GHG emissions associated with the dry cell production;
- pinpoint district forest fires on sub-regional or village level.

GENERAL FINDINGS FROM THE AIJ PROJECT

The AIJ project is likely to have a significant development impact and only a minor climate change impact. This underlines the importance for the criterion "development relevance" in the AIJ pilot phase. The development and practical application of the AIJ monitoring methodology has already yielded a significant number of valuable experiences and insights, together with a useful practical method for field assessments. Although in terms of GHG abatement the present project is not very cost-effective, it still corresponds well with the project objectives under the AIJ pilot phase.

One of the interesting findings of this study was the dominating role of GHG emissions from agricultural practices. If additional economic development did take place with the fulfillment of the development priorities of the local community (notably the feeder road), this might lead to increases in agricultural production, leading to growing instead of diminishing GHG emissions. On the other hand, looking for mitigation options in the agricultural sector would be very sensitive and difficult as that would have a very direct link to the basis for the livelihood of the local population.

CONCLUSION

Bhutan's success in furthering the cooperation with the government of Netherlands has really been a result of:

- dedicated leadership to environmental issues/ political will;
- the willingness of the Government of Bhutan to start building up institutional capacity on environmental issues;
- the willingness to chart out a development path that aims to integrate environmental issues with development; and
- the intact natural resource base of the country.

The AIJ project implementation has led the Government of Bhutan to recognize the importance of ensuring that any AIJ project in the country must meet basic social and economic development needs. However, one of the difficulties in the Kilung Chuu project was that meeting the development requirements of the people would lead to increasing GHG emissions. However, the project recognized that if simple technologies like water heating and electrical cooking devices were introduced, this would lead to greater reduction of GHG emissions.

Some of the key lessons learnt from this AIJ project for Bhutan were:

- the importance of negotiating power;
- the realization that AIJ projects must meet basic development needs of the local people;
- AIJ projects must be in line with national development policies;
- technology transfer must take place; and
- AIJ projects must bring an increase in resources from the North to the South.

The AIJ project implementation has also led to the increased institutional capability with relation to climate change and global environmental issues. Regular training of key sectoral officials and workshops with local people have taken place with relation to climate change issues. There is also high-level interest in starting the mechanisms for a carbon fund. The National Environment Commission will also begin an exercise to start simulating carbon credit negotiations.

The implementation of the AIJ project with the government of Netherlands and the implementation of innovative sustainable development projects is allowing Bhutan the

opportunity to build up institutional capacity to pursue a sustainable path of development. The exercise in the AIJ could also be potentially valuable for Netherlands, as Bhutanese forests could offset Dutch carbon emissions. With the per capita emissions of Bhutan at -19.6 tonne, and the Dutch per capita emissions at 14.3 tonnes, there is scope for future AIJ cooperation. Therefore, bilateral sustainable development agreements could provide valuable means for other developing countries to implement environmentally sound development with positive benefits accrued to both partners.

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Bolivia

La Paz, febrero 4, 1999
MDSP - VMARNDF No. 197/99

Señor
Joop Pattisina
Ministerio de Vivienda, Planificación Espacial y Medio Ambiente
Reino de los Países Bajos
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De mi consideración :

Con mucho agrado he recibido su invitación a nombre del Ministro de Vivienda, Planificación Espacial y Medio Ambiente de los Países Bajos, referida a realizar una contribución a la Revisión de los Países Bajos sobre la experiencia del Programa Holandes de Actividades Implementadas Conjuntamente, que será presentado al Secretariado de la Convención Marco de las Naciones Unidas sobre el Cambio Climático (CMNUCC).

En este sentido, debo comunicarle que el Ministerio de Desarrollo Sostenible y Planificación, como autoridad nacional en esta temática, a través del Viceministro de Medio Ambiente, Recursos Naturales y Desarrollo Forestal (VMARNDF), ha venido realizando constantes esfuerzos para otorgar al mecanismo de Implementación Conjunta, definido por la I Conferencia de las Partes de la CMNUCC, un marco adecuado y facilitador para el desarrollo de iniciativas en este campo.

El desarrollo de estas actividades, está basado en los estudios técnicos que han sido elaborados por el Programa Nacional de Cambios Climáticos dependiente del VMARNDF, donde claramente se identifican las opciones probables y áreas prioritarias para el país dentro del sector energético y el no-energético, para las cuales se podrían implementar proyectos de mitigación y secuestro de emisiones de gases de efecto invernadero Es así que, mediante Decreto Supremo el Gobierno de Bolivia en el presente año, crea el Programa Nacional de Implementación Conjunta, ente competente para la promoción y evaluación de proyectos enmarcados en las Actividades Implementadas Conjuntamente (AIC) y en los mecanismos de flexibilidad definidos en el Protocolo de Kyoto.

Con este espíritu de trabajo y demostrando un alto compromiso con los preceptos de la CMNUCC, ya el año 1997 el gobierno de Bolivia concreta el primer proyecto enmarcado en AIC referido a electrificación rural con paneles fotovoltaicos. De esta misma manera, la concreción de dos proyectos enmarcados en AIC para el sector energético, con la cooperación del Gobierno de los Países Bajos, es fruto de un trabajo dedicado, que se origina con las inquietudes del sector privado de generación y distribución eléctrica de nuestro país para alcanzar nuevas metas de desarrollo y el decidido apoyo de la Representación de la Embajada de los Países Bajos en Bolivia que ha logrado identificar los socios más adecuados para implementar tales iniciativas.

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El proceso, que culmina en Septiembre de 1998 con la firma de dos Memorandum de Entendimiento entre los Gobiernos de Bolivia y de los Países Bajos para presentar estos dos proyectos como Actividades Implementadas Conjuntamente ante la CMNUCC, ha estado sujeto a varias etapas de análisis técnicos e intercambio de información entre las diferentes partes participantes, asegurando que cada uno de estos proyectos coincide con las metas nacionales de desarrollo y tendrán un impacto positivo económico y social para el país, contribuyendo además a alcanzar el objetivo último de la CMNUCC.

Por otra parte, considero que el proceso de negociación de los certificados que cuantifican la cantidad reducida de emisiones de gases de efecto invernadero ha sido desarrollado en un ambiente favorable y de manera transparente, lo que ha permitido acordar una distribución equitativa para ambas partes de los mismos, lo que sin duda permite considerar a estas iniciativas como una sólida contribución al desarrollo adicional y a la toma de decisiones de la Conferencia de las Partes sobre los mecanismos de cooperación de las AIC y de los mecanismos de flexibilización del Protocolo de Kyoto a la luz del objetivo último de la CMNUCC.

Finalmente, considero que el trabajo conjunto en estos dos proyectos, entre las instituciones pertinentes de nuestros países, será fructífero y en espíritu de alta cooperación, en especial en los procesos de certificación del progreso y resultados finales de los mismos, los cuales serán informados al Secretariado de la CMNUCC y que este tipo de cooperación continúe fortaleciéndose en el futuro con el desarrollo de nuevas actividades en el marco de la CMNUCC.

Sin otro particular, a tiempo de saludarle reitero mis consideraciones más distinguidas.

Neisa Roca Hurtado
VICEMINISTRO DE MEDIO AMBIENTE, RECURSOS NATURALES Y DESARROLLO FORESTAL
Min Desarrollo Sostenible y Planificación

OPR/JHF/jhf
cc.: Embajada de los Países Bajos
cc: Arch.

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TELEFAX MESSAGE

TO: Pages 2

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RE: Bulgaria's opinion and experiences on AIJ/JI

Dear Mr. Erwin Mulders,

Thank You for the fax, dated 25 Jan. 1999.

According Yours request, forward I try to express our opinion on ***AIJ/JI*** and to share our observations on implementation of an ***AIJ***-project named "*Demonstration zone for energy efficiency Gabrovo*"

We expect ***AIJ***-projects to provide experience to the government, stockholders and factory owners, however to inspire confidence in the economical, technical and environmental benefits from the ***JI***-projects.

Also, the lessons learned with ***AIJ*** showed us following preferable criteria with regard to JI-projects implementation :

- The investments from donors used for ***JI***-projects should be provided mainly as grants not loans. If the host country has to paid back investment amount in full, the benefits from the ***JI***-projects will be decrease significantly.
- The JI-projects should be accepted only under the condition that they provide additionally to "business as usual" projects, in other words the projects should not be accepted as ***JI*** if they are commercially feasible. Such projects that lead to a reduction in GHG emissions has to be supported by national strategy (Action plan) on reduction of the GHG emissions.
- If there is national legislation requiring that certain measures be undertaken by government that lead to reduction of GHG emissions, measures taken to implement those measures should not be considered for implementation of JI-projects.
- It is desirable that environmental impact assessment for all ***JI***-projects to be carried out including public consultation. EIA would be assure that certain project is in compliance with ***JI*** criteria and is it public acceptable.
- There should not replacement of existing foreign aid programmes by ***JI***- projects. There is risk that the existing foreign assistance incentives, for instance energy efficiency programmes etc. could converted to ***JI***. This not lead to increase in investments on GHG reduction.
- In order technical and management experience on implementation of projects to be transmitted in host country, the donor country has try to find a way that local firms and experts in ***JI***-projects to be involved.
- The establishment of a baseline of projects requires a complete and reliable GHG inventory of the host country as of given point in calculation of effects. To

determine the net GHG reduction of each proposed *JI*-project, has to be well known how much GHG emission could be emitted without the *JI* project.

- We think that rights and obligations established in an economic agreement between an investing and a host country should always be for a limited period (no more of 10 years), and has to be reviewed at regular intervals. In countries whit economic in transition where economic and political conditions are changing so far often, if there is a large number of *JI*-projects whit long term credits approved, this could constrain future governments which could then have problems in fulfilling their emission reduction obligations.
- Credits should be approved on an annual basis and their amount should be based on the actual emissions reduction by the project achieved. Only after formal approval by the *JI* authority in the investing and host country, could credits be transferred from one country to another.

Observations on implementation of an *AIJ*-project named *"Demonstration zone for energy efficiency - Gabrovo". (These information has been prepared by implementation agency of project - Centre EnEfekt)*

There is a good potential for AIJ/JI projects in energy efficiency and energy conservation in Bulgaria.

Low costs per avoided tonne CO_2 can be achieved in Bulgaria

For example:

- District heating energy efficiency project for Gabrovo 10 \$/t CO_2;
- Street lighting energy efficiency project for Gabrovo 14 \$/t CO_2;
- School buildings energy efficiency retrofit project for Gabrovo 10 \$/t CO_2

(Calculations are based on all project costs, not only on the governmental support, which means that costs per tonne CO_2 will be much less.)

AIJ/JI projects provide good incentives for Bulgarian participants:

- a possibility for foreign investments in conditions of budget and financial shortages;
- technology improvements.

There are no environmental incentives for Bulgarian participants for now, except avoidance of environmental charges if any.

Barriers to be overcome in Bulgaria

1. The problems with baseline identification and identification of emissions reduction should be appropriatelly solved. The rules should be clear and should provide reliable comparable results.
2. Proposals for AIJ/JI projects are now developed on national level with the participation of different governmental institutions. Proposals coming from companies are limited in number. Such proposals can be developed mainly on the basis of already established contacts between companies from both countries. There are limited possibilities for companies and non-governmental organisations for receiving information and know-how about project and application development. Decentralization approach, information dissemination mechanism and transparent procedures are needed.
3. There is no JI infrastructure: registration and coordination institution, rules, certification for JI project developmet, guidelines, models, incentives.
4. There should be incentives and clear procedure for local/municipal initiatives for AIJ/JI projects. Local authorities show high interest in energy efficiency projects and in new financial and investment mechanisms for their implementation. Public-private partnerships between local authorities and private companies should be supported.

27.01.1999

Yours sincerely

Teodor Ivanov

Czech Republic

Ministry of the Environment
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FAX TRASMISSION

To: **Royal Netherlands Embassy**
Gotthardská 6/27
225 40 Praha 6 - Bubeneč

Date: February 5, 1999

→ AR

Attention: **Mr. J.L. Westhoff**
Counsellor for Economic and Environmental Affairs

Fax: **24 31 21 60**

From: Ing. Alexandra Orlíková, CSc.
Director of the Department

No. of pages: 1

Subject: **„The Dutch evaluation of the Activities Implemented Jointly"**

Dear Mr. Westhoff,

referring to your fax message of 03/02/99 I am pleased to send you a comments of the Czech side which could be included in the Netherlands review.

The Czech Republic, as a host country of the AIJ FACE Project can confirm that its experience from the co-operation with the Netherlands bodies involved in the AIJ FACE Project is fully satisfactory. The AIJ FACE Project serves as an outstanding example of properly managed and implemented project. Its implementation particularly contributes to the recovery of forestry in the Krkonoše and Šumava National Parks.

Yours sincerely

for Alexandra Orlíková

LATVIA

From: Ingrida Apene ("C=NL;A=400NET;P=400SMTP;DDA.RFC-822=er na(a)novell.varam.gov.lv")
To: VROM.DGM-DLE(PATTISINA JJM)
Date: Tuesday 2 februari 1999 15.35
Subject: Review report on AIJ

Dear Mr Pattisina,

Thank you for emails sent on 21 and January 1999. I just returned from Geneva.

The Netherlands successfully started pilot projects in Latvia. In 1998 the government of Latvia approved them as projects of Activities Implemented Jointly. Unfortunately Uniform Reporting Format on AIJ under the Pilot Phase was not filled in completely because experts could not reach common opinion on baseline scenarios and activity scenarios for AIJ projects, as well as amount of reduced and projected reduction of GHG emissions. The main reason is that Latvia is undergoing the process of transition to a market economy. It means that our experts for calculations can not use business-as-usual scenarios but they have to elaborate specific scenarios. The state budget is so limited that the government of Latvia is not able to finance investigations for projectsline and activity scenarios.

Evaluation and expertise for two pilot phase projects in Latvia: small scale cogeneration plants in Adazi and Lielvarde is specific. Difficulties are connected with following factors:

1. Latvia is country with deficit of electricity and therefore imports electrical energy from different countries: biggest imported part is going from nuclear power plant in Lithuania (without CO2 emmission); some electricity amount is purchased in Estonia from cogeneration plant fuelled by shaloil; some - in Russia. Yearly amount various from water level in Daugava river and energy produced in hydro power plants in Latvia. It means that basic scenario is variable.
2. Cogeneration units are working for district heating system. There are different approaches to calculate reduction of CO2 emissions. We would like to be introduced with them and to discuss which methodology could be used for Latvian case.

We had negotiations with ECODOMA in Latvia and EDON, the Joint-Implementation registration Centre, Institute for Environmental Studies Vrije Universiteit Amsterdam and the Ministry of Housing, Spatial Planning and Environment in the Netherlands about investigation this problem too. Unfortunately our co-operation with TWENTE and Institute for Environmental Studies Vrije Universiteit Amsterdam on basis of agreement was cancelled. Therefore we have to find other way how to find support in solving of our methodological problems.

Recommendations:

1. By Netherlands support to carry out common Latvian-Dutch study how to solve some methodological problems such as uncertainty regarding reference and activity scenarios and leakage effects for different JI project types in Latvia. Such study will be helpful for estimation of GHG emission reduction for JI projects in Baltic States and some other countries in transition, and for emission trading in future.
2. It would be useful to simplify reporting format for small scale projects keeping the same reporting format for large scale JI projects.

Yours sincerely,
Ingrida Apene

POLAND

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Our ref. NF/DWZ/S-JI/517/99
Total number of pages: 6

Warsaw, February 4th, 1999

To: Mr. Joop Pattijn

From: **SECRETARIAT – JI**
Mrs. Jolanta GALON-KOZAKIEWICZ, Ph.D.
Mr. Maciej WOJCIECHOWSKI, M.Sc.

Subject: **POLAND – NETHERLANDS AIJ PROJECTS – OPINIONS AND RECOMENDATIONS ON THE EXPERIENCE IN THE FIELD OF AIJ PROJECTS - DRAFT**

Introduction

JI activities would encourage greater efficiency and environmentally sound practices in energy utilisation. In particular, JI activities would foster ongoing reduction in local and transboundary air pollution and promote restructuring and modernisation of energy-consuming branches of industry.

Poland's energy economy is dominated by coal, which is domestically produced. The related greenhouse gas emissions and air pollution problems are huge. Coal for space heating is used both in district heating systems (heating several apartments) and in individual heating in stoves. There are some obstacles to conversions from coal to gas (among others, they include lack of access to financing and budgetary procedures of publicly owned heating companies) that could be diminished or liquidated by JI projects.

Based on our analysis of the projects according to our primary evaluation criteria (cited below), we have determined that the Poland - Netherlands projects are an excellent example of what the AJI projects can achieve.

Evaluation of JI projects in Poland

- Ensure that JI projects comply with the standards adopted by the Convention of Parties.
- Ensure that JI projects are consistent with the National Environmental Policy of Poland, promote the principles of sustainable economic development with optimisation of natural resource allocation, and are beneficial in the long term to Poland.
- Ensure that public and private financial resources devoted to implementation of the JI project are used cost-effectively.

Country seeks energy security through stable energy deliveries at socially acceptable prices and with minimal damage to the environment. Among the priority actions are to diversify the primary energy supplies and to comply with international environmental agreements to reduce air pollution and greenhouse gas emissions. The AIJ POLAND – NETHERLANDS are designed to be fully-integrated and consistent with the goals and development strategies of the environmental policy in Poland and obligation under UNFCCC.

CASE STUDY:	**BYCZYNA PROJECT**
Full title of the project:	„Reduction of atmospheric pollution through modernisation of heat supply system in the town of Byczyna"
Project partners:	TNO: overall project management, support in energy efficiency, individual energy cost allocation/heating systems, knowledge transfer; Byczyna Town Council: responsibility for realisation of modernisation programme, exploitation of the system; WPEC Opole: inventory current situation; heat requirement study, system design; ATMOTERM®: monitoring, baseline, local project manager; REMEHA B.V.: support TNO: delivery, installation and servicing boilers, training.

Description of project

The project concerns the modernisation of heat supply system in the town of Byczyna located in the south-western part of Poland. The modernisation consists in application of modern gas-fired boilers instead of existing coal - and coke fired boilers. The power of boilers to be exchanged in Byczyna within the project amounts to 4.4 MW. Several additional activities like knowledge transfer on gas-fired boiler technology and energy efficiency are included in the project. The project started in 1998 and is divided into two stages. At first stage (realisation in 1998) 9. boiler houses were the subject of modernisation. At second stage (realisation in 1999) remaining 7 boiler houses will be modernised.
The baseline for the project environmental and technical reporting was the situation of 1997.
The AIJ factor is understood as investment cost (only hardware) covered by Dutch government.
Lifetime of project is 15 years.

CASE STUDY:	**SZAMOTULY PROJECT**
Full title of the project:	„Sustainable heat and power for public networks in Poland - modernisation of heat supply system and boiler house in the municipality and town of Szamotuly" in Poznan region.
Project partners:	EDON International BV: project manager, supplier of technology, engineering, financing; COGEN Ltd: Local project management, measurements and energy audits, engineering; ENERGETYKA POZNANSKA S.A.: human resources, buying electricity, financing, engineering; DHC/Municipality of Szamotuly: buying heat, human resources, land and buildings.

Description of project

The project concerns energy efficiency in heat production by fuel switching. Gasification of a boiler house and heat supply network were completed by October 1998. Remaining

cogeneration unit and necessary automatic equipment are expected from Netherlands side soon; Technical data: 2 boilers of 1120 kW thermal power, 1 cogeneration unit of 387 kW thermal power and 263 kW electrical power.
Activity starting date: 01-01-1998; Expected activity ending date: 31-12-1999.
The baseline for the project was the situation of 1996/1997.
The AIJ component is qualified as investment cost (only hardware) covered by Dutch government.
Lifetime of project is 15 years.

Experiences on using the Uniform Reporting Format

Secretariat JI, as the national focal point as well as the reporting agency in Poland, jointly with parties involved, ATMOTERM and ENERGETYKA POZNANSKA, in the preparation and implementation of projects is preparing URF report (Uniform Reporting Format).

The results of baseline study are incorporated (as an abstract) in URF report in section E.1. Methodology of baseline study (assumptions, emission factors, software used) was also presented within this section. The projected emission reductions for the activity were also estimated and included in section E.2. The following comments can be pointed on using the Uniform Reporting Format:

- The scope of section E.1 (project baseline) is not defined in details. The question arises how much information should be presented there. Should the abstract of baseline study include evaluation of the baseline for other environmental aspects (not the GHG emissions) and for technical state?
- The issue of other environmental aspects seems to be very interesting when considering emission reductions (section E.2 of URF report).

In the case of Byczyna project we presented these two additional subjects generally. Description of methodology also contained the part concerning other environmental aspects (emission calculation of all non-GHG pollutants and dispersion modelling of dust/SO_2 using SOZAT software) as well as technical state (site review).
The reductions of non-GHG pollutants (dust, SO_2) are considerable and the environmental benefits at this side are very important. Dispersion modelling calculations show how the air quality in Byczyna will get better after the project completion.

In the case of Szamotuly project environmental benefits are: emission reduction of CO2, SO2 and NOx; reduction of noise level. Social/cultural benefits are: better quality of heat and domestic hot water delivery, cleaner laundry, more aesthetic appearance of boiler house. Economic benefits are: business development and transfer of technology to the Joint-Venture Cogen.; establishing a business and institutional framework for implementation of similar boiler hauses.

Proposals for evaluation of the AIJ Pilot Phase

The Pilot Phase of Joint Implementation is a good opportunity to gain experience at different fields.

The case of Byczyna project showed some important aspects of AIJ:

- selection of project realisation place and time
- setting the effective project team
- setting the realistic operational and financial plan
- collecting information when estimating the baseline
- tools for monitoring the progress of the project

The case of Szamotuly project showed:

- impotence of good co-ordination between several partners
- adequate timing for delivery of equipment
- securing financing and setting joint venture companies prior to opening the tender
- some problems arose: during technical discussions appeared that due to very bad condition of circulation system of district heating network there is a possibility that not all heat produced in a boiler house might be distributed to the customers, so it was decided to extend investment by modernising also circulation system (pumps and vessels for hot water accumulation) - H.2 of URF.

Communication on AIJ

a.) Working within Byczyna project team observes the importance of good communication. It concerns internal project communication between project parties as well as external communication.

The internal communication is realised by means of:

- personal visits and talks of parties representatives
- electronic mail messages
- internal project reporting
- talks and personal visits were/are especially valuable for the following issues:

1. defining roles of particular parties within the project
2. interpretation of contract clauses
3. setting the operational plan
4. monitoring the project progress

The external communication includes:

- public awareness campaigns on JI concept and the project itself (articles, radio and TV presentations are in progress, an issue of the leaflet is planned for 1999)
- seminars on AJI, energy efficiency (planned for spring/summer 1999 to be held in Byczyna)
- preparation of lecture materials for schools and information events for inhabitants of Byczyna (planned for 1999)
- reporting to supervising bodies

b.) Concerning Szamotuly project the communication was /is realised by means of:

- visits and meetings of parties involved
- evaluation mission of SENTER
- articles in local press
- local TV presentations
- permanently contact with Mayor of the town

- preparation of the brochure and internet home page, planned for 1999

Lessons learned in AIJ projects

The introduction of improved technologies would facilitate the country's efforts to pursue its environmental priorities and standards and to take full advantage of the macroeconomic conditions and other incentives that induce energy efficiency and conservation. The techniques once successfully demonstrated in Poland – Netherlands projects are replicable in the large number of coal-dependent units.

As with any new venture, there was a lot to be gained from the projects and there was a certain amount of risk involved. However, the benefit of taking this risk is that we learned from the experience. Some organisational and investment problems have given us cause to reflect on how to anticipate these problems and prevent them in the future. The pilot phase presents an important opportunity to experiment with different approaches to international bilateral and multi-lateral negotiations and implementation; so, it is crucial that we identify the respective strengths and drawbacks of these approaches.

As for organisational matters, the first lesson learned is the value of securing financial resources prior to starting the project.
Secondly, the negotiations involve many actors and agreements so, can be tedious and time-consuming; the amount of time invested in this process can be economised in the future by pursuing well established in advance procedures.
Finally, the time involved in implementing projects is crucial factor in evaluation of AIJ pilot phase.

General remarks concerning evaluation of the AIJ Pilot Phase

The Pilot Phase of Joint Implementation is a good opportunity to gain experience at different fields. The conducted projects showed some important aspects of Activities Implemented Jointly:

- Time invested in negotiations and finalising bilateral agreements between donor and host countries
- Well-established procedures especially valuable for the following issues:

A - interpretation of contract clauses
B - defining roles of particular parties within the project

- Preparation's cost of projects proposals (in general, potential, future beneficiaries are not able to cover the mentioned costs)
- Methodologies for setting the baseline and procedure for its approval
- Measurement of environmental benefits
- Sharing credits between donor and host countries, especially valuable for future work
- Monitoring the project progress
- Contribution to capacity building
- Publicity and public awareness campaigns on Joint Implementation concept and the project itself.

We think that good communications between parties involved in the projects as well as external communication are very important factors in good understanding and realistic evaluation of AIJ.

On one hand:
- evaluation of pilot phase as an important tool in fulfilment of obligation under UNFCCC;
- evaluation of environmental benefits in general.

On other hand:
- evaluating and / or recognising that parties involved in AIJ are better / well positioned than other parties to address the persisting challenges that face the future of JI and / or emissions trading;
- evaluating AIJ as a leverage to influence policy makers that JI is a crucial tool in realisation of positive environmental changes.

There is no doubt that each AIJ project can add its own experience so it would be very useful to organise some kind of training / conferences concerning particular aspects of AIJ project at Pilot Phase. Besides that, as a result of international effort, it seems useful and beneficial for future work the preparation of international JI guidelines based on Pilot Phase experience.

Santa Cruz, 4 February, 1999
GG/023/99

Honduras

CRE
Cooperativa Rural de Electrificación Ltda.

Mr. Joop Pattisin
Netherlands Ministry of Housing,
Spatial Planning and Environment
Fax: 0031 70 3391310/11/12

Subject: Information regarding AIJ projects.

Dear Mister Pattisin:

From your Embassy, we have recently received your inquire in the subject matters so we could not avoid to be overdue in responding to it.

Nevertheless, the agreement is so recent that activities have just started and there is no experience that we can transmit on to you that may be worthwhile. We shall be more than glad to share with you all our experience with the San Ramon project which is becoming active just now.

Truly yours,

Alan Durán Tarabillo
General Manager

Calle Honduras esq. Av.Busch
Teléfono 367777 - Fax 324936
Casilla N°1310
Santa Cruz, Bolivia

Norwegian experiences and lessons learned from Activities Implemented Jointly (AIJ) in the pilot phase

1. Background:

We refer to Decision 6/CP.4 and hereby submit our preliminary views on experience gained and lessons learned from the Norwegian programme on activities implemented jointly (AIJ) under the pilot phase. We hope that this can contribute to the review process of the pilot phase, and provide insight relevant to development of rules and guidelines for the project based Kyoto mechanisms under Article 6 (on Joint Implementation between Annex I Parties) and 12 (the Clean Development Mechanism) of the Kyoto Protocol.

The Norwegian AIJ-programme has been based on two complementary approaches: bilateral cooperation between Norway and host countries, and multilateral cooperation through the World Bank (WB) as an intermediary. Currently, Norway is involved in AIJ projects at various stages of implementation in the following countries: Mexico, Poland, Costa Rica, Burkina Faso, the Slovak Republic, India and the Peoples Republic of China. Another project is under development in Romania.

The submission also contains a report prepared by the World Bank, and we further refer to previous submissions related to AIJ both from Norway and the host countries of the AIJ projects in the programme. Project activities have been reported utilising the Uniform Reporting Format for AIJ (URF) under the pilot phase as adopted by the fifth session of the Subsidiary Body for Technological Advice (SBSTA). The programme will continue to produce reports, including on evaluation of the projects.

2. Experiences gained and lessons learned

Project selection

A main goal for the Norwegian AIJ programme has been to maximise learning for the various stakeholders involved. In addition to criteria and guidelines provided by Decision 5/CP.1, the Norwegian intergovernmental AIJ-committee has defined supplemental criteria for the selection of projects. When selecting projects under the program, the following elements have also been considered:

- To achieve a diverse project-mix, including fuel-switch, energy efficiency as well as reforestation projects.
- To achieve a wide participation of various Parties in the AIJ-programme.
- The cost of greenhouse gas (GHG) reduction. Priority has been given to projects with lower abatement costs than the Norwegian CO_2-tax on fuel oil, equal to about 20 USD per ton CO_2. Almost all selected projects have abatement costs below this level.
- The workability of the projects, especially inside the framework of the AIJ-programme.

Development of the criterion of environmental additionality from Decision 5/CP.1 para 1.d (that the projects "should bring about real, measurable and long-term environmental benefits related to the mitigation of climate change that would not have occurred in the absence of

such activities") has been one of the practical challenges of the programme. Many projects, which mitigate greenhouse gas emission, are expected to have a short payback period, and they could thus be considered as commercially viable (implying that the mitigating activity would occur also in the absence of the AIJ-project).

Some projects considered for inclusion in the programme were rejected for this reason. Seen in retrospect, some of these projects have not yet been realised in the market. Thus, our experience shows that there are many barriers for project financing and implementation. These include lack of capital, access to or knowledge of relevant technologies, institutional barriers and other project risks. Such issues apply to countries with less developed market economies both in Eastern Europe and among the developing countries. The experience from the programme indicates that GHG abatement projects with a short payback period could still be considered additional if significant barriers can be documented, and if the projects are not likely to be financed on commercial terms.

It is also difficult to assess both ex ante and ex post what would have occurred in the absence of the AIJ-project. The practical ways to address this issue ex ante in the Norwegian AIJ-programme has varied depending on the project. In some cases, it has been dealt with by developing several baselines. The projects have been selected according to estimated effects relating to what experts at the technical level on both sides considered "most likely" of such baselines.

Consequently, there is a need for a flexible interpretation of the criteria of additionality in relation to a baseline, with regard to host countries with less developed market economies. Overall, there seems, however, to be a large, as yet untapped, source of climate relevant projects which could be implemented as cooperative projects between Parties to the Climate Convention and eventually the Kyoto Protocol.

For many of these projects, it seems possible to combine an interest to invest in additional climate gas emission reductions or sequestration effects with meeting local and national environmental and developmental objectives. Cooperation on projects in the energy and industrial sectors will generally contribute to local and regional environmental gains that come in addition to GHG abatements, and which are often of great interest to the host countries. Reduction in emissions of SO_2, NOx and particles will, for example, improve the local air quality and provide positive health and welfare effects for the population. Several of the projects in the Norwegian AIJ-programme include such environmental side effects, though these effects have not carried weight in the selection process. Thus, the potential for mutually beneficial activities through equal partnerships seems considerable.

Project development

A stepwise selection process has proven helpful to reduce several types of uncertainties related to the projects for consideration. The different stages of the process can be described as identification, pre-feasibility and feasibility studies. Even with large uncertainties, a pre-feasibility study could be sufficient for improving proposals or rejecting projects by presenting a draft project-based baseline, environmental effects, potential barriers for implementing the project, and a plan for financing with a rough estimate of necessary "AIJ-contribution" from a donor country.

Preparing the AIJ-projects in the programme has been more time consuming than expected. A thorough preparation has still been necessary to develop good projects. Availability of projects already developed by the host country, sometimes in co-operation with international institutions, has, however, accelerated the process.

The AIJ-projects have led to transfer of financial resources and technology to the host countries, These aspects of AIJ are important because they have created incentives for both host institutions and investors to engage in voluntary activities that are of mutual interest to both parties.

In sum, participants, including authorities and consultants, have gained valuable experience in project identification and development. Several projects have been chosen and a number rejected for not meeting the criteria set. Norwegian authorities have also gained experience in development of formal agreements related to such project activities. These experiences could be utilised in developing rules; criteria and administrative routines for project based mechanisms under the Kyoto Protocol. Such experience could also contribute to reducing future transaction costs for such projects and make Norwegian authorities and consultants better prepared for utilising the Kyoto mechanisms.

Lack of incentives for private sector involvement
The Norwegian funding of AIJ projects has come mostly from the Government and only to a small extent, from private sector sources. This reflects that business and industry in a pilot phase without crediting seem to lack incentives for involvement in project based activities, as long as the main objective is limited to gaining experience with such co-operation.

For future projects, there is a need to strengthen the incentives for the private sector and further to pursue measures to lower transaction costs. In this regard, it should be noted that the transaction costs are likely to be reduced as a result of experience gained and as a result of a larger project portfolio.

Capacity and confidence building
It is important to stimulate capacity building before project implementation. It is also a prerequisite for successful co-operation that the consultants on both sides share the same understanding of the methodology and criteria that have to be met. Conferences and workshops have proved to be useful elements for preparing AIJ-co-operation. Such events are important for capacity building on both sides, and they provide a good opportunity to build confidence between countries. Several workshops and seminars have been held in co-operation with the World Bank. Norway has also co-sponsored several other international conferences. Capacity building at the national level will also be of great value for the future co-operation on project based activities under the Kyoto Protocol. Experiences from the pilot phase will be important as input to the further development of the Kyoto mechanisms. In the transition from AIJ under the pilot phase to fully operational Kyoto mechanisms with crediting it is important to keep the continuity with regard to capacity building and competence. This concerns both host and donor countries.

Focal Points and project units at the national level
Seen from a donor country, it has been a great advantage to co-operate with countries that have a clear focal point or unit at the national level to facilitate bilateral contacts. Unclear

responsibilities at the national level may lead to time consuming processes and thus discourage AIJ-co-operation.

Guidelines

In the programme, we have experienced that standardised procedures for identification and consideration of new projects has been helpful to ensure that all projects go through a similar evaluation prior to project selection. We believe that this has improved the quality of the projects.

Emission baselines have to be developed from many uncertain assumptions (energy prices, costs of technologies, etc.). It might therefore be useful to develop common guidance with regard to the assumptions chosen. The assumptions are of great importance for the estimated cost-effectiveness of the projects and thus for the emission reductions that are calculated. Clear guidelines will reduce the variation in choice of assumptions among projects with regard to baseline construction. It will make it easier to compare i.e. the cost-effectiveness of projects from different institutions, improve the credibility of the projects and reduce the possibility for differences in national approaches. Guidelines for verification will ensure that all projects go through the same test after implementation.

Ensuring long-lasting effect

To achieve long-lasting effects that are additional to a baseline scenario, demand side energy efficiency projects face some problems. The direct environmental gains could be reduced indirectly due to increased consumption of energy services such as light, heat etc. This increase in comfort is often called the "rebound effect".

If there is no permanent shift in technology to ensure a significantly lower emissions development path there might be a risk for returning to the baseline (business as usual) emissions path when the project period is over. Projects based on irreversible fuel-switch combined with energy efficiency measures ensure long-lasting effects. This is one of the reasons why priorities within the programme have been given to projects involving fuel switch, supply side energy efficiency improvements and renewable energy.

Uniform Reporting Format (URF) for Activities Implemented Jointly (AIJ)

The Norwegian experiences with use of the Uniform Reporting Format (URF)

With reference to decision 6/CP.4, and the request for national experiences with the Uniform Reporting Format for AIJ-projects.

1. Background

Norway has since the beginning of the 1990s worked actively to identify possible abatement projects both through multilateral cooperation with the World Bank and on a bilateral level. Since COP 1 established a Pilot Phase for Activities Implemented Jointly (AJI) in 1995, the Norwegian activities has been further developed and broadened. Norway currently has AIJ projects under implementation in the following countries: Mexico, Poland, Costa Rica, Burkina Faso, the Slovak Republic and India and the Peoples Republic of China. In addition, Norway and South Africa cooperates on a project on capacity building related to AIJ, which could be a basis for future cooperation under the Clean Development Mechanism.

Norway has applied the guidelines provided by the Conference of the Parties, (COP 1), decision 5/CP.1 as a fundament for the AIJ project selection and design. Norway in its reporting has also applied the Uniform Reporting Format for AIJ (URF) under the pilot phase (FCCC/1997/4) as adopted by the fifth session of the Subsidiary Body for Technological Advice (SBSTA).

2. General views on experience with URF

- The URF is overall a useful tool for reporting of ongoing AIJ-projects The reporting activity is in itself a good exercise for the Parties to further collaborate on the project. We believe that Parties involved in a project achieve valuable experience by making a joint report.

- The URF allows the Parties to report on data collection, estimation of baselines and emission reductions. However, at present there are no clear guidelines with regard to calculation of baselines etc. As long as the guidelines for these elements are vague there will be a variety of interpretations and the value of the reporting will not be optimal.

3. Definitions that needs to be clarified

3.1. Calculation of baseline

The main criterion decided at COP 1 is that AIJ-projects must provide emission reductions that are additional to what would otherwise occur.

Concerning additionality, the URF is formulated in very general terms. The current set-up contains no guidelines on how to calculate a baseline.

Standards or guidelines are decisive for comparison of cost efficiency between different AIJ-projects. Therefore we believe that it is necessary to develop a clear set of criteria for evaluation of the economic aspects of AIJ-projects. 3. 5. Verification and control

Project calculations should be verified by suitable means to determine the reliability of the technology or methodology used for emission reductions. As long as concrete guidelines for providing of baseline still are lacking, verification is difficult.

The URF contains no questions on verification and third party control. We believe that there is a need to develop criteria on how to access deviations from planned or actual emission reductions. To be able to do this, it is important that the URF is supplied with questions about management and technical conditions (responsibility, metering etc.). In order to obtain complete transparency and credibility, we believe there is a need for an independent mechanism to verify the emission reductions.

The fact that each Party is responsible for their calculation of baseline makes it necessary to leave the verification to a neutral and credible evaluation system.

4. National communications and inventories

Regarding National communications, it is required that the Parties report policies, measures and their effects. The current URF is related to the projects and is designed without a clear link to sector or national inventories.

By making the emission reductions from the AIJ-projects visible compared to the national inventories, the impact of both AIJ and JI/CDM will get more visible and achieve higher credibility. It should also be possible to visualise the effects of different projects on a sector level.

AIJ Program Status Report

The AIJ Program at the World Bank, initiated in April 1996 in collaboration with the Government of Norway, is reaching its maturity point in June 1999. At the outset, the AIJ team established a set of objectives to be accomplished by the end of a three year period. Following is a review of the results received thus far including the lessons learned while attempting to reach these goals.

Maximize learning about AIJ

The main objective of the World Bank AIJ Program is the maximisation of participation and the learning value of the AIJ Pilot Phase. An important mechanism for emphasising the learning value of the AIJ pilot phase is reporting the pilot projects to the UNFCCC Secretariat. The program has already reported four projects. Also, the AIJ team at the World Bank has published articles in relevant newsletters and journals. Documentation of the AIJ Program has been widely circulated via the many AGBM, SBI and SBSTA meetings in the past year. Members of the AIJ team frequently present the program to a variety of audiences.

Lessons learned

The fact that host country prepares and submits the reports for the projects to the UNFCCC is an important aspect of the Bank's AIJ Program. Due to a lack of capacity and experience, some complications did arise in the final weeks before the submission of these reports. This depicts a definite need for continued awareness raising and human and institutional capacity building within potential AIJ Host countries.

Promote the long-term objective of the Climate Change Convention

The ultimate objective of the UNFCCC is the stabilization of GHG concentrations in the atmosphere at a level that would prevent continued dangerous anthropogenic interference with the climate system. The Bank's AIJ Program intends to ensure that the efforts made by the program will substantiate AIJ's ability to provide a major contribution to achieving the objective of the Convention. In addition to the demonstrative effect of the AIJ pilot projects, the program has also prepared research on the potential for AIJ, CDM and JI. One study suggests that a moderate regime of JI would imply that the trade in carbon emissions permits could amount to US$ 10 billion annually by the year 2020. Another study analyzes how effective incentive structures can be put in place for private sector involvement in AI and, in due time, JI. CDM has emerged with potential interests to developing countries particularly in the context of Certified Emissions Reductions (CER) units.

Lessons learned

Whereas the efforts taken thus far via the AIJ program and the research mentioned above illustrate both the short term and the long term requirements and potential for CDM and JI, a need exists to examine what the next steps are to create a market for carbon offsets and CER in a way that promotes the long-term objective of the Climate Change Convention.

Promote Bank client country development

The desired outcome of this objective is to ensure that developing countries perceive AIJ to be consistent with and favorable to their development objectives. To promote this objective, the AIJ program has instituted the practice of co-hosting workshops with the countries of the AIJ projects. These workshops promote the local and regional understanding of AIJ and the technologies of the particular project. Additionally, increased interest in the potential for AIJ, CDM and JI in developing countries has resulted in the initiation of a new program at the World Bank: the National Strategy

Studies Program. This program aims to finance host country driven national studies to determine the options available to that country, including the potential benefits of AIJ/CDM/JI.

Lessons learned
As expected, the ability to utilize regular Bank projects to provide the pipeline has had the effect of reducing risks and transaction costs. Additionally, the AIJ program has revealed that the initial risks and transaction costs for individual AIJ projects can be further reduced through the development of potential mechanisms such as a fund to pool investments and diversify risks. Also, the program has realized that poverty eradication in developing countries has clear priority and could be addressed by climate change mitigation efforts.

Explore solutions to the methodological issues
The practical experience of the AIJ pilot projects provides the opportunity to analyze the potential complications as a result of the lack of understanding of the various methodological issues. A research program has been established with the goals of developing an advanced methodological bases and guidelines for future Bank AIJ projects and to contribute to the ongoing international debate on AIJ/CDM/JI methodology and assure the consistency of the Bank's approach with emerging international standards.

Lessons learned
Particular methodological issues have arisen in the implementation of the current AIJ pilot projects. For one, the projects selected for the AIJ program thus far have revealed that the determination of the baseline on an individual project basis is much less complicated than initially anticipated. Additionally, the Mexico High Efficiency Lighting project has been interesting to monitor because it has illustrated that the baseline can change during the implementation of the project and the actualization of the GHG offsets. The parameters of each of the individual projects have constantly been changing from the initial analysis, providing an element of risk diversification. The project characteristics and changing baselines have resulted in a pilot of Certification and Verification work on the project. Also, the India and Burkina Faso projects have indicated the possibilities of undertaking work on projects validation.

Promote partnerships and private sector participation
Private sector participation in the AIJ pilot phase is important to enhance the learning value and the potential for AIJ and JI; therefore, the AIJ program aims to promote the AIJ program to the private sector as a unique business opportunity. Thus far, the program has entered into its second phase which implies participation in the AIJ program by the IFC, the private sector arm of the World Bank Group. Indeed, the core financing for an upcoming project in Barbados is from the IFC. Additionally, a project pipeline is being developed from the IFC to provide additional projects.

Lessons learned
Thus far, a lack of sufficient incentives has prevented strong private sector participation in the AIJ experience. Although some discussions have been held with the private sector, the need exists to re-emphasize efforts to increase private sector participation in the AIJ pilot phase.

Identify and select AIJ pilot projects
The initial goal of the AIJ program was to implement up to five pilot projects by the end of 1997. The program is well on its way to having attained that goal, with projects currently being implemented in Poland, Mexico, Burkina Faso and India. Additionally, interest from other countries in establishing a similar collaboration with the Bank suggests the potential for projects in addition to those funded by the current collaboration with the Government of Norway. To that end, a project pipeline of approximately 25 projects have been developed to meet these demands. Plans are underway to mobilize additional resources to support 1-2 projects under the CDM framework.

Lessons learned
An important lesson learned from the experiences thus far is the need for future projects to clearly identify the AIJ component of the project prior to approval of the project. Although two of the current AIJ projects were initiated prior to the establishment of the AIJ pilot phase and its criteria, difficulties

arose in reporting the status of the projects and their estimated greenhouse gas offsets. CDM projects would be identified from concept stage through implementation.

A very important aspect of the Bank's AIJ program has been to address the concern for regional diversification of the AIJ projects. Although the program currently has a project in Burkina Faso additional projects in Africa are important to increase the learning.

Initial Views of the Alliance of Small Island States (AOSIS) on Activities implemented jointly (AIJ)

Inputs concerning Parties experience in using the AIJ uniform reporting format; and, views on the process and information and experience gained and lessons learned with activities implemented jointly under the pilot phase.

I. Introduction

The Alliance of Small Island States (AOSIS) welcomes this opportunity to present further comments on these very important issues. AOSIS participated actively in the discussion at the 4th Conference of the Parties (COP), and supported the concerns which were raised through the Chairmanship of the Group of 77 and China.

AOSIS has consistently held the view that the AIJ pilot phase must be allowed to gather enough experience before a final decision can be taken on the utility of AIJ. Although initially skeptical to the concept, AOSIS accepted the compromise contained in decision 5/CP.1 of the 1st COP. AOSIS was skeptical because many of the ideas which were being expressed about AIJ appeared to be an excuse for exporting Annex 1 commitments to developing countries.

Furthermore, AOSIS had presented views on the subject as early as the 9th session of the Intergovernmental Negotiating Committee (INC) for a Framework Convention on Climate Change(FCCC) (A/AC.237/Misc.33/Add.3), particularly in regards to monitoring and verification. AOSIS stated then that activities (then referred to as joint implementation) should be confined to those for which there is an agreed scientific, technical and economic basis for assessing all the related costs and benefits. It was also recognized that there was a need to ensure that financial resources flowing from these activities should be additional to existing official development assistance.

In addition, at the 11th session of the INC, AOSIS reiterated that JI/AIJ should apply exclusively to commitments on limitation of emissions from sources, and not to enhancement of sinks, that Parties shall communicate fully to the COP the outcomes of the activities, and that technology, resource and financial flows shall be new and additional to ODA.

It is significant that in proposing the arrangements for AIJ, it was hoped that projects would cover a wide range of sectors, notably in energy, transportation, household & industry and forestry. Moreover, these activities would be spread over a large number of countries providing the necessary geographical diversity. The latter is crucial in relation to the range of socio-economic conditions, business

cultural differences and the different technical/social challenges. However, the AIJ pilot phase has not turned out to the great expectations that were raised at the 1st Conference of the Parties.

Experience in using the uniform reporting format AOSIS is in favor of clarity and simplicity in the reporting format and procedures, while maintaining the necessary levels of detail required to evaluate the pilot phase. AOSIS accepted the agreed uniform reporting format on that basis.

AOSIS is not in a position to evaluate the experience of using the uniform reporting format, as few AIJ projects have been implemented in AOSIS Member States. The reporting on these projects has not been completed at the present time, and it will be difficult to adequately reflect the varied impressions emerging. The decision of the 4th COP to continue the pilot phase, and in particular to encourage projects in Least Developed Countries and Small Island Developing States, is welcomed, and may enable AOSIS to gain the necessary experience to fully answer this question. It is expected that one AIJ project in Belize will be reported on during the coming months, and that the details in this report will be of great value to all Parties, and to AOSIS Members in particular. Initial views have shown that this project reporting under the uniform reporting format is comprehensive, but it is edited to a degree that would make independent evaluation of the reports alone a very uncertain exercise.

It is apparent to AOSIS that there are some existing problems in relation to the utilization of the uniform reporting format. AOSIS is not able to state whether these problems relate to the uniform reporting format per se. The question remains whether there is any other motivation, or another agenda, that has caused the uniform reporting format to be applied in such a haphazard manner.

AOSIS is interested in fully evaluating the AIJ pilot phase, and to make an informed decision when the time comes. Current information available does not make such a decision possible, and this is largely due then to the failure of the Parties concerned to fully utilize the uniform reporting format. This problem may be caused by a lack of willingness to establish a national infrastructure in the host country for accepting AIJ projects, and then to continue with the responsibility for monitoring, verification and reporting.

AOSIS continues to be concerned over the lack of consistent, comparable information from the AIJ projects concerning baselines. This will become a major concern when the Clean Development Mechanism is operationalized. AOSIS considers that it is vitally important for the methodologies for the calculation of the baselines to be consistent across project types and countries, and that this issue is not addressed by simply adjusting the reports format. What is needed is a full and

independent critique of the efficacy of the pilot phase projects in terms of addressing the concerns raised by the Parties.

II. The AIJ pilot phase - experience gained and lessons learned

Few AOSIS Member States are able to discuss any experience gained, as there have only been a handful of AIJ projects in our countries. As stated above, the reporting on these projects has not been completed at the present time, and it will be difficult to adequately reflect the varied impressions emerging. One issue that has emerged is that the National Focal Points for FCCC activities must be kept informed by the proponents of an AIJ project. It is especially important for the Annex 1 Parties involved to ensure that the projects are developed in a transparent manner. The process of selecting AIJ projects to offer to developing countries has not been particularly open. This is also apparently the case for the description of a project (for example, is an AIJ project an energy conservation project using new technologies, or is it an energy efficiency project with more efficient use of existing technologies or products?). Some projects appear to have been inflated in their importance.

It is becoming evident that there are some important lessons to be learned, particularly in regards to problems that must be avoided in the operations of the Clean Development Mechanism (CDM) of the Kyoto Protocol. The AIJ pilot phase does not appear to have attracted the sort of projects which AOSIS suggested at INC-9, "those for which there is an agreed scientific, technical and economic basis for assessing all the related costs and benefits". Instead, it could be argued that the pilot phase has been side-tracked by too many sequestration activities. The good intentions that allowed decision 5/CP.1 to go ahead, may have been lost in the sink.

AOSIS continues to hold the view that the AIJ pilot phase should have covered all sectors, but with a concentration on sectors such as energy and transportation. It is clear that if anything can be salvaged from the AIJ pilot phase there needs to be a concerted effort to introduce new and innovative projects, that can fully demonstrate the possibilities for greenhouse gas emissions reductions, in particular in energy production and transportation efficiency improvements. AOSIS wishes to see a greater concentration of projects in the renewable energy sector (such as photo-voltaic, wind power, wave power and mini-hydro), for energy production as well as innovative projects in the transportation sector (such as fuel cells), and AOSIS will therefore not support any further sequestration projects for the AIJ pilot phase.

III. Towards a comprehensive review of the AIJ pilot phase

AOSIS is of the view that a comprehensive review of the pilot phase must occur in the near future. At the present stage AOSIS does not consider the available information to be adequate for that purpose. There has been too little experience with projects globally, and specifically there have been few projects in Small Island Developing States. The information reported to the Secretariat has not been very informative, which the Secretariat continues to politely understate. It may be the case that a lot of funding has been channeled into the pilot phase, but if the results that are presently available is all there is to discuss, then it would appear to have been money wasted. AOSIS does not consider the issue lightly, as there are tremendous potential problems that could be replicated in the CDM unless a cautious approach is taken with the AIJ pilot phase review.

It would behoove the proponents of the pilot phase projects to fully demonstrate to the Conference of the Parties that there is indeed merit to this particular mechanism. In particular, there is need to give priority attention to projects on adaptation or those having important implications for adaptation.

Nevertheless, AOSIS agrees that it is vitally important for the pilot phase to be continued and that deliberate efforts are made to raise awareness and build capacity. It is imperative then that there is transparency and consistency in the terminology, definitions, costs, the determination of baselines, monitoring, reporting as well as verification. The initial reports from the limited number of activities undertaken so far point to the need to improve accuracy, comparability of data, methodological, technical and institutional issues, and these tasks should be of highest priority to the proponents.

AOSIS would like to see a continued constructive debate which can capture valid points that have been raised by the AIJ pilot phase proponents, while bearing in mind the very real concerns that the most vulnerable countries have in relation to strong and effective action against climate change.

Swedish comments regarding experiences of the form used for reporting of AIJ projects.

The Swedish National Energy Administration wishes to point to three cases where Sweden would like to propose that the UNFCCC's Climate Secretariat should formulate clearer instructions on how to fill in the form:

1) Annex I A, Point 3 Activity. Questions relating to the time of the project's start-up and completion can be answered in various ways. For its part, the Swedish National Energy Administration has chosen to use the time of the signing of the loan agreement and the time when the project owner takes over the plant. An instruction from UNFCCC would help to bring about a unified interpretation of these matters.

2) Annex I A, Point 4 Cost. The method of calculating costs needs to be standardized. The costs involved in an investment can be covered via contributions and/or loans. A contribution from a financier can certainly be defined as a cost for the financier. However, a loan, mediated e.g. by the Swedish National Energy Administration, is not a cost in business economic terms if the interest rate and other loan terms are the standard market rate and terms. The amount becomes a cost for the lender only when the borrower cannot make the loan repayments. Due to the lack of clarity here, the Swedish National Energy Administration has hitherto chosen to report the loan amount as a so-called AIJ cost. Consultant costs and other transaction costs covered by the Swedish National Energy Administration are, strictly speaking, an AIJ cost and have also been reported as such. The AIJ cost reported affects the specific cost calculated for a decrease of one kilogram in the emissions of greenhouse gases. This figure also depends on the calculation period, i.e. from project start-up to completion, a matter covered in the point above. It also depends on the choice of baseline - see next point.

3) Annex I, Section E, Point 1 Project Baseline. The decrease in emissions of greenhouse gases is calculated in relation to the emission level that the project would have had if the investment had not been

made - i.e. the project's baseline. Some ten or so models are currently used to calculate the emission level which would have applied had the investment not been made. The results obtained from calculations in which these different methods are used may display considerable variation. Instructions from UNFCCC regarding the choice of model for different project categories would greatly facilitate both the calculations themselves and comparisons of various projects.

SWITZERLAND

INPUTS RELATED TO THE AIJ PILOT PHASE (Decision 6/CP.4)

1. Experience using the Uniform Reporting Format (paragraph 3)

Under the Swiss AIJ Pilot Program (SWAPP), all project proposals submitted for government approval under the AIJ pilot phase must include a completed URF. Thus government representatives responsible for AIJ project approval, consultants charged with preparing project proposals and, to a much more limited extent, the private sector have gained experience with using the URF since the SWAPP began its operations in early 1997. In addition, Swiss consultants have collaborated closely with experts in the Czech Republic, the Slovak Republic, the Russian Federation and Uzbekistan in their identification of possible AIJ pilot projects. This work also involved filling out the URF with data for the 65 projects identified through the respective National AIJ/JI/CDM Strategy Studies.

Generally the availability of a standard reporting format facilitates the transparency and comparability of individual submissions. Together with agreed common methodologies, an improved URF will be a key input into the design of standards against which Parties can verify consistency of reported project information with the established eligibility criteria for JI/CDM projects and accredited organisations can certify CDM projects under the Kyoto Protocol. Thus the revision of the URF can contribute to relevant elements of the Work programme for the Kyoto Mechanisms.

Based on the experience gained under the SWAPP, Switzerland wishes to suggest the following improvements to the URF and would like to invite the UNFCCC Secretariat to provide a revised draft URF for the consideration of Parties at the 10th Sessions of the Subsidiary Bodies:

General Structure

Section A.4

It would be preferable to move this section so that it would follow the calculation of the project baseline and expected emissions from the AIJ project (Section E), since these data are required to calculate the CO_2 abatement cost that is called for. It might therefore make sense to integrate Section A.4 into Section F (and call it something like "Project cost and financing")

Sections D (Benefits derived from the AIJ project) and H.3 (Negative impacts/and or effects)

The URF would be easier to follow if these sections were merged into a single section on "Non-climate impacts/effects" that would cover both the positive and negative effects of projects on the environment, society/culture and the economy. The merged new section might logically follow the current section E or G. This would greatly facilitate the readers' orientation.

Substantial comments

General comments

- All parameters should be expressed in SI units. This requirement should be indicated at the beginning of the format.

- The URF – through the structure of its input tables – should provide more guidance on the type of information desired. A brief set of guidelines or a handbook for filling out the URF would be helpful.
- Introduce a Box "date of last document modification" on front page.
- Parties should be encouraged to voluntarily provide information on projects that were assessed, but found to be ineligible under the international rules of the AIJ pilot phase (either the completed URF or only a description of the project according to Section A.1/A.3 together with a brief explanation of why the project was rejected). This would aid the review process and contribute to the development of common methodologies for applying the AIJ (and subsequently JI and CDM) criteria.

Section A

- A2: List of standard functions remains to be defined.
- A3: Provide guidance on the following issues:
  - Definition of "Activity starting/ending date": Do these terms refer to the construction time? the duration of the AIJ cooperation? the technical lifetime of the project? or some other activity?
  - Stage of activity: It would be useful to provide more differentiated descriptors for the category "in progress" (e.g., feasibilty study completed, under construction, in operation)
  - Definition of "Lifetime of activity": Does this mean the technical lifetime of the project or the duration of the AIJ cooperation (this would correspond to "crediting time" under JI or CDM)? Perhaps it would be better to Introduce the term "theoretical crediting time", which clearly refers to the AIJ consideration of the project rather than the technical lifetime (a footnote might be required to repeat the stipulation under Decision 5/CP.1 that no credits shall accrue to any Party as a result of greenhouse gas emissions reduced or sequestered during the pilot phase from activities implemented jointly)
  - Add a new item to the table "Relevant reference documents": This would allow those Parties that wish to do so to provide references to further publicly information on the project (e.g., web sites, feasibility studies, annual/progress reports, etc.)
- A4: Costs
  - Introduce two items: "Cost of baseline project in US$" (analoguous to the structure in Sections E.1/E.2) and "Estimated emission reductions in tons of CO_2 equivalent" (which is derived from section E.2). Both of these figures are required to calculate the last item "US$ per avoided ton of CO_2 equivalent".
  - Generally, provide maximum guidance on how to calculate project costs. For example, it would be helpful to rearrange cost calculation into a spreadsheet-type net present value (NPV) calculation stretching over the whole crediting time of the project, including investments / capital costs, operation & maintenance costs, AIJ monitoring & reporting costs, as well as financial benefits (returns from product sales). Define the "AIJ component" (incremental costs) as the difference in NPV between the activity and the baseline scenario.
  - Introduce a box, "Key assumptions", where important assumptions of the cost calculation (e.g., energy prices, discount rate, etc.) are stated explicitly and justified.
  - Introduce a section "Financial data" with additional info on the project (e.g. expected return on investment, internal rate of return)

Section B

Guidance on the information under B.1 that is required on "subsequent reports" (specifically, we do not really understand what it is expected under the heading titled "describe").

Section E

- In general, there needs to be more guidance on what should be included in the scenario descriptions. The URF should not only contian the summary tables for emissions data, but also tables to ensure proper reporting regarding the descriptions of the baseline and reference scenarios. The new tables could request specific information such as a general description of each scenario, including how it was derived; a technical description of each scenario; information on and a justification of key assumptions; and an explanation of how each project fulfills the criterion of environmental additionality.
- The new tables (or subsections) should definitey include an item on "Key assumptions", where important assumptions of the emissions scenarios (e.g. emission factors, discount rate for offsets, etc.) are stated explicitly and justified.
- Introduce a new section on "Greenhouse gas emissions leakage effects"

Section F

It would be informative, if the information on the source of funds were broken down according to a predefined list of project-related steps such as pre-feasibility (project identification) phase, feasibility assessment phase, implementation/construction phase (basic project financing (excluding the AIJ component), financing of the AIJ component), operational phase (AIJ monitoring, AIJ reporting).

2. Views on the review process (paragraph 5)

Please refer to our submission on this issue contained in document FCCC/CP/1998/MISC.7. This submission contains a detailed mandate for the review in the form of a draft decision.

3. Experience gained and lessons learned with AIJ under the pilot phase (paragraph 5)

Although we expect to have more opportunities to provide input on our experiences during the course of the review of the AIJ pilot phase, we would like to offer some preliminary observations at this time:

National AIJ programs and project approval procedures

It took Switzerland 6 months from the time that a decision was taken to participate in the pilot phase to establish the necessary institutions (Interministerial Committee for AIJ/JI, Swiss AIJ Pilot Program Secretariat) and initiate operations, and another 4 months to adopt program guidelines, including program objectives, activities and project eligibility criteria. It has also been our experience that cooperation with host countries that do not already have such national institutions is extremely difficult, since there are no clear lines of decision-making and project approval procedures are unclear. Parties intending to engage in the pilot phase should be aware of the recources required: Our experience including cooperation with several

central European countries suggests that **at least one (preferably full-time) person is required to facilitate participation in the AIJ pilot phase** and that this person must also be involved in the UNFCCC negotiating process or have adequate access to this information.

Application of eligibility criteria

This has been a learning-by-doing process for all countries under the pilot phase. It is clear from the last report on submissions using the URF that the COP **eligibility criteria for AIJ are not interpreted/applied in a consistent manner.** Thus it is critical that the review process catalogue the different interpretations used by different Parties and assess the differences among – and the advantages, disadvantages and implications of – the various approaches. The criterion of environmental additionality should be given particular attention. An independent evaluation of which projects meet this criterion using the different interpretations offered by Parties would be extremely helpful. In addition, a number of countries have proposed **additional criteria**, and their necessity/merits should be assessed in light of the modalities being designed for JI/CDM.

Project implementation

Few of the approved AIJ projects have been implemented due to a **lack of incentives** (above all, a lack of crediting, as well as a lack of reduction obligations for the private sector at the national level), in particular projects with private sector funding. This is an indication of how important it is for the success of the pilot phase that COP take a fundamental decision that **AIJ projects** – *if* they meet the criteria and are compatible with the modalities to be established for JI and CDM under the Kyoto Protocol – **can be, *in principle*, eligible under JI or the CDM**, of course, *without retroactive credit* prior to approval under these mechanisms. Without such a signal, it is unlikely that the number of projects actually financed and implemented – and thus the number of countries involved in and gaining experience with AIJ projects – will increase enough to allow all countries that have expressed an interest in hosting AIJ projects to actively participate in the pilot phase prior to the launch of the CDM in 2000.

To date, there has been little information available on **approaches to monitor, verify or certify AIJ project performance.** The review should seek additional inputs on the guidance that Parties have given on these steps and in co-operation with private sector accreditation and certification bodies make recommendations for standards, as appropriate.

Capacity building needs and experiences

As mentioned above, Parties that choose to engage in the pilot phase cannot play an active role until they have developed their own strategies and allocated the necessary human and financial resources to do so. Thus there is an urgent need to support such activities in interested AIJ host countries. In September 1997, Switzerland and the World Bank launched a Collaborative Initiative to provide support for **National AIJ/JI/CDM Strategy Studies** in potential host countries (to date, Switzerland has provided a total of US$ 2.43 mio; additional support has come from Finland, Austria, the World Bank and the study countries themselves). We would like to recommend that Parties take note of a recent study conducted to synthesise the results of the initial studies performed by teams from the Czech Republic, the Slovak Republic, the Russian Federation and Uzbekistan – together with international consultants and under the advice of the World Bank: The *Synthesis Study of the National Strategy Studies Program* provides a number of insights into the **institutions required for countries to be active in the AIJ pilot phase** and assesses current **gaps in know-how and technical**

expertise. The report is available free of charge from the World Bank (pkalas@worldbank.org).

Switzerland has also supported the efforts of various NGOs and governments. We recommend that the review develop an **overview of past and ongoing capacity building initiatives related to AIJ/JI/CDM** and **identify the remaining capacity building needs** on a short-term basis.

Submission of the United States on the Review of the
Activities Implemented Jointly (AIJ) Pilot Phase
February 12, 1999

U.S. VIEWS ON THE AIJ PILOT PHASE

The Activities Implemented Jointly pilot phase has provided the international community with an empirical basis on which to elaborate the project-level flexibility mechanisms included in the Kyoto Protocol. Project-based activities should be conducted so as to be credible, efficient, transparent and verifiable.

To date, the U.S. government, through its Initiative on Joint Implementation (USIJI), has accepted 32 projects that offer innovative approaches to combat the threat of climate change and promote sustainable development. These projects, 18 of which are in various stages of implementation, take place in 14 countries on four continents (Africa, Asia Europe, and Latin America) and are designed to apply a variety of technologies and practices, including: wind, geothermal, hydroelectric, and solar; coal to natural gas fuel switching; methane gas capture; biomass waste-to-energy generation; energy efficiency improvements to district heating systems and private residences; forest conservation; and reforestation and sustainable land management. There are a number of areas where experience gained during the AIJ pilot phase can be applied usefully in the design and operation of project-based mechanisms in the Kyoto Protocol.

Key Findings

- In the absence of credits, the private sector has been reluctant to participate in AIJ, thus hampering the development of important environmentally sound projects and the diffusion of new technologies;
- Transaction costs must be minimized. Project evaluation and review should be as expedient and transparent as possible;
- Standard guidelines in estimating greenhouse gas benefits would lower transaction costs, ensure objectivity and facilitate verification. The use of benchmarks might be useful in this regard;
- A separate process may be useful for individual assessment of promising projects that do not readily meet standardized guidelines;
- AIJ has demonstrated that projects can successfully target both sources of greenhouse gases and sinks;
- Adequate host country institutional capacity and clear lines of authority are crucial to enabling project development and approval; and
- A conclusive decision on the AIJ pilot phase at COP-5 is possible and advisable.

Design and Operation Issues

Program Objectives

Since its creation in 1993, as part of President Clinton's Climate Change Action Plan, the USIJI program's primary goal has been to gain experience and knowledge that can be used as a basis for post-pilot phase programs. It has also:

- served as a mechanism for investments by U.S. entities in projects to reduce, avoid or sequester greenhouse gas emissions worldwide;
- promoted a wide range of projects to test and evaluate methodologies for measuring, tracking, and verifying costs and benefits; and
- encouraged technology development and dissemination consistent with sustainable development priorities in developing countries and countries with economies in transition.

Criteria were adopted to identify those projects that support the development objectives of the host country while providing greenhouse gas benefits beyond those that would occur in the absence of the joint implementation activity. The criteria were formulated to ensure that projects accepted into USIJI would produce real, measurable, and lasting net emissions reductions. The program has continued to evolve, as more is learned about project evaluation and implementation processes.

Evaluation Panel and USIJI Secretariat

The role of the USIJI Evaluation Panel is to consider project proposals for inclusion in the pilot program as well as provide general guidance to the USIJI secretariat. The eight members from different U.S. government agencies (i.e., Departments of Agriculture, Commerce, Energy, Interior, State, and Treasury and the Environmental Protection Agency and the Agency for International Development) consider not only how each project meets the established criteria, but also how the project contributes to the pilot program. To gain trial experience from a wide variety of projects during the pilot phase, the Evaluation Panel has in some cases accepted projects that may not have made a strong showing on one criterion if they were considered strong in terms of other criteria. In doing so, the Panel has been able to test the criteria and encourage innovative approaches to mitigating greenhouse gas emissions.

Certification of greenhouse gas benefits estimated for the projects has been challenging. The USIJI secretariat has not verified reported emissions, provided standard monitoring guidance, nor reviewed the monitoring plans for most projects. Limited progress in these areas can be attributed to the relatively small number of funded or fully implemented projects as well as the fact that standard methods for determining GHG benefits have not been sufficiently developed. Funding and implementation problems may be attributable to the lack of strong incentives to undertake projects in the absence of GHG credit. On the other hand, U.S. government agencies are pursuing research on standardizing methods for determining GHG benefits.

The current evaluation process involves three levels of technical review – the completencss check, technical screening and full review – prior to consideration by the Evaluation Panel. This three-tiered approach allows program resources to be targeted more effectively to those project proposals that are most likely to meet the evaluation criteria. It also allows USIJI secretariat staff to provide project developers with information regarding technical deficiencies in their proposals early in the process so that they may improve their proposals and resubmit them for consideration in a later review cycle. After a proposal is examined to determine that adequate information has been provided, and if there are no gaps or technical issues requiring resolution, technical reviewers who may be drawn from government agencies, national laboratories, and private industry complete thorough written evaluations of the projects. These reviewers are required to sign non-disclosure forms and to confirm in writing that they have no conflicts of interest that might compromise standards of impartiality. Once they have completed their work, the reviewers for each project category meet to discuss and clarify comments. At this stage, project developers may receive another opportunity to rectify any deficiencies identified in the detailed review. Sufficiently sound proposals are submitted to the Evaluation Panel along with recommendations and summaries of the technical comments.

The USIJI technical review and evaluation process has attracted some criticism. One assessment of the program that has been echoed elsewhere described the complex, and multi-layered process as overly bureaucratic and lacking in transparency. This may have been largely a product of confusion over application of the criteria designed to test a project's "additionality" (i.e., to help ensure that project benefits are in addition to what would otherwise have occurred). In designing the pilot program, the U.S. agencies involved wanted to ensure that the accepted projects would meet credible standards for environmental integrity. However, experience has shown that these criteria have been difficult to evaluate, and as a consequence, it has not been possible to apply the same standard of additionality to all projects under consideration because of their unique circumstances and available data associated with each project. Evaluating projects on a case-by-case basis may have resulted in some subjective, uneven and resource-intensive judgments. Technical reviewers sometimes interpreted the additionality criteria differently and arrived at different conclusions.

Despite these critiques of USIJI's operations, the same assessments recognize the importance of USIJI as a pilot initiative. This initiative was intentionally designed to learn from early experience. Program evaluations acknowledge that the review and evaluation process has evolved and matured, and become more transparent over time. In an effort to improve upon the working definition of additionality, project developers have increasingly been given more flexibility, and in some cascs, the benefit of the doubt on additionality tests. Overall, the program has received high marks for laying the groundwork for future climate change mitigation project development by documenting its work through annual reports to the Climate Change Convention (FCCC) secretariat. USIJI has also offered support to the private sector in the form of technical assistance, grants, workshops and training programs. The variety of projects has enhanced our "learning" experience, fulfilling our objectives in participating in the pilot program. The knowledge gained can now be applied to future programs.

Project Development

Since its inception, the USIJI Program has facilitated two-party and multiple-party arrangements among project developers and host country governments. To establish these arrangements (usually in the form of contracts), the participants directly negotiate and agree on project design, cost sharing, the project implementation schedule, monitoring and verification procedures, and other project issues, including allocation of potential GHG credits. In this latter regard, while crediting is not permitted under AIJ, most projects are expected to provide GHG benefits well after the AIJ pilot phase concludes. As such, many project participants anticipate that their projects may be eligible for consideration under the Kyoto Protocol's project-based mechanisms.

If arrangements are satisfactory, the host government prepares a letter indicating host country acceptance of the project, which is included in project materials submitted to the USIJI secretariat for consideration. Project arrangements negotiated under USIJI have presented both opportunities and challenges to project participants, to host country governments and to the USIJI secretariat. These arrangements have enabled investors to participate directly in project decision-making and development activities as well as project implementation. They have thus been able to design projects to address environmental and/or business interests (e.g., forest conservation and market exploration) beyond generating GHG benefits. Small investors, or investors less interested in directly participating in project negotiations and development activities, have joined with other participants to pool resources and to share project development responsibilities.

Negotiating these arrangements has created some challenges. For example, as part of the process of developing a project under the USIJI, participants must establish a GHG emissions baseline or reference case from which project GHG benefits are measured. Because baseline estimates are developed on a project-by-project basis, calculation methods have varied, even among similar projects within the same country or region. These differences have pointed to the need for standard guidelines for estimating project GHG benefits. Transaction costs as a percent of total project costs have also tended to be higher for smaller projects. This is primarily because some transaction costs are relatively fixed (e.g., proposal preparation, responding to technical questions raised during the project evaluation process, travel costs, etc.) and are incurred by each project developer regardless of overall project costs. Despite these challenges, project investors have continued to develop and submit proposals of varying sizes to USIJI. Just as GHG estimation experience should emerge from the AIJ pilot phase, so too should the transaction costs associated with project development tend to decrease.

The issue of transaction and other project costs has attracted considerable attention. Meeting the USIJI criteria for additionality has often increased overhead costs for project developers. A number of investors did not budget for the additional consultation needs that arose in the project review and evaluation process, which caused administrative costs to grow substantially when initial deadlines were not met.

Crediting Issues

Under the pilot phase for AIJ, "credit" for GHG emissions that are reduced, avoided or sequestered is not granted. Experience in the USIJI Program has shown that, in the absence of credits, potential project developers are less likely to initiate efforts to go through with projects or invest in accepted USIJI projects. In general, this has greatly reduced the ability of USIJI projects to attract investment and, ultimately, to generate GHG emission benefits. Still, several USIJI project developers have established credit-sharing arrangements in anticipation of future crediting. In one case study where project developers allocated "credits" at the outset, they were unable to secure insurance despite a relatively small financial risk because the "credits" had no financial value. In another example, credits could have helped to generate demand for the firm's product – an innovative, GHG recovery technology.

Another assessment of USIJI cited the lack of credit as one of the program's biggest problems. The assessment noted that many companies held that the costs of participation outweighed the expected return. Several firms have chosen to take a wait-and-see approach to avoid risks during the pilot phase and to allow the evaluation process to mature. The assessment noted, however, that companies have benefited from the public relations value of their projects even in the absence of GHG credits. This unavailability of credit and the income that it could generate have magnified the effect of relatively high transaction costs.

Measuring, Monitoring, Verification Issues

Additionality

The USIJI experience has provided useful insight into the concept of "additionality" as defined in Decision 5/CP.1 ("AIJ should bring about real, measurable and long-term environmental benefits related to the mitigation of climate change that would not have occurred in the absence of such activities"). Additionality is critical to determining whether commitments to achieve net emissions reductions (through actual reductions, avoidance or sequestration) have been met specifically through the implementation of USIJI projects. For the 32 projects in the USIJI portfolio, the determination of additionality has involved the analysis of past and current trends that are extremely complex and difficult to identify and document. As a result, the methods used for assessing the different components of additionality have varied somewhat across projects, and ultimate judgments regarding the additionality of projects have required careful evaluation of project-specific factors. This experience suggests that a two-tiered analysis, with general standardized additionality criteria and a separate process for specific assessments of individual promising projects that do not readily meet the standard guidelines, may ultimately be needed.

USIJI criteria have been structured to test three kinds of additionality – emissions, programmatic and financial. Emissions additionality can be relatively straightforward to determine. If a credible reference scenario can be determined, the numbers provided by the project developer can be reviewed to ascertain whether the greenhouse gas benefits associated with the project are additional to what would have occurred otherwise. Determining programmatic additionality involves deciding whether the project was initiated as a result of, or in reasonable

anticipation of, USIJI. This criterion was intended to discourage the repackaging of planned activities that would otherwise have been undertaken. Therefore, project developers have had to demonstrate that, given prevailing regulations, policies, technologies, practices, and trends, their projects would not have been introduced in the absence of USIJI. In practice, it has been difficult for some developers to document clearly their case, and careful consideration has been made in cases where projects were a continuation, extension, or component of an existing program or if the project proposal was formulated before the creation of USIJI. The need to make subjective judgments argues for eliminating programmatic additionality in future regimes. Determination of financial additionality has been complicated at times. Although the USIJI criteria established guidance on the use of overseas development assistance (ODA) and funds from the Global Environment Facility, various USIJI projects have involved a mix of funds which has made it difficult at times to evaluate whether the criteria had been met. We may thus also need to consider how this type of additionality should be addressed in future.

Baselines and Reference Cases

A critical element in determining emissions additionality is establishing a credible baseline scenario and emission projection both for the reference case and the project itself. USIJI project criteria require that project developers provide sufficient data and methodological information to establish estimates of current and future GHG emissions in the absence of and as a result of project activities. This process has often proved challenging. In order to establish credible reference and project scenarios, project developers must identify the factors likely to influence emissions and sequestration under both scenarios, and predict how these factors will evolve over time. The USIJI program has not mandated the approaches that must be taken and therefore different strategies are currently being used, even by projects with similar activities in the same sector. As a consequence, it is difficult to compare the effectiveness of the various approaches. There are also several variables that can influence the calculations including selecting the project lifetime and boundaries, and assessing external factors. Some of the challenges to developing scenarios include the lack of standard guidelines for project-based GHG accounting, the frequent lack of site-specific data, and the uncertainties inherent in predicting the future course of activities under the reference scenario.

From experience with the 32 projects, USIJI has found the optimal life time to be from the project's starting date (i.e., when the project begins to accrue GHG benefits) and ending date (i.e., the date after which GHG benefits no longer accrue and no additional monitoring activities are conducted). In terms of project boundaries, developers have addressed the area of land impacted by project activities, the scope of activities included under the project and reference scenarios, and the greenhouse gases involved. For land-use projects, it has been useful to look at the entire geographic area where carbon stocks are affected by project activities (including the area(s) of land where reference activities such as deforestation are avoided) as well as factoring in any emissions from relevant energy consumption (e.g., in the case of a tree plantation project, energy is consumed to operate wood processing machinery). For energy projects, the scope of the activity has taken into account the power generation facility(ies), transmission systems, and end-users affected by the project as well as any offsets from tree planting efforts, for example. External factors are more difficult to assess because they occur outside the project boundary and are beyond

the control of the project developer. USIJI has urged project developers to take as many of these factors (i.e., demand for wood or energy, new technologies, national policies, etc.) into account when determining both the reference case and project baseline scenario. However, once these have been determined and the project has been accepted, changes in the external factors should not influence GHG benefit calculations over the life of the project.

The U.S. government has already begun to develop guidelines to standardize methods used to calculate project GHG benefits. Under AIJ, emissions reductions are estimated by comparing performance to a counter-factual baseline that is established during the JI approval process. The counter-factual baseline seeks to estimate what would have occurred in the absence of the project. Estimating emissions in the absence of a particular project requires assumptions about many different factors. Most factors allow more than one reasonable assumption, each of which can drastically alter the baseline and thus the magnitude of project reductions. For example, an important assumption driving a project baseline for a hydroelectric project was the type of energy that the hydroelectric project would displace. The scenario assumed the project would initially displace 100% of the fossil fuel. The percentage of fossil fuel was assumed to decline to zero from 1998 to 2001 (in accordance with the country's announced national goal). An alternative scenario could have assumed a future fuel mix based upon factors such as resource mix, energy demand, fuel cost projections, and installed and planned capacity in the country. The latter assumption estimates that fossil fuels will continue to be used for electricity production well after 2001 and, therefore, the hydroelectric project would offset more greenhouse gas emissions. In this case, an alternative baseline would increase the emissions reductions claimed.

While standard methodologies are somewhat straightforward for estimating project emissions, estimating emissions that would occur absent the project activity is less direct and more subjective. Broad guidelines may help to limit the range of choices for such estimates but the types of choices made and other factors will vary among projects. Some sectors may be well suited for "benchmark" baselines. A benchmark would serve as a uniform baseline that is set for a defined set of projects. By eliminating the need for estimating emissions in the absence of the project activity, a benchmark will increase objectivity and reduce the overall transaction costs of an emissions reduction project.

Monitoring and Verification

The USIJI project criteria require that project developers include provisions for monitoring and externally verifying project results. Because of the inherent complexities, many project developers have requested technical assistance from the USIJI program. In the case of land use change and forestry projects, the monitoring plans can be complicated, involving the collection of a broad range of data necessary to track changes in on-site carbon stocks and GHG emissions as well as data pertaining to local land-use trends and socioeconomic factors. Data collection activities range from analyzing satellite imagery to conducting on-site biomass stock surveys, establishing permanent plots for periodic biomass sampling, and collecting information on socioeconomic indicators. In the case of energy projects, the monitoring plans typically include record keeping on national trends in energy supply, fossil fuel consumption and energy production.

The USIJI projects accepted to date generally include procedures for internal verification of data generated by monitoring activities, and all project developers have agreed to submit the results of their projects for external verification upon request. We are currently conducting and sponsoring research on the important issues of monitoring and verification. The primary goal is to develop guidelines for the development of monitoring plans and verification methods, and to apply them to existing projects. Although much work has been done in this area, there are not yet enough plans and methods developed to address the monitoring and verification needs of all types of projects.

Capacity Building

Institutional Capacity Building Workshops and National Offices

The USIJI program performs a number of outreach activities. Outreach efforts are designed to provide technical support and to identify project opportunities and partners. They are also mechanisms to share general background and program information. In the last few years, USIJI has sponsored both domestic and international workshops. The domestic workshops have focused on proposal preparation, and have educated attendees about the concept of joint implementation as a cost-effective element of a global strategy for addressing climate change and about the benefits of participating in the USIJI program.

USIJI has also co-sponsored regional institutional capacity building workshops in various parts of the world. They have encouraged policy development and the establishment of a technical base for designing solid projects that fit into national development priorities and are attractive to foreign investors. This ensures host country support for projects, reduces transaction costs, and increases the quality and quantity of project submissions. Some workshops have focused on institutional capacity building of a national JI framework and while others have emphasized technical aspects of project design. Technical workshops have been aimed at demonstrating different methodologies for quantifying carbon dioxide and other greenhouse gases in land-use and energy projects. Workshops have been held in locations such as Chile, Costa Rica, the Czech Republic, Kenya, Thailand, and the United Arab Emirates. These workshops have provided unique opportunities for regional government officials, representatives of the NGO community, and private-sector companies to engage in open and constructive dialogues on AIJ, the experience of the USIJI program and other initiatives to date.

USIJI has also sponsored workshops aimed at supporting human and institutional capacity building for joint implementation offices in select host countries around the world. Countries participating in the AIJ pilot phase have benefited from the establishment of a national AIJ program or office, helping to ensure that the FCCC requirement that countries officially approve AIJ projects and report annually on the accumulated experience is met. Host country programs also help to ensure the compatibility of projects with national sustainable development priorities and can help market specific types of projects internationally. Particular workshops have promoted multisectoral, inclusive and transparent approaches to the development of national AIJ programs with the capacity to evaluate and officially accept projects that are based upon countries'

economic, environmental, social and political development priorities. USIJI has sponsored such workshops in host countries such as Guatemala, Bolivia, Indonesia, South Africa, Egypt, Chile, India, and the Russian Federation.

Institutional and Programmatic Capacity Needs in Host Countries

A meaningful lesson learned through the USIJI experience is the importance of strong institutional capacity within host countries to ensure adequate host country participation in all phases of project development, implementation, and reporting. As one of its criteria, USIJI asks that project developers provide a letter or other indication of host country acceptance of the project's inclusion in the USIJI portfolio.

The complexity of the process for project review and approval, however, has varied considerably, both among host country governments and over time. The USIJI experience has revealed that host countries with AIJ offices or other strong institutional arrangements that have clearly designated authority to evaluate project proposals are able to move more quickly and effectively. In many cases, establishing clear host country criteria for accepting AIJ projects has further facilitated the process of project review and approval. Once the project has been accepted, USIJI and the host country prepare joint annual reports for the FCCC secretariat (separate reports may also be submitted). This process has been greatly facilitated by active and organized AIJ points of contact. In contrast, those countries with minimal institutional support or vague lines of authority have had difficulty in completing reviews and accepting project proposals.

U.S. VIEWS ON THE REVIEW OF THE AIJ PILOT PHASE

Since the creation of the AIJ pilot phase, the FCCC secretariat has received significant input from Parties and other sources upon which a comprehensive review of the pilot phase can be based. Multiple annual reports, statements, and submissions by Parties have all been made available to the secretariat. Furthermore, the secretariat has prepared synthesis documents from submissions and conducted its own research, for example, sponsoring several workshops on methodologies. By examining existing materials and representative projects contained therein, we believe that a thorough review of the AIJ pilot phase can be made in time for the fifth session of the Conference of the Parties. At that time, a conclusive decision, consistent with 5/CP.1, should be taken and the pilot phase should end so that attention may focus on the project-based mechanisms in the Kyoto Protocol.

Submission of the United States on Inputs Concerning Parties' Experience in Using the AIJ Uniform Reporting Format (URF)
February 12, 1999

U.S. Comments on the Uniform Reporting Format

General

- The U.S. believes that the Activities Implemented Jointly pilot phase has provided the international community with an empirical basis on which to elaborate the project-level flexibility mechanisms included in the Kyoto Protocol. It is essential that project-based activities be conducted in a way that is credible, efficient, transparent and verifiable. An essential element to ensure these principles are met is a sound reporting system.

- Parties have recently submitted their third reports to the UNFCCC Secretariat on activities under the AIJ pilot phase. In compiling these reports Parties were asked to employ the Uniform Reporting Format that was adopted during the fifth session of the SBSTA. In submitting recent reports, the U.S. has found that the Uniform Reporting Format provides a beneficial framework by which to report in a clear and concise manner.

- The Uniform Reporting Format will prove valuable as the Conference of Parties considers conducting a comprehensive review of the AIJ pilot phase. Areas of reporting that are particularly important include credible information on baselines and projected emission reductions; quantitative assessment of benefits; additionality of financial obligations; plans for, and results of, monitoring of activities; and, verification methodology.

- There are a number of areas where experience gained in using the Uniform Reporting Format can lead to possible improvements in the reporting form. Experiences gained in reporting under the AIJ pilot phase will assist in the design of reporting requirements of the project-based mechanisms in the Kyoto Protocol. We recognize that Parties may have to provide additional guidance to the Secretariat in some cases, however, included below are the issues that we believe are key to improving the reporting format.

Key Inputs on Reporting Format

(1) Lack of Instructions and Definitions of Key Terminology

The UNFCCC format does not include detailed instructions on how to complete each section, and does not define much of the terminology that is critical to project reporting. In some cases, the UNFCCC format indicates that "methodological work will be required" in order to define key terms. Lack of instructions and terminology definitions has resulted in often ambiguous and inconsistent project reporting among Parties. For example, headings in Sections E, F, and G of the Reporting Format do not provide sufficiently clear instructions for completing these sections.

Recommendation:

- Provide clear instructions on a section-by-section and/or question-by-question basis for completing the form. These instructions should specify the type and level of detail of the information requested, and should define key terms. Keep instructions separate from section headings to make the form easy to follow.

(2) Length of the Completed Document

The UNFCCC format does not provide clear direction on the scope and level of detail of the responses requested of AIJ participants despite its great length. The reporting process also revealed information deficiencies, inconsistencies, and areas for improvement. Several sections could be modified, for example discussion of costs and GHG accounting methodologies, indirect GHG impacts, non-GHG impacts, risk factors and monitoring and verification activities. In other cases, the URF asks for a "yes/no" answer in cases where a summary of information would be more helpful.

Recommendation:

- Provide clear instructions on the level of detail to be provided in the Uniform Reporting Format. The level of detail should be sufficient to permit analysis and comparison of AIJ projects, but care should be taken to avoid imposing a substantial burden on the parties involved in project reporting.

(3) Tabular Format

- The UNFCCC Uniform Reporting Format uses tables, text boxes, and headings inconsistently to organize the information. Although the tabular format makes it easier to identify data entry fields and to find particular sections when flipping through the document, the tables also complicate the formatting and completion of the document. In general, the tables and text boxes make the pagination more difficult, resulting in wasted space and longer page counts. For example, the contact information table in Section A.2) could be simplified so that the contact information for multiple participants can fit onto a single page. Also, the tables in Section A.3, D., and H.3 require text responses in a narrow column. Lastly, in Sections A.4 and E., the orientation of the column and row headings does not allow one to report information for more than a few years.

Recommendations:

- Modify the tabular formatting to accommodate longer blocks of text where appropriate and to reduce wasted space by using the full width of the page instead of a narrow column.

- Re-orient the cost and GHG data tables in Section so that column and row headings are switched and data can be reported for an unlimited number of years. Identify formatting options if emission data are reported for more than four GHGs.

- If the UNFCCC Secretariat intends to post all project reports to their web site in a non-PDF format, specifications for formatting the reports should be provided, particularly with regard to layout and software.

(4) Ordering of Information

The placement of some sections in the UNFCCC format may not result in a logical flow of project information. For example, the separation of information on project costs (Section A.4) and funding sources (Section F) was problematic. Additionally, Section B could be moved to the second page of the report on each project so that it is easier to ascertain whether the host country government has approved the project report.

Recommendation:

- Modify the ordering of key sections of the reporting format. Order the sections on project costs and funding sources sequentially, and place them after the section on estimating GHG benefits.

(5) Lack of Opportunity for Reporting Allocation of GHG Benefits

The UNFCCC format does not present an opportunity to report information on the allocation of a project's GHG benefits among the project participants when applicable. This information could prove extremely useful in the future for informing policy development on GHG emissions crediting and trading. The information to be reported in this section could include (1) the methodology for allocating benefits, and (2) the list of beneficiaries and the percentage of benefits received.

Recommendation:

- Add a new section to the format for reporting the allocation of the project's GHG benefits, including (1) the methodology for allocating benefits and (2) the list of beneficiaries and the percentage of benefits received.

(6) Provision of Annual Updates

In FCCC/SBSTA/1996/15, the Secretariat indicated that each AIJ project team would need to complete the Uniform Reporting Format one time, and that subsequent reporting would consist of only the title of the report and any new or updated information. However, no additional guidelines were provided regarding the format of subsequent reporting. This reporting method *might* reduce the reporting burden placed on project participants, if the new and updated information is minimal. In addition, reporting of only new or updated information could complicate the review and analysis of project reports by independent parties, who would have to request, review, and integrate multiple updates to obtain correct information.

Recommendations:

- Instead of preparing annual updates as addenda to the original reporting document, prepare revised reporting documents in their entirety to facilitate the review and analysis of these documents.

- Provide guidelines for reporting initial and revised projections of project activities, and the activities actually implemented.

(7) Calculation of Project Costs

The URF requests information on cost of the project, cost of AIJ component, and cost per ton of avoided CO2 (in U.S. dollars), however, no instructions are provided for quantifying costs. This is problematic for the following reasons:

- need to define the scope of project costs and revenues and differentiate between costs of project development and implementation;
- need to differentiate between cost of project and cost of AIJ component;
- decide whether to discount cost over project lifetime and, if so, at what discount rate;
- account for changes in exchange rates; and,
- how to manage the use and disclosure of confidential business information (see below).

Recommendation:

- Develop detailed instructions on project-level cost accounting.

(8) Use of Confidential Business Information

The UNFCCC Uniform Reporting Format does not contain any provisions for addressing the use and/or reporting of confidential business information. In some cases, requesting detailed information from project participants raised important questions regarding the provision of confidential business information to the USIJI Secretariat, the UNFCCC Secretariat, and the general public.

Recommendation:

- Provide guidelines regarding the provision and use of confidential business information for the purposes of (1) ensuring project viability and verifying project results, (2) maintaining complete records for use only by AIJ Secretariats and/or the UNFCCC Secretariat, and (3) generating public reporting documents. The UNFCCC Secretariat should either specify that all of the information reported will be public information, or indicate that confidential information should be marked clearly, in which case it will be used for verification purposes only and will not be made public.