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Item 7 of the provisional agenda

Issues relating to joint implementation

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

Note by the secretariat\*

#### *Summary*

This report covers the work of the Joint Implementation Supervisory Committee (JISC) during the period from 24 October 2009 to 23 October 2010, during which the JISC held five meetings and one round-table consultation with stakeholders. By the end of the reporting period, 236 project design documents (PDDs) had been submitted and published on the UNFCCC website and 23 positive determinations regarding PDDs had been deemed final by the JISC. These would achieve emission reductions of approximately 370 million tonnes of carbon dioxide equivalent (t CO<sub>2</sub> eq) and 35 million t CO<sub>2</sub> eq during the first commitment period of the Kyoto Protocol, respectively. This report highlights achievements and challenges faced by the JISC in its supervision of the mechanism. In particular, it reports the experience of JISC with the verification procedure under the JISC (Track 2 procedure) with a view to making improvements for the future operation of joint implementation (JI) in response to the request by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its fifth session. It also highlights the work undertaken in the areas of the Track 2 procedure and accreditation activities and interaction with stakeholders. Further, this report includes a number of recommendations for actions by the CMP. Lastly, it reports on the financial status of the resources for the work on JI, including the financial projection up to 2012 in response to the request by the CMP at its fifth session.

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\* This document was submitted after the due date in order to take into account the outcomes of the 23<sup>rd</sup> meeting of the Joint Implementation Supervisory Committee, which was held from 21 to 23 October 2010.

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## I. Executive summary

1. This annual report of the Joint Implementation Supervisory Committee (JISC) to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) covers joint implementation (JI) activities during the period from 24 October 2009 to 23 October 2010 (hereinafter referred to as the reporting period), the closing date of the extraordinary (23<sup>rd</sup>) meeting of the JISC. During this period the JISC held five meetings and one round-table consultation with stakeholders. This report does not cover the period between the extraordinary meeting of the JISC and the sixth session of the CMP; however, the Chair of the JISC, Mr. Benoît Leguet, will highlight any relevant matters during this period in his oral report to the CMP at its sixth session.

2. This report recommends actions to be taken by the CMP at its sixth session. It also refers to work undertaken by the JISC during the reporting period, including the further operationalization of the verification procedure under the JISC (hereinafter referred to as the Track 2 procedure), the associated project caseload and the operation of the JI accreditation process. Based on this information, the CMP may wish to provide further guidance on JI to the JISC.

3. This report highlights the areas of governance, management and resources that are critical to ensuring the efficient, cost-effective and transparent functioning of the JISC. With regard to the status of the Track 2 procedure, it notes that, by the end of the reporting period, 236 project design documents (PDDs) had been submitted and published on the UNFCCC JI website and that 23 positive determinations regarding PDDs had been deemed final by the JISC. The 197 active JI projects described in the PDDs would achieve emission reductions of approximately 335 million tonnes of carbon dioxide equivalent (t CO<sub>2</sub> eq) during the first commitment period of the Kyoto Protocol. The 23 determinations that have been deemed final would achieve emission reductions of 35 million t CO<sub>2</sub> eq in the same period. Twenty-two verifications of emission reductions regarding 11 projects have been deemed final. These final verifications represent 4.2 million t CO<sub>2</sub> eq to be issued as emission reduction units (ERUs).

4. The JISC noted that there continued to be difficulties with regard to the financial status of the resources for the work under the JISC for the biennium 2010–2011. In fact, due to the lack of funds, the JISC had to cancel two of its meetings planned for 2010. The JISC reiterates the urgent need for adequate and predictable resources to implement its activities. The JISC notes that the lack of such contributions could prevent some of the envisaged work and planned activities relating to the consideration of determinations and verifications, as well as the accreditation of independent entities (IEs), from being undertaken. Owing to the circumstances, the JISC decided to revise the JI management plan for 2010–2011 and to introduce a contingency plan.

5. Following requests of the CMP at its fifth session, this report also provides the JISC's assessment of experience with the verification procedure under the JISC and possible improvements in the future operation of JI, including information on financial projections up to 2012. In this context, the JISC has agreed on:

(a) Specific action areas around which it wishes to re-orientate its present work programme to focus on activities that offer the greatest value to the evolution of JI during the remainder of the current commitment period;

(b) Recommendations it wishes to make to the CMP in relation to JI in the longer term beyond 2012, including recommendations on the continuation of activities under the

verification procedure under the JISC and the initiation by the CMP, at its seventh session, of the first review of the JI guidelines.<sup>1</sup>

## **II. Introduction**

### **A. Mandate**

6. The CMP, by its decision 10/CMP.1, established the JISC to supervise, inter alia, the verification of emission reductions or removal units generated by projects under Article 6 of the Kyoto Protocol (hereinafter referred to as JI projects), in accordance with the guidelines for the implementation of Article 6 of the Kyoto Protocol (hereinafter referred to as the JI guidelines<sup>2</sup>).

7. The JI guidelines require that the JISC report on its activities to each session of the CMP and that the CMP provide guidance regarding the implementation of Article 6 of the Kyoto Protocol and exercises authority over the JISC.

### **B. Scope of the report**

8. This report provides information on the work undertaken by the JISC since its written report to the fifth session of the CMP.<sup>3</sup> The JISC has been operating the Track 2 procedure<sup>4</sup> since October 2006, when operationalization was completed. This report provides information on the decisions and actions taken by the JISC to further improve the operation of the Track 2 procedure and highlights issues that the CMP may wish to consider at its sixth session. It also addresses governance issues, notably measures undertaken to ensure the efficient, cost-effective and transparent functioning of the JISC, as well as resource requirements for the work on JI during the 2010–2011 biennium.

9. This report covers the period from 24 October 2009 to 23 October 2010. The period after the latter date until the beginning of the sixth session of the CMP will be covered by the Chair's oral report to the CMP at its sixth session, highlighting any relevant matters concerning this period.

10. This report highlights the work accomplished and challenges faced by the JISC in the reporting period and summarizes the status of the operation of the Track 2 procedure during this period. Full details on the operation and functions of the JISC are available on the UNFCCC JI website, which is the central repository for reports of JISC meetings and documentation adopted by the Committee.<sup>5</sup>

### **C. Action to be taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol**

11. After reviewing this report and taking note of an oral report by the Chair of the JISC at its sixth session, the CMP, at the same session, may wish:

(a) To consider the JISC's report on its experience with the verification procedure under the JISC and the financial projection up to 2012, in particular the

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<sup>1</sup> Decision 9/CMP.1, annex.

<sup>2</sup> Decision 9/CMP.1, annex.

<sup>3</sup> FCCC/KP/CMP/ 2009/18 (Part I).

<sup>4</sup> Defined in paragraphs 30–45 of the JI guidelines.

<sup>5</sup> <<http://ji.unfccc.int>>.

recommendations of the JISC to the CMP, including that on a new financial model to support the activities of the JISC, and provide further guidance relating to JI, in particular to the JISC;

(b) To take note of the critical financial situation with regard to the work of the JISC and its plan to develop a contingency plan in early 2011;

(c) To urge Parties included in Annex I to the Convention (Annex I Parties) to make contributions to the Trust Fund for Supplementary Activities in order to fund the work on JI in the biennium 2010–2011 at a level that would allow the full implementation of the JI management plan for the biennium;

(d) To clarify that the secretariat may accept for publication PDDs of JI projects, and that the JISC may consider these projects in accordance with the JI guidelines, before an amendment to include the respective host Party in Annex B to the Kyoto Protocol enters into force, noting that the host Party may issue and transfer ERUs only after the amendment to include it in Annex B enters into force.

12. The CMP will elect the following to the JISC for a term of two years upon nominations being received from Parties:

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

(b) Two members and two alternate members from Annex I Parties not referred to in subparagraph (a) above;

(c) One member and one alternate member from Parties not included in Annex I to the Convention (non-Annex I Parties).

### **III. Achievements and challenges**

#### **A. Experiences with the verification procedure under the Joint Implementation Supervisory Committee**

13. The CMP, through decision 3/CMP.5, paragraph 11, requested the JISC to report to the CMP at its sixth session on its experiences with the Track 2 procedure with a view to making improvements for the future operation of JI, taking into account relevant CMP decisions at its fifth session. In response, the JISC prepared the report contained in annex I to this report.

14. The JISC has agreed on a number of action areas around which it wishes to re-orientate its present work programme. Specifically, these areas include the following:

(a) Clarifying and elaborating on a number of issues in the guidance it has issued, including the possible use of innovative methodological approaches such as standardized baselines and programmatic approaches;

(b) Exploring further the possibility of setting time limits for phases of the JI project cycle;

(c) Increasing cooperation with designated focal points (DFPs) of Annex I Parties, in particular through the possible establishment of a DFP forum;

(d) Strengthening its outreach activities and collaboration with JI stakeholders;

(e) Increasing the numbers and capacity of accredited independent entities (AIEs).

## **B. Challenges for joint implementation, with a focus on post-2012 issues**

15. The JISC has identified a number of areas in which JI could be built upon in the longer term and that it trusts Parties will consider as part of their deliberations on a future climate regime under the UNFCCC. These areas stem from the conviction of the JISC that the approach to offsetting emissions within a “capped environment” of quantitative emission commitments, as is embodied in JI, can be of great service to the Parties and entities involved in mitigating climate change. Specifically, these areas for further development include:

- (a) Changes to the operational model of JI, by either establishing a unified track for JI or by strengthening the current Track 1<sup>6</sup> and Track 2 independently;
- (b) Major revisions in the procedures currently implemented under JI, including in relation to the demonstration of additionality, the harmonization of national project approval procedures and means to build upon synergy between the JI accreditation process and other accreditation processes;
- (c) Major revisions in the financial model of JI in order to ensure the stability and sustainability of the resources available for the work on JI in the future;
- (d) Adjustments in the scope, role and membership of the JISC.

## **C. Recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol**

16. The JISC has agreed on several specific recommendations to the CMP in relation to JI:

- (a) The JISC recommends that the CMP clarify the continuation of activities under the verification procedure under the JISC in the immediate period beyond 2012;
- (b) In recalling that the JI guidelines are to be periodically reviewed, the JISC recommends that the CMP initiate the first review at its seventh session on the basis of a full set of recommendations to be submitted by the JISC to that session;
- (c) The JISC also recommends that the CMP consider introducing a new fee to raise resources from projects under the Track 1 to help to fund the activities of the JISC.

## **IV. Work undertaken in the reporting period**

### **A. Verification procedure under the Joint Implementation Supervisory Committee**

17. During the reporting period, the JISC focused on the operation of the Track 2 procedure. At the same time, the JISC continued to improve the Track 2 procedure, through consultations with and taking into account the needs of the stakeholders concerned, where appropriate, and issued standards, procedures, guidance and clarifications, when necessary.

18. By 23 October 2010, 236 PDDs had been submitted and made publicly available on the UNFCCC JI website in accordance with paragraph 32 of the JI guidelines. During the

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<sup>6</sup> The process under which verifications of emission reductions or removal enhancements are conducted in accordance with paragraph 23 of the JI guidelines.

first commitment period of the Kyoto Protocol, the 197 active projects combined would achieve emission reductions of approximately 335 million t CO<sub>2</sub> eq.<sup>7</sup>

19. In total, 27 determinations regarding PDDs have been published on the UNFCCC JI website in accordance with paragraph 34 of the JI guidelines, of which:

(a) Twenty-three positive determinations for projects located in four host Parties<sup>8</sup> were deemed final in accordance with paragraph 35 of the JI guidelines. During the first commitment period of the Kyoto Protocol, these projects would achieve emission reductions of approximately 35 million t CO<sub>2</sub> eq;<sup>9</sup>

(b) One determination was rejected by the JISC;

(c) Three determinations are open for review.

20. By 23 October 2010, 22 verifications of emission reductions have been deemed final in accordance with paragraph 39 of the JI guidelines and were published on the UNFCCC JI website. These verifications are from 11 projects that had determinations deemed final. These verifications allow for 4.2 million t CO<sub>2</sub> eq to be issued as ERUs.

21. Detailed information on the determinations and verifications referred to in paragraphs 19 and 20 above is available under “JI Projects” on the UNFCCC JI website.

22. In response to decision 3/CMP.5, paragraph 12, the JISC kept its regulatory documents under review with a view to improving the clarity of the provisions and guidelines established. In doing so, the JISC adopted the following during the reporting period:

(a) “Procedures for reviews under the verification procedure under the Joint Implementation Supervisory Committee”;

(b) “Clarification regarding project participants’ change of accredited independent entity”;

(c) “Procedures regarding changes during project implementation”;

(d) “Guidelines for users of the joint implementation programme of activities design document form (version 02)”;

(e) Forms under the verification procedure under the JISC to incorporate provisions of the procedures for programmes of activities.

23. During the reporting period, the JISC adopted a “Determination and verification manual”, noting that it is an important contribution to the process and its quality. The manual is based on, but does not replace, existing CMP and JISC documents. It will assist AIEs in their undertaking determinations and verifications in a systematic manner and in improving the consistency of determinations and verifications by and among AIEs, thereby leading to the enhancement of the integrity and transparency of the Track 2 procedure. The JISC encourages AIEs to use this document in assessing whether projects under the Track 2 procedure satisfy current CMP and JISC requirements.

24. In response to decision 3/CMP.5, paragraph 10, and in accordance with its decision on priority areas, the JISC assessed the implications of possible inclusion of the concepts of materiality and level of assurance in JI for the process of determinations and verifications and decided to include the concepts in verifications by adopting a “Standard for applying the concept of materiality in verification”. The JISC subsequently revised the “Glossary of

<sup>7</sup> This figure is based on the indications given in the PDDs, as determined by the IE.

<sup>8</sup> Bulgaria, Lithuania, the Russian Federation and Ukraine.

<sup>9</sup> This figure is based on the indications given in the PDDs, as determined by the IE.

joint implementation terms” and the JI verification report form (F-JI-VRep) to reflect the provisions of the standard and the document listed in paragraph 22 (c) above.

25. In response to decision 3/CMP.5, paragraph 7, the JISC continued to enhance the implementation of the Track 2 procedure, taking into account the distinct characteristics of JI, and to promote its transparency in its development of regulatory provisions and the implementation of them.

26. The JISC, in response to a query from stakeholders and the DFP of Belarus, agreed to recommend to the CMP that the UNFCCC secretariat accept for publication PDDs of JI projects, and that the JISC consider these projects in accordance with the JI guidelines, before an amendment to include the respective host Party in Annex B to the Kyoto Protocol enters into force, noting that the host Party may issue and transfer ERUs only after the amendment to include it in Annex B enters into force.

## **B. Accreditation of independent entities**

27. The JISC has continued its efforts to facilitate the process of accrediting IEs.

28. Since the announcement on 26 October 2006 that the JI accreditation process would start on 15 November 2006, 16 applications for accreditation from IEs have been received. Of these, two applications have been withdrawn. All of these applications were from entities that also applied for accreditation under the clean development mechanism (CDM); seven of these may act provisionally as AIEs under JI for at least one function (determination or verification) in at least one sectoral scope until the JISC takes a final accreditation decision on these entities, in accordance with decision 10/CMP.1, paragraph 3, and the JI accreditation procedure, paragraph 20, referred to in paragraph 32 below.<sup>10</sup>

29. The Joint Implementation Accreditation Panel (JI-AP) established JI assessment teams (JI-ATs) for 15 applications for accreditation by selecting experts from the roster of experts established for this purpose. There are currently 38 experts on the roster, selected from five public calls, all of which were conducted during previous reporting periods. Based on the assessment work of the JI-ATs, the JI-AP had issued an indicative letter (a letter indicating successful completion of the desk review and the on-site assessment) to 14 applicant IEs by the end of the reporting period.

30. The JISC accredited one IE during this reporting period:

Det Norske Veritas Certification AS (DNV).

31. One AIE (SGS United Kingdom Ltd.) (SGS)) withdrew from accreditation during the reporting period, reducing the total number of AIEs to three.

32. The JISC further worked on the process of JI accreditation by adopting the “Procedure for accrediting independent entities by the Joint Implementation Supervisory Committee (version 06)”.

33. Along with the adoption of the revised JI accreditation procedure, the JISC cancelled the following documents, which were incorporated in the procedure with appropriate modifications in order to facilitate the process and to increase its transparency:

- (a) Main part of “List of sectoral scopes (version 02)” (P-JI-ACCR-03);
- (b) “Indicative level of fees to be paid to joint implementation assessment team by applicant independent entity or accredited independent entity (version 03)” (P-JI-ACCR-05);

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<sup>10</sup> <<http://ji.unfccc.int/Ref/Procedures.html>>.

(c) “Clarification regarding conditions for designated operational entities for acting provisionally as accredited independent entities (version 02)” (C-JI-ACCR-01);

(d) “Clarification regarding scopes and steps of witnessing activities under the joint implementation accreditation procedure (version 03)” (C-JI-ACCR-02);

(e) “Clarification regarding identification of witnessing opportunities by designated operational entities acting provisionally as accredited independent entities (version 02)” (C-JI-ACCR-03);

(f) “Clarification regarding monitoring period of joint implementation project for witnessing of verification function of applicant independent entities” (C-JI-ACCR-05);

(g) “Clarification regarding the timing of witnessing activities” (C-JI-ACCR-07).

34. The JISC also adopted the “Joint implementation accreditation standard (version 01)” (JI accreditation standard), which consolidates into a single document all current JI accreditation requirements for the implementation of the JI accreditation process.

35. With the adoption of the JI accreditation standard, the JISC cancelled the following documents, which were incorporated in the standard with appropriate modifications:

(a) Appendix A to the “List of sectoral scopes”;

(b) “Clarification regarding responsibility of accredited premises of accredited independent entities”.

36. After the adoption of the JI accreditation standard, the JISC noted that the JI-AP revised the forms used in the accreditation assessment activities in order to reflect the standard.

37. The JISC noted that the JI-AP has been considering measures to further improve the JI accreditation process, inter alia:

(a) Further elaboration of JI accreditation standards and requirements;

(b) Management of JI-AT experts, which led to the development of the first edition of an online training course for experts on the roster in the first semester of 2010.

38. A workshop was held from 17 to 18 May 2010 for JI-AT experts to enhance and expand their knowledge of JI accreditation requirements.

## **V. Governance matters**

### **A. Outreach activities**

39. In response to decision 3/CMP.5, paragraph 17, to enhance outreach activities to improve overall understanding of JI, the JISC adopted the “JISC communication and outreach work plan”, which, taking into consideration the financial status of the JISC, is intended to reach a broader group of stakeholders and to raise awareness and understanding about JI among key policymakers and stakeholders in order that they will take decisions and/or actions that lead to greater utilization of the mechanism. The main activities included in this workplan are:

(a) Enhanced media outreach;

(b) Working with DFPs to reach policymakers and potential project participants;

(c) Participation in carbon market events;

- (d) Communication tools, services, products.

40. In adopting the communication and outreach workplan, the JISC established a working group, made up of JISC members and alternate members, for considering and giving input and support to its communication and outreach efforts.

41. The JISC held a round-table consultation in conjunction with its 22<sup>nd</sup> meeting on 14 June 2010. Interested stakeholders with practical experience and knowledge of JI were invited for an open discussion with the JISC and to share their views on the following priority work areas of the JISC:

- (a) Concept of materiality in JI;
- (b) Changes to projects during implementation;
- (c) Experiences with the verification procedure under the JISC;
- (d) Outreach activities on JI.

## **B. Interaction with bodies and stakeholders**

42. Taking into account decision 10/CMP.1, paragraph 5, the JISC agreed that it would collaborate with other bodies as and when needed. With regard to collaboration with the CDM Executive Board, communication has continued in the area of accreditation through the accreditation panels of the JISC and the CDM Executive Board.

43. The JISC noted the information on the DFPs and national guidelines and procedures for approving JI projects submitted by Parties in accordance with paragraph 20 of the JI guidelines, and, in line with decision 3/CMP.5, paragraph 2, encouraged the Parties that have not submitted the information to do so.

44. The JISC invited DFPs to the round-table consultation referred to in paragraph 41 above. Although participation was limited, this allowed for some interaction between the JISC and DFPs as well as other JI stakeholders.

45. In response to decision 3/CMP.5, paragraph 16 (b), the JISC considered other means to engage DFPs over the course of the 2010–2011 biennium, including through DFP-specific events, but due to its financial status these activities have not yet been implemented. Nevertheless, the Chair of the JISC, as well as representatives of the secretariat, participated in DFP events organized by third parties during 2010 on issues pertaining to how the JI mechanism would operate within the European Union.

46. The JISC continued its regular interaction with applicant IEs and AIEs by encouraging them to provide written inputs and by inviting the Chair of the DOE/AIE Coordination Forum to each JISC meeting. The secretariat also continued to provide support to the activities of the forum.

47. The JISC continued its interaction with project participants and invited project participants to JISC meetings and the round-table consultation referred to in paragraph 41 above. At its 19<sup>th</sup> meeting, the JISC decided to recognize two groups (the Joint Implementation Action Group and the Project Developer Forum) as communication channels between the JISC and project participants and allowed for interaction with these groups at its meetings, without preventing communication between the JISC and entities not affiliated with these groups and the public.

48. The JISC continued to meet for question-and-answer sessions with registered observers at each of its meetings. The JISC also held question-and-answer sessions as side events at the fifth session of the CMP and at the thirty-second session of the Subsidiary

Body for Implementation and at the thirty-second session of the Subsidiary Body for Scientific and Technological Advice, which were open to all participants of the sessions. All of these question-and-answer sessions are available as webcasts.<sup>11</sup>

49. In addition, JISC members and representatives of the secretariat continued to interact with stakeholders by, inter alia, attending conferences and workshops on JI and/or carbon markets, making presentations on JISC activities and exchanging views on JI.

50. The secretariat, in line with decision 3/CMP.5, paragraph 14, and in consultation with DFPs, improved the web-based interface for the provision of information on JI Track 1 projects by standardizing the information to be provided, including the minimum amount of information required, with a view to improving the transparency of the entire JI process.

### C. Membership issues

51. The CMP, by its decision 9/CMP.1, established the JISC and subsequently elected members and alternate members of the JISC in accordance with paragraphs 4, 5, 6 and 8 of the JI guidelines.

52. At its fifth session, the CMP elected new members and alternate members of the JISC to fill vacancies arising from the expiration of terms of tenure. During the reporting period, the JISC comprised the members and alternate members listed in table 1.

Table 1

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

<i>Members</i>	<i>Alternate members</i>	<i>Constituency</i>
Mr. Wolfgang Seidel <sup>b</sup>	Mr. Olle Björk <sup>b</sup>	Other Annex I Parties
Mr. Hiroki Kudo <sup>a</sup>	Mr. Anton Beck <sup>a</sup>	Other Annex I Parties
Mr. Benoît Leguet <sup>a</sup>	Mr. Evgeny Sokolov <sup>a</sup>	Other Annex I Parties
Mr. Muhammed Quamrul Chowdhury <sup>b</sup>	Mr. Hussein Badarin <sup>b, c</sup>	Non-Annex I Parties
Mr. Carlos Fuller <sup>b</sup>	Ms. Carola Borja <sup>b</sup>	Non-Annex I Parties
Ms. Fatou Gaye <sup>a</sup>	Mr. Benjamin Longo Mbenza <sup>a</sup>	Non-Annex I Parties
Mr. Andrew Yatilman <sup>b</sup>	Mr. Derrick Oderson <sup>b</sup>	Small island developing States
Ms. Agnieszka Gałań <sup>b</sup>	Mr. Oleg Pluzhnikov <sup>b</sup>	Annex I Parties with economies in transition
Ms. Georgiy Geletukha <sup>a</sup>	Mr. Yoncho Georgiev Pelovski <sup>a</sup>	Annex I Parties with economies in transition
Ms. Miriana Roman <sup>a</sup>	Mr. Irina Voitekhovitch <sup>a</sup>	Annex I Parties with economies in transition

<sup>a</sup> Term: two years, ending immediately before the first meeting of the JISC in 2011.

<sup>b</sup> Term: two years, ending immediately before the first meeting of the JISC in 2012.

<sup>c</sup> Appointed at the 22<sup>nd</sup> meeting of the JISC.

<sup>11</sup> <[http://ji.unfccc.int/Sup\\_Committee/Meetings/index.html](http://ji.unfccc.int/Sup_Committee/Meetings/index.html)>,  
<<http://ji.unfccc.int/Workshop/index.html>>.

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

53. At its 20<sup>th</sup> meeting, the JISC elected by consensus Mr. Benoît Leguet, a member from an Annex I Party, as its Chair and Mr. Muhammed Quamrul Chowdhury, a member from a non-Annex I Party, as its Vice-Chair. The tenures of the Chair and Vice-Chair will end immediately before the first meeting of the JISC in 2011.

54. The JISC, at its 23<sup>rd</sup> meeting, expressed its appreciation to the Chair, Mr. Benoît Leguet, and the Vice-Chair, Mr. Muhammed Quamrul Chowdhury, for their excellent leadership of the JISC during the year.

## E. Calendar of meetings in 2010

55. The JISC adopted a tentative meeting schedule for 2010 at its 20<sup>th</sup> meeting and revised it at its subsequent meetings as necessary (see table 2). Although the JISC had initially planned five meetings in 2010, it decided to cancel its two last meetings of the year owing to the lack of financial resources and to replace them by one extraordinary meeting focused on reporting to the sixth session of the CMP.

Table 2

**Joint Implementation Supervisory Committee meetings in 2010**

<i>Meeting</i>	<i>Date</i>	<i>Location</i>
Twentieth	23–24 February	Bonn, Germany
Twenty-first	13–14 April	Bonn, Germany
Twenty-second	15–16 June	Bonn, Germany (in conjunction with the meetings of the subsidiary bodies)
Twenty-third (extraordinary)	21–23 October	Bonn, Germany

56. The annotated agendas for the JISC meetings, documentation supporting agenda items and reports containing all agreements reached by the JISC are available on the UNFCCC JI website.

57. To ensure the efficient organization and management of work, the JISC meetings in the reporting period were preceded by one-day informal consultations, with the exception of the 22<sup>nd</sup> and 23<sup>rd</sup> meetings, for which half-day informal consultations were held, owing to the financial status of the JISC.

58. The JI-AP held four meetings during the reporting period as part of its work in support of the JISC. At its 20<sup>th</sup> meeting, the JISC appointed Ms. Fatou Gaye and Ms. Agnieszka Gałan as the Chair and the Vice-Chair of the JI-AP, respectively.

59. The JISC expressed its appreciation for the efficient work of the JI-AP and for the resulting progress made in the JI accreditation process during the reporting period.

## VI. Resources for work on joint implementation

### Financial status

60. During the reporting period, the JISC monitored and reviewed through reports by the secretariat the status of resources for the work on JI. Information and resource

requirements were developed and maintained by the secretariat on the major activity areas: meetings and activities of the JISC; activities relating to the project cycle, including the handling of submissions of PDDs, determinations, monitoring reports and verifications; activities relating to the accreditation of IEs, including meetings of the JI-AP; and technical workshops and stakeholder consultations. This information was used for fund-raising and has been included in the JI management plan.<sup>12</sup>

61. Table 5 in annex II to this report provides a summary of contributions by Parties to support the work on JI in 2010–2011. The contributions for the biennium have so far amounted to USD 2.0 million. These contributions are acknowledged with appreciation by the JISC.

62. However, at the end of the reporting period, the shortfall is USD 4.0 million for the remainder of the 2010–2011 biennium, based on the budget as contained in the JI management plan for 2010–2011 (version 01). It should be noted that the revenue from the fees for processing verification reports (verification fees), amounting to USD 1.6 million at the end of the reporting period, are not counted in this calculation, since, as noted by the CMP at its fifth session through decision 3/CMP.5, paragraph 23, the revenue from verification fees will continue to accrue during the biennium 2010–2011 in order to establish a reserve of funds to be used from 2012.

63. As the financial situation reached a crisis point by mid-2010, the JISC, at its 22<sup>nd</sup> meeting, cancelled its last two meetings planned for 2010, as noted in paragraph 55 above. At the same meeting, the JISC also cancelled one JI-AP meeting planned for August 2010.

64. Given this situation, the JISC recommends that the CMP continue to encourage Annex I Parties to make contributions to the Trust Fund for Supplementary Activities in a predictable and sustainable manner in order to ensure that all necessary activities envisaged in support of Article 6 of the Kyoto Protocol can be carried out. A lack of such contributions could result in the JISC being unable to undertake the envisaged work and planned activities with regard to consideration of determinations and verifications, as well as the accreditation of IEs.

65. At the same time, the JISC decided to revise the JI management plan for the 2010–2011 biennium in early 2011, in order to incorporate the implications of the current financial situation and the response of the JISC, by introducing a contingency plan that would strictly prioritize activities under the JISC, taking into account the latest financial status and the various scenarios of financial projections in the coming years noted in paragraph 5 above. In this regard, the JISC will consider at its first meeting in 2011 a comprehensive workplan that will cover its activities for the remainder of the first commitment period.

66. The CMP, through decision 3/CMP.5, paragraph 25, requested the JISC to report to the CMP at its sixth session on a financial and budget projection up to 2012, including an analysis of when and under which conditions the committee will become self-financing. Based on this, the JISC has prepared the requested information and analysis as a part of the report referred to in paragraph 5 above, as contained in annex I to this report.

67. Three possible scenarios were developed with regard to the number of determinations and verifications expected to be submitted under the Track 2 procedure. The JISC expects that the moderate growth scenario has the greatest likelihood of being realized. This implies that the revenue from verification fees over the full first commitment

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

period will be USD 6.8 million (approximately USD 5.7 million of which will be new receipts of revenue).

68. Taken together with the lack of certainty on when, within the remainder of the commitment period, the new verification fee revenue will be received, the JISC is not confident that the current funding mechanisms will allow it to become self-financing during the first commitment period. The JISC wishes to stress the importance of continuing to receive Party contributions in order to ensure a stable operational environment for the JISC in the near to medium term, at least for a period long enough to complete its activities relating to the first commitment period.

## **VII. Summary of decisions**

69. In accordance with paragraph 16 of the JI guidelines, decisions of the JISC are made publicly available in all six official languages of the United Nations by including the decisions or referring to them (indicating their location on the UNFCCC JI website) in the JISC annual report to the CMP.

## Annex I

### **Report on experience with the verification procedure under the Joint Implementation Supervisory Committee and possible improvements to the future operation of joint implementation**

#### **I. Executive summary**

1. This report responds to a request made by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its fifth session.<sup>1</sup> It is the result of a unique period of reflection by the Joint Implementation Supervisory Committee (JISC) to assess the experience gained so far with the joint implementation (JI) mechanism under the Kyoto Protocol and focus its ongoing work in areas that offer the greatest value to the evolution of JI, both within what remains of the first commitment period of the Kyoto Protocol and beyond.

2. To date, 195 projects are included in the pipeline of JI projects under the verification procedure under the JISC (Track 2), with 27 so far having been determined to meet the relevant requirements. The total emission reduction that would be generated if all 195 projects under the Track 2 procedure were realized is estimated to be around 335 million tonnes of carbon dioxide (CO<sub>2</sub>) equivalent for the period 2008–2012. Available information indicates that a further 190 projects are in place under the verification procedures instituted by host-Party governments (Track 1). Transactions on the primary market for JI in 2009 had an estimated value of around USD 350 million.

3. While these numbers are lower than those for the clean development mechanism (CDM) under the Kyoto Protocol in absolute terms, they reflect the later commencement of operation of JI and the different countries and circumstances involved in the mechanism. The JISC is of the view that the approach embodied in JI presents a robust basis for growth in the future.

4. The JISC believes in the value of the offsetting-based approach embodied in JI, but it also sees the need for JI to evolve further if it is to realize its potential and constitute a more substantive tool for use by Parties in making their contributions to the global mitigation agenda. Such evolution entails strengthening the effectiveness of the current regulatory framework, enhancing the collaboration between the JISC, governments and JI stakeholders to take greater advantage of the mechanism, and considering opportunities for building upon the current JI approach as Parties deliberate on the future of the international climate regime under the UNFCCC beyond 2012.

5. The JISC has agreed on a number of areas of action around which it wishes to reorientate its present work programme. These actions include:

(a) To clarify and elaborate on a number of issues in the guidance that it has issued, including the possible use of innovative methodological approaches such as standardized baselines and programmatic approaches;

(b) To further explore the possibility of setting time limits on phases of the JI project cycle;

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<sup>1</sup> Decision 3/CMP.5, paragraphs 11 and 25.

(c) To increase cooperation with the designated focal points (DFPs) of Parties included in Annex I to the Convention (Annex I Parties), in particular through the possible establishment of a DFP forum;

(d) To strengthen its outreach activities and collaboration with JI stakeholders;

(e) To increase the number and capacity of accredited independent entities (AIEs).

6. Further, the JISC has identified a number of areas in which JI could be built upon in the longer term and which, it trusts, Parties will consider as part of their deliberations on a future climate regime under the UNFCCC. These suggestions stem from the conviction of the JISC that the approach of offsetting emissions within a ‘capped environment’ of quantitative emission commitments, as is embodied in JI, can be of great service to the Parties and entities involved in mitigating climate change. These areas for further development include:

(a) Making changes to the operational model of JI, by either establishing a unified track for JI or by strengthening the current Tracks 1 and 2 independently;

(b) Carrying out major revisions to the procedures currently implemented under JI, including in relation to the demonstration of additionality, the harmonization of national project approval procedures, and measures to build upon synergies between the JI accreditation process and other accreditation processes;

(c) Carrying out major revisions to the financial model of JI, to ensure the stability and sustainability of the resources available for the work on JI in the future;

(d) Making adjustments to the scope, role and membership of the JISC.

7. In addition, the JISC has agreed on several specific recommendations to the CMP relating to JI:

(a) The JISC recommends that the CMP clarify issues surrounding the continuation of activities under the verification procedure under the JISC in the immediate period beyond 2012;

(b) Recalling that the guidelines established for JI are to be periodically reviewed, the JISC recommends that the CMP initiate the first review at its seventh session, on the basis of the full set of recommendations to be submitted by the JISC to the CMP at that session;

(c) The JISC also recommends that the CMP consider introducing a new fee to raise funds from projects under the Track 1 procedure to help finance the activities of the JISC.

8. The JISC has appreciated the opportunity to reflect upon its experience so far with JI, as well as upon the experience of governments and stakeholders in the process, and frankly address some of the issues and concerns that have arisen. The JISC remains able and willing to contribute further to the deliberations of Parties on any of the issues contained in this report.

## **II. Purpose of the report**

9. This report contains the assessment by the JISC of the experience so far with the JI mechanism under the Kyoto Protocol and possible steps that may be taken to develop JI further in both the short and the long term. It has been prepared at a time when Parties are

considering the climate regime under the UNFCCC beyond 2012, and amid mixed results so far for JI as a specific tool for use by Parties in their efforts to mitigate climate change.

10. The overwhelming sense of the JISC is that JI is at a crossroads. The JISC believes that there remains much untapped potential in JI, but it also sees that significant changes to the set-up of the mechanism will be needed if it is to realize this potential and secure its relevance as a mitigation tool beyond 2012.

11. In preparing this report, the JISC is responding to two requests made by the CMP at its fifth session. Specifically, the CMP requested the JISC to report to the CMP at its sixth session on:

(a) Its experiences with the verification procedure under the JISC, with a view to making improvements for the future operation of JI;

(b) A financial and budget projection up to 2012, including an analysis of when and under which conditions the JISC will become self-financing.<sup>2</sup>

12. At its 22<sup>nd</sup> meeting (held on 15–16 June 2010), after considering information regarding the lack of financial resources available for its work, the JISC decided to incorporate in this report proposals on:

(a) A revision of its long-term work programme to streamline its work and ensure an appropriate focus on the needs of the JI system;

(b) Specific means for building upon the approach embodied in JI beyond the first commitment period of the Kyoto Protocol;

(c) A more secure and sustainable financial model for undertaking its activities.

13. In this context, the JISC has prepared what it considers to be a wide-ranging and frank assessment of the JI mechanism to date, drawing on both its own experience and that of governments and JI stakeholders.<sup>3</sup> Naturally, the assessment focuses on the experience of the JISC with the verification procedure established under it by the CMP (Track 2). However, it is not possible to consider this one track in isolation, and thus the assessment also touches upon issues concerning projects operated under the verification procedures established by host Parties (Track 1).

14. Chapters III and IV of this report address the steps taken so far in establishing the JI mechanism and the status that JI has now reached as a result, respectively. Chapter V contains the assessment of the JISC of the current status of JI. Chapter VI defines a number of areas of focus for the JISC in revising and reorientating its work programme to concentrate on shorter-term activities that add the most value in terms of the effectiveness of JI, particularly in relation to the first commitment period of the Kyoto Protocol. While chapter VII argues for longer-term adjustments to JI that, in the view of the JISC, have the potential to build upon the approach embodied in JI and strengthen its capacity to contribute to global efforts beyond 2012 to combat climate change.

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<sup>2</sup> Decision 3/CMP.5, paragraphs 11 and 25.

<sup>3</sup> The JISC, its 21<sup>st</sup> meeting (held in April 2010), launched a call for public inputs regarding experience with the verification procedure under the JISC. A summary of the public inputs received was considered at the 22<sup>nd</sup> meeting of the JISC (held in June 2010) and is available at <[http://ji.unfccc.int/Sup\\_Committee/Meetings/022/Annex4.pdf](http://ji.unfccc.int/Sup_Committee/Meetings/022/Annex4.pdf)>.

### III. Governance issues

#### A. Guidance provided by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

##### 1. The establishment of two tracks

15. The JI mechanism was established by Article 6 of the Kyoto Protocol to enable Annex I Parties (or legal entities authorized by them) to support projects that reduce, or enhance removals of, greenhouse gas (GHG) emissions of other Annex I Parties, thereby enhancing the cost-effectiveness of mitigation actions taken by Annex I Parties to meet their emission targets under the Kyoto Protocol. The guidelines for the implementation of Article 6 of the Kyoto Protocol are set out in the annex to decision 9/CMP.1 (the JI guidelines).

16. Though it is often compared with the CDM, which was established by Article 12 of the Kyoto Protocol and enables Annex I Parties (or legal entities authorized by them) to support projects of Parties not included in Annex I to the Convention (non-Annex I Parties), JI differs in two key aspects:

(a) JI operates within the overall cap on emissions established by the Kyoto Protocol for Annex I Parties. As a direct consequence, JI projects and their associated offset credits, known as emission reduction units (ERUs), result in redistributing the emission reduction effort of Annex I Parties without impacting on the overall magnitude of the effort required of these Parties;<sup>4</sup>

(b) JI is flexible in terms of the type of emission reduction or removal enhancement opportunities that may be used, with no limitations other than on the use of ERUs generated from nuclear activities.

17. The two 'tracks' established for JI initially arose from the consideration of the eligibility requirements that must be met by Parties before they may issue and transfer or acquire ERUs. These requirements relate to the accounting systems and processes that Parties are required to institute, at a national level, to measure their annual emissions and enhancement of removals of GHGs and demonstrate compliance with their emission commitments.

18. Specifically, the eligibility requirements for JI that must be met by an Annex I Party are as follows:<sup>5</sup>

- (a) It is a Party to the Kyoto Protocol;
- (b) Its assigned amount has been calculated and recorded;
- (c) It has in place a national system for the estimation of emissions and removals;
- (d) It has in place a national registry;
- (e) It has submitted the most recent inventory of emissions and removals that is required;

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<sup>4</sup> This differs from the CDM, under which certified emission reductions are generated outside the overall emission cap for Annex I Parties and lead to increased emissions for these Parties when used for compliance purposes.

<sup>5</sup> The full text of the eligibility requirements is contained in decision 9/CMP.1, annex, paragraph 21.

(f) It implements the accounting of assigned amounts in accordance with the relevant provisions of the Kyoto Protocol and, on this basis, has submitted its most recent supplementary information on its assigned amount.

19. Parties meeting all such requirements may implement their own procedures for verifying that emission reductions and removal enhancements generated by projects are additional to any that would otherwise occur, and may then proceed directly to the issuance and transfer of ERUs (Track 1).<sup>6</sup>

20. The Track 2 procedure was originally conceived as a system of international oversight for the verification of emission reductions and removals generated by projects hosted by Parties which had not yet met all the eligibility requirements for JI. Under the Track 2 procedure, after the verification of emission reductions or removal enhancements has been deemed final under the JISC process, ERUs may be issued and transferred by the host Party if it meets just three of the eligibility requirements: (a) being a Party to the Kyoto Protocol; (b) having had its assigned amount calculated and recorded; and (c) having in place a national registry.<sup>7</sup>

21. However, the Track 2 procedure is available for use by any Party hosting a JI project, including Parties that meet all six of the eligibility requirements.<sup>8</sup> In fact, some Parties eligible for the Track 1 procedure have chosen to make use of the Track 2 procedure for some or all of the JI projects that they host. This allows such Parties and project participants to benefit from the international oversight and transparency provided by the Track 2 procedure, and reduces the risk of the Party not being able to issue and transfer ERUs in the event of its eligibility to participate in the JI Track 1 procedure being suspended.

## 2. Institutions and roles

22. The CMP established the **JISC** to supervise, inter alia, the verification of ERUs generated by projects under the Track 2 procedure. As outlined in the JI guidelines, the responsibilities of the JISC include:

- (a) Elaborating its rules of procedure;
- (b) Reporting on its activities and providing recommendations, as necessary, to the CMP at each of its sessions;
- (c) Accrediting independent entities, which determine whether projects and their emission reductions or removal enhancements meet JI requirements;
- (d) Reviewing such determinations where necessary;
- (e) Establishing and reviewing standards, guidelines, procedures and forms for the operation of the Track 2 procedure, including reporting guidelines and criteria for baseline setting and monitoring.<sup>9</sup>

23. Over time, the CMP has given additional responsibilities to the JISC, such as developing provisions for charging fees to cover administrative costs.

24. The JISC comprises 10 members and 10 alternate members from Parties to the Kyoto Protocol, serving in their personal capacities, nominated by the relevant constituencies and elected by the CMP. Members and alternate members serve two-year

<sup>6</sup> Decision 9/CMP.1, annex, paragraph 23.

<sup>7</sup> Decision 9/CMP.1, annex, paragraph 24.

<sup>8</sup> Decision 9/CMP.1, annex, paragraph 25.

<sup>9</sup> Decision 9/CMP.1, annex, paragraph 3. It should be noted that the JISC was initially referred to in decisions of the CMP as “the Article 6 Supervisory Committee”.

terms, with half of the members and alternate members being elected each year. Members and alternate members may serve a maximum of two consecutive terms.<sup>10, 11</sup>

25. Parties may be involved directly in JI projects as **project participants** or may authorize legal entities to participate in projects. In both cases, the Party remains responsible for the fulfilment of its obligations under the Kyoto Protocol and must ensure that project participants act in a manner that is consistent with the guidance established for JI. Legal entities may only transfer or acquire ERUs under relevant provisions of the JI guidelines if the authorizing Party is eligible to do so at the time.<sup>12</sup>

26. For each project under the Track 2 procedure, project participants are required to submit the following to an AIE:

(a) A project design document (PDD) containing all information needed for the determination of whether the project meets all relevant requirements;<sup>13</sup>

(b) A report (the monitoring report), to be submitted in accordance with the project's monitoring plan after the determination regarding the respective PDD has been deemed final by the JISC, on the emission reductions or removal enhancements that have already occurred through the project, in order to allow for the verification of whether they have been monitored, calculated and reported in accordance with the PDD and other JI requirements.

27. **AIEs**, as accredited by the JISC, are responsible for determining whether projects and their emission reductions or removal enhancements meet the relevant requirements established for JI projects. At the time of its initiation of the work of the JISC, the CMP decided that designated operational entities (DOEs) under the CDM that apply for accreditation under JI may act provisionally as AIEs until a final accreditation decision is taken by the JISC. However, the determinations and other activities undertaken by an entity under these provisions become valid only after the accreditation of the entity is finalized by the JISC.<sup>14</sup>

28. Each Annex I Party involved in a JI project is to establish a **DFP** for approving JI projects, as well as national guidelines and procedures for approving JI projects. Project approval is granted by DFPs via written approvals sent to specific legal entities authorized to participate in the JI project in question. Most DFPs additionally involve themselves in assessing JI project documents prior to approving and verifying the monitoring of subsequent emission reductions and removals.

29. The **secretariat** was requested through the JI guidelines to service the JISC. The main activities performed by the secretariat in this respect include:

(a) Organizing meetings of the JISC, panels and working groups, as well as outreach and stakeholder events;

(b) Managing the workflow of the project cycle;

(c) Supporting the operation of the process for accrediting independent entities;

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<sup>10</sup> Decision 9/CMP.1, annex, paragraphs 4–8. Specifically, the JISC comprises: three members and three alternate members from Annex I Parties that have economies in transition; three members and three alternate members from other Annex I Parties; three members and three alternate members from non-Annex I Parties; and one member and one alternate member from the small island developing States.

<sup>11</sup> Rule 4 of the “Rules of procedures of the Joint Implementation Supervisory Committee” (version 02).

<sup>12</sup> Decision 9/CMP.1, annex, paragraph 29.

<sup>13</sup> Decision 9/CMP.1, paragraph 31.

<sup>14</sup> Decision 10/CMP.1, paragraph 3.

- (d) Preparing draft regulatory documents for consideration and adoption by the JISC, panels and working groups;
- (e) Making information on JI publicly available, especially through the UNFCCC JI website;<sup>15</sup>
- (f) Maintaining external communication with stakeholders and the media;
- (g) Collecting fees to cover administrative costs arising from procedures contained in the JI guidelines relating to the functions of the JISC;
- (h) Undertaking substantive management and coordination of JI-related work, including in relation to human and financial resources.

## **B. Activities of the Joint Implementation Supervisory Committee**

### **1. The evolving nature of the work**

30. Figure 1 shows key milestones in the development of the Track 2 procedure to date. Notwithstanding the continuous need to strengthen the system, the feedback received by the JISC and the secretariat suggests that the process under the Track 2 procedure is functioning relatively well and that stakeholders are satisfied with both the performance of the JISC and the efficiency and timeliness of its work.

31. The work of the JISC was initiated with the first election of its members by the CMP at its first session, in conjunction with the adoption by the CMP of the JI guidelines. Since then, the JISC has held 23 meetings<sup>16</sup> and has undertaken a considerable amount of work. Its initial focus was on developing the procedures for operationalizing the Track 2 procedure. In this context, the JISC established the Joint Implementation Accreditation Panel (JI-AP) to assist in developing an accreditation procedure and other regulatory documents, as well as to make recommendations to the JISC on the accreditation of independent entities. The JISC officially launched the accreditation procedure on 6 October 2006, thereby triggering the receipt of applications for accreditation, and launched the overall verification procedure on 26 October 2006, thus allowing the submission of PDDs to commence.

32. The focus of the work of the JISC has since shifted from the development of regulatory documents to the actual operation of the Track 2 procedure. Accordingly, the JISC has in the last few years devoted an increasing share of its deliberations to the processing of project-related submissions, including:

- (a) The publication of PDDs and monitoring reports submitted by project participants;
- (b) The publication and appraisal of determination and verification reports submitted by AIEs (including DOEs acting provisionally as AIEs) in relation to specific projects;
- (c) The conduct of reviews, where appropriate, in relation to these determination and verification reports.

33. As encouraged by the CMP, the JISC has collaborated actively on JI issues with the Executive Board of the clean development mechanism (CDM Executive Board), the Compliance Committee, DFPs, AIEs, project participants (including through dedicated

<sup>15</sup> <<http://ji.unfccc.int>>.

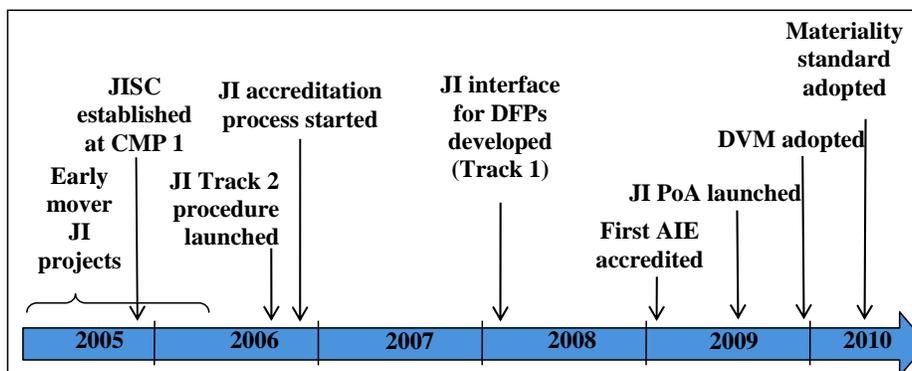
<sup>16</sup> As at 23 October 2010.

communication channels with specific project participant groups such as the JI Action Group and the Project Developer Forum) and observers at JISC meetings.

34. The JISC has always sought to work in a transparent manner. Its meetings are open to attendance by observers and it provides live and on-demand webcasts for stakeholders who are unable to attend in person. Further, the JISC has ensured that its documents are available on its website and has made use of public calls for input as part of its consideration of important items.

Figure 1

**Development of the joint implementation Track 2 procedure**



*Abbreviations:* AIE = accredited independent entity, CMP 1 = the first session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, DFP = designated focal point, DVM = determination and verification manual, JI = joint implementation, JISC = Joint Implementation Supervisory Committee, PoA = programme of activities.

## 2. Guidance adopted

35. During 2006, the first year of activity of the JISC, its extensive work programme concentrated on the operationalization of the Track 2 procedure. By the end of the year, the JISC had adopted the following documents to guide its work and the operation of the Track 2 procedure:

- (a) Rules of procedure of the JISC;
- (b) JI PDD forms for use by large-scale, small-scale (SSC) and land use, land-use change and forestry (LULUCF) projects, and a form for the submission of bundled JI SSC projects;
- (c) Guidelines for users of the three JI PDD forms (for large-scale, SSC and LULUCF projects);
- (d) Guidance on criteria for baseline setting and monitoring;
- (e) Provisions for SSC projects;
- (f) Procedures for appraisals and reviews of determinations;
- (g) Procedures on public availability of documents;
- (h) Principles, structure and level of fees to cover administrative costs relating to the activities of the JISC;
- (i) Procedures for accrediting independent entities by the JISC.

36. The development of the documents referred to in paragraph 0 above benefited from the earlier work undertaken by the CDM Executive Board on equivalent issues, but took into consideration the differences between the two mechanisms. These differences include the greater flexibility of JI in respect of eligible project types, additionality, baseline setting and monitoring methodologies, and the possibility to earn credits for emission reductions and removal enhancements generated by projects for the time during the first commitment period but prior to the finalization of their determinations.

37. Two additional elements of the policy guidance adopted by the JISC since 2006 deserve particular mention. Firstly, the JISC adopted in 2009 a procedure for JI programmes of activities (PoAs), providing a framework for implementing JI projects that can be easily replicated and bring economies of scale for project participants. PoAs could be submitted under this procedure as of 1 December 2009. In conjunction with adopting the procedure, the JISC also adopted a form (JI PoA PDD) and guidelines to support the implementation of PoAs.

38. Secondly, at the end of 2009, the JISC adopted the determination and verification manual (DVM) to assist AIEs in performing determinations and verifications. The adoption of the DVM resulted in the revision of the guidance on criteria for baseline setting and monitoring, the guidelines for users of the JI PDD forms, and the provisions for SSC projects.

39. Further revised guidance as well as new areas of guidance have been adopted by the JISC since 2006, in particular concerning ways to enhance the efficiency and operation of the Track 2 procedure:

(a) Revised guidance on criteria for baseline setting and monitoring, in order to clarify the use of JI-specific approaches and CDM-approved methodologies;

(b) Revised procedures for reviews under the verification procedure, further facilitating the implementation of the steps in the review process;

(c) Revised guidelines for users of the JI PDD forms (for large-scale and LULUCF projects), following the adoption of the revised guidance on criteria for baseline setting and monitoring;

(d) Revised provisions for JI SSC projects and revised guidelines for users of the JI SSC PDD form, following the amendment of the thresholds for SSC projects by the CMP and the revision of the criteria for baseline setting and monitoring;

(e) Procedures for the withdrawal of submissions under the verification procedure and for the withdrawal of project participants after final determination;

(f) Procedures for communication of the public with the JISC;

(g) The JI accreditation standard;

(h) Standards for applying the concepts of materiality and level of assurance in verifications;

(i) Procedures regarding changes during project implementation after the determination regarding the respective PDD has been deemed final;

(j) A revised glossary of JI terms, to incorporate terms related to PoAs and materiality.

### **3. Outreach and communication**

40. Pending the entry into force of the Kyoto Protocol and the first election of the members of the JISC, the secretariat undertook outreach activities in relation to JI, most

notably by organizing the UNFCCC workshop on the implementation of Article 6 projects under the Kyoto Protocol held in Moscow, the Russian Federation, in May 2004.

41. Since the commencement of its work, the JISC has convened five UNFCCC technical workshops on JI (in March 2006, February and October 2007, September 2008 and September 2009) and two round-table consultations (in June 2009 and June 2010). These events allowed the JISC to consider the experience of stakeholders with operational aspects of JI, such as accreditation and the supervision of the verification procedure, and enabled greater interaction among JI stakeholders. Further, the JISC has been holding a question and answer session at each session of the subsidiary bodies and the CMP since 2006, and organized numerous side events on specific topics during these sessions to share information on JI and identify areas for potential improvement.

42. In addition, members and alternate members of the JISC and the secretariat have participated in many events, including major carbon market events such as CARBON EXPO and Carbon Market Insights, as well as regional events such as the Austrian JI/CDM workshop, Carbon Forum America, Climate Change and Business (held in Kiev, Ukraine), the Russian Carbon Market Forum and, most recently, the JI technical workshop (held in Saint Petersburg, the Russian Federation, in September 2010). These events have provided an opportunity for the JISC and the secretariat to share information on JI and gather information on the interests and concerns of stakeholders in order to contribute to the further improvement of the JI processes.

43. The UNFCCC JI website was established at the beginning of 2006 and has been expanded over the years to include detailed information on all JI-related issues. This information includes standards, procedures, guidelines and forms for the Track 2 procedure, contact information of DFPs, host Parties' national guidelines and procedures for approving JI projects, the status of JI projects under both the Track 1 and Track 2 procedures, and other JI-relevant features (news, information on side events and workshops, links to extranets, etc.). In addition, the website contains all documents considered by the JISC and reports on the meetings of the JISC. The JI website receives around 10,000 unique visitors per month and its associated news facility (the JI newsletter) has about 2,000 registered subscribers.

44. The JISC adopted, in June 2010, its communication and outreach workplan, with a view to reaching a broader group of stakeholders and to raising awareness about JI among key policymakers. Some of the main activities included in this workplan are: enhancement of media outreach; cooperation with DFPs to reach policymakers and potential project participants; participation in carbon market events; and utilization of communication tools, services and products.

## **C. Financial resources**

### **1. Historical income and expenditure**

45. The JISC prepares a biennial management plan (the JI management plan) to guide its activities and plan its resources. By setting out the planned activities of the JISC and the secretariat and providing details of the expected workload, the JI management plan provides a valuable planning tool for the JISC as well as transparency in relation to its activities for the benefit of JI stakeholders and the CMP. The JI management plan for the following year is typically approved shortly before a session of the CMP and is revised as necessary during the biennium to take account of any changes that prove necessary.

46. The resources required for the administration of JI were initially provided entirely through voluntary contributions from Parties. Though such contributions continue to be

received, the expectation has grown among Parties over time that an increase in the number of projects would enable the resources required for the Track 2 procedure, including the activities of the JISC, to increasingly come from fee-based income, thus enabling the JISC to ultimately become self-sufficient.<sup>17</sup>

47. On the basis of decision 3/CMP.2, the following fees are charged by the JISC:

(a) A flat fee of USD 15,000 per applicant for accreditation as an AIE, plus the cost of the work of assessment teams involved in specific cases;<sup>18</sup>

(b) A variable fee for the verification of emission reductions or removal enhancements, based on USD 0.10/t CO<sub>2</sub> eq for the first 15,000 t CO<sub>2</sub> eq generated by a project in a given calendar year and USD 0.20/t CO<sub>2</sub> eq thereafter (fees for PoAs apply at a rate of USD 0.10/t CO<sub>2</sub> eq for any amount of emission reductions or removal enhancements generated).

48. For projects other than SSC projects or PoAs, or projects with expected average emission reductions or removal enhancements below 15,000 t CO<sub>2</sub> eq per year, an advance payment is payable upon submission of determination reports regarding PDDs. The amount of the advance payment is equal to the estimated average annual verification fee, up to a limit of USD 30,000.

49. Table 3 shows the annual income and expenditure of the JISC from 2004 until 30 September 2010. The operation of JI remains dependent on voluntary contributions from Parties, which constitute approximately 80 per cent of all income received to date. There has been no income from accreditation fees since 2007.

50. Income from verification fees grew substantially between 2007 and 2009, before dropping in 2010 as the JISC decreased the maximum advance payment of verification fees to the non-reimbursable level.<sup>19</sup> As presented in the JI management plan for 2010–2011 and noted by the CMP at its fifth session, these fees have been kept aside in a ‘fee reserve’ with a view to building a financial buffer, together with the accumulated carry-over of resources from one year to the next, to safeguard the activities of the JISC in times of low income. Of the fee reserve of USD 1,592,471 accumulated so far (as at 30 September 2010), approximately 30 per cent may not be spent immediately, as it reflects advance fees that may need to be reimbursed in the case that the verification reports regarding the respective projects are not eventually submitted to the JISC.

51. From the beginning of the activities of the JISC, its total income has remained consistently below the budget estimated to be required to undertake all the activities set out by the JISC in its approved management plans (e.g. the overall budget planned in the JI management plan for 2010 is USD 3,423,597). As a result, the activities of the JISC and the secretariat have been restricted in order to prevent costs where possible. Generally speaking, income has not been sufficiently stable to allow the appropriate implementation of planned activities.

<sup>17</sup> Decision 9/CMP.1, paragraph 7, states that administrative costs relating to the functions of the JISC are to be borne by both Annex I Parties and project participants. In paragraph 2 (h) of its decision 10/CMP.1, the CMP requested the JISC to develop provisions for the charging of fees. Subsequent decisions noting that income from fees remains inadequate to cover expenses include decision 5/CMP.4, paragraph 15, and decision 3/CMP.5, paragraph 24.

<sup>18</sup> Applicants from Parties with economies in transition and from non-Annex I Parties must pay 50 per cent of the accreditation fee up front, with the remaining 50 per cent becoming due if the application is successful.

<sup>19</sup> The JISC revised its provisions for the charging of fees in December 2009 to reduce the maximum advance payment of verification fees at determination stage from USD 350,000 to USD 30,000. This change took effect from January 2010.

Table 3  
**Annual income and expenditure of the JISC**  
 (United States dollars)

	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
<b>Income</b>							
Carry-over from previous year	-	67 723	84 144	996 533	1 337 798	2 000 084	862 237
Contributions from Parties	128 268	41 098	1 105 567	1 012 999	2 095 569	278 385	2 018 063
Accreditation fees	-	-	194 819	29 990	-	-	-
Verification fees	-	-	-	158 842	320 754	750 256	362 619
<b>Total income</b>	<b>128 268</b>	<b>108 821</b>	<b>1 384 530</b>	<b>2 198 364</b>	<b>3 754 121</b>	<b>3 028 725</b>	<b>3 242 919</b>
<b>Expenditure</b>							
Total expenditure	60 545	24 677	387 997	701 724	1 433 283	1 416 232	1 394 977
Fees set aside (fee reserve)				158 842	320 754	750 256	362 619
<b>Balance at year end</b>							
	67 723	84 144	996 533	1 337 798	2 000 084	862 237	1 485 323

<sup>a</sup> 1 January to 30 September 2010.

52. The JISC, at its 22<sup>nd</sup> meeting (held on 15–16 June 2010), considered the financial status of its activities. At that time, contributions from Parties received during 2010 amounted to USD 163,153 only. The JISC concluded that its current financing model was not sustainable and that, in terms of the rate of receipt of contributions from Parties, a crisis point had been reached. On that basis, the JISC agreed to cancel its next two meetings and replace them with an extraordinary meeting, held in October 2010, aimed at finalizing its annual report to the CMP, including proposals for a more secure and sustainable financial model for undertaking its activities. In addition, the JISC decided to cancel the remaining meetings of the JI-AP scheduled in 2010. Since the 22<sup>nd</sup> meeting of the JISC, additional contributions from Parties amounting to USD 1,854,910 have been received.

## 2. Financial projections until 2012

53. Making projections of the fee income expected to be received under the Track 2 procedure for the remainder of the first commitment period is complex. A number of variables are important, including the number and size of the JI projects to be determined, the timing of their determination and subsequent verification, the level of certainty as to their generation of emission reductions or removal enhancements, the potential for changes in the JI track eligibility of host Parties, and the likelihood of projects being transferred from one track to the other.

54. On the basis of an informal survey of AIEs and information from a number of project participants, the JISC has assessed the potential number of projects for which determinations and verifications may be expected to be submitted under the Track 2 procedure during the remainder of the first commitment period. Though the precise timing of these submissions between now and the end of 2012 remains uncertain, the survey indicates that new determinations may be expected to be submitted for up to 62 projects and that new verifications may be expected to be submitted for up to 39 projects under the

Track 2 procedure (including eight projects for which PDDs have already been determined but for which verifications have not yet been submitted).<sup>20</sup>

55. On the basis of these estimates, three scenarios regarding the growth in Track 2 projects have been identified for making financial projections until 2012 (see table 4):

(a) **Zero growth:** This scenario assumes that no new determinations will be submitted and that there will be no submissions of verifications for projects for which determinations have already been submitted but verifications have not yet been submitted;

(b) **Moderate growth:** This scenario assumes that half of the new determinations forecasted by AIEs will be submitted and that only half of those will proceed to the verification stage. It also assumes that eight additional projects, for which determinations have already been submitted, will proceed to the verification stage;

(c) **High growth:** This scenario assumes that all of the new determinations forecasted by AIEs will be submitted and that half of them will proceed to the verification stage. As with the 'moderate growth' scenario, it also assumes that eight additional projects, for which determinations have already been submitted, will proceed to the verification stage.

56. The total emission reductions expected to be generated by Track 2 projects under the three scenarios referred to in paragraph 55 above are shown in table 4, ranging from 18 Mt CO<sub>2</sub> eq in the 'zero growth' scenario to 73 Mt CO<sub>2</sub> eq in the 'high growth' scenario.<sup>21</sup> The expected income from verification fees, including the total current non-reimbursable advance payments and the total fees upon verification, is also shown in table 4. This indicates that, during the first commitment period, verification fee income in the amount to USD 3.0 million may be received under the 'zero growth' scenario, while an amount of USD 9.3 million may be received under the 'high growth' scenario (including non-reimbursable fees already received of approximately USD 1.1 million).

57. Of the scenarios set out in table 4, the JISC expects the 'moderate growth' scenario to have the greatest likelihood of being realized. However, it is important to note that the timing of the receipt of the potential fee income indicated in this scenario for the remainder of the commitment period is far from certain.

Table 4

**Assumed numbers of determinations and verifications submitted for Track 2 projects, expected emission reductions, and estimates of income from Track 2 verification fees for the remainder of the first commitment period under three scenarios**

<i>Scenario</i>	<i>Current determinations/verifications (number of projects)</i>	<i>New determinations/verifications (number of projects)</i>	<i>Total determinations/verifications (number of projects)</i>	<i>Total expected emission reductions (Mt CO<sub>2</sub> eq)</i>	<i>Potential income from verification fees for entire first commitment period (USD million)</i>
Zero growth	27/11	0/0	27/11	18	3.0
Moderate growth	27/19	31/15	58/34	51	6.8
High growth	27/19	62/31	89/50	73	9.3

<sup>20</sup> These results are based on 33 per cent of the projects hosted in the Russian Federation being conducted under the Track 2 procedure and half of the projects expected to be determined by AIEs subsequently proceeding to the verification stage before the end of 2012.

<sup>21</sup> Based on the survey, it was assumed that new projects for which PDD determinations will be submitted will each result in an average emission reduction of 1.5 Mt CO<sub>2</sub> eq over an average crediting period of three years.

58. It can also be expected that fees for verifications pertaining to the first commitment period will continue to be received after 2012, as ex post verifications will continue to be conducted for emission reductions or removal enhancements generated in the period 2008–2012. Given that ERUs may continue to be traded and used for compliance purposes until the end of the ‘true-up’ period under the Kyoto Protocol, which is expected to come to an end around mid-2015, verifications pertaining to the first commitment period will continue for some time.

59. It should be noted that table 4 only considers income from verification fees, for which there is a basis on which estimates may be calculated. In addition, there are other, less predictable sources of income, namely accreditation fees and contributions from Parties (see table 3 for an indication of the possible levels of such funding).

60. Overall, the JISC does not consider that it can be confident, given the current funding mechanisms, of sufficient verification fees being received over the next few years to allow it to become self-financing during the first commitment period. Moreover, it is the assessment of the JISC that this situation may continue beyond 2012 as verification activities continue for the 2008–2012 period and for any new projects submitted after 2012.

61. This lack of confidence reflects also the recent history of the funding situation of the JISC, which has indicated that its operational environment is vulnerable to unpredictable fluctuations in both fees and contributions from Parties. It remains very important that the operational environment of the JISC be kept stable in the near to medium term, by means of continued contributions from Parties, so that at least activities relating to the first commitment period can be completed.

## **IV. Status of joint implementation**

### **A. Early action**

62. In 2001, with the adoption of the Marrakesh Accords,<sup>22</sup> early JI activities began to operate on a bilateral basis between Annex I Parties. This was without a more formal institutional and procedural system, as was to be subsequently developed by the JISC, and prior to the entry into force of the Kyoto Protocol. This early action on JI occurred especially in countries with economies in transition, on the basis of the draft JI guidelines contained in the Marrakesh Accords<sup>23</sup> and building on the experience gained in developing activities implemented jointly under Article 4, paragraph 2, of the Convention.

63. The most engaged promoters of this early action on JI included: Netherlands (through the ERUPT Carboncredits.nl programme), the World Bank (through the Prototype Carbon Fund), the Nordic Environment Finance Corporation (through the BASREC Testing Ground Facility), Austria and Denmark, together with host Parties such as Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Poland and Romania.

64. By 27 October 2006, when the JISC officially launched the Track 2 procedure, approximately 130 ‘early mover’ JI projects were in different stages of implementation.<sup>24</sup> Most of these JI projects were registered by the host Parties under the Track 1 procedure, owing to the fact that the regulations and forms adopted by the JISC for the Track 2 procedure were different from those expected by these ‘early movers’.

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<sup>22</sup> Decisions 2/CP.7 to 24/CP.7, subsequently adopted by the CMP at its first session.

<sup>23</sup> Decision 16/CP.7 (Guidelines for the implementation of Article 6 of the Kyoto Protocol) was subsequently adopted by the CMP at its first session.

<sup>24</sup> United Nations Environment Programme Risoe Centre, CDM/JI Pipeline Overview, as at 14 September 2006.

## B. Current status of projects

65. JI has attracted considerably more interest since the JISC began its work in 2006 to operationalize the Track 2 procedure. As at 30 September 2010, 234 PDDs had been submitted under the Track 2 procedure and made publicly available on the UNFCCC JI website in accordance with the JI guidelines. Of this number of PDDs:

(a) A total of 27 have received positive determinations from AIEs, of which 20 have been deemed final in accordance with the JI guidelines;<sup>25</sup>

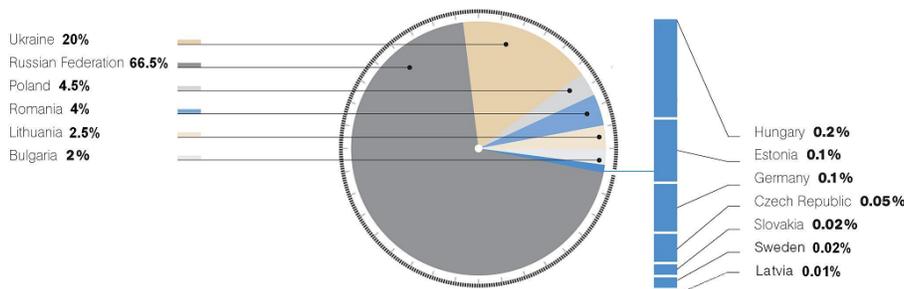
(b) A total of 168 are awaiting determination;

(c) A total of 39 have been withdrawn, with some being transferred to the Track 1 procedure by the project participants.

66. The total emission reduction that would be generated if the remainder of the 195 projects under the Track 2 procedure were realized is estimated to be around 335 million t CO<sub>2</sub> eq for the first commitment period.

67. Figure 2 shows the percentage breakdown by country of the emission reductions proposed in the 234 PDDs submitted to the JISC under the Track 2 procedure. Projects in the Russian Federation form a significant majority of the projects for which PDDs were submitted, followed by projects in the Ukraine. Figure 3 shows the percentage breakdown of the emission reductions proposed in these PDDs by sectoral scope, from which it can be seen that the largest shares of the PDDs were submitted for projects relating to fugitive emissions; manufacturing and chemicals; energy; and mining, minerals and metals.

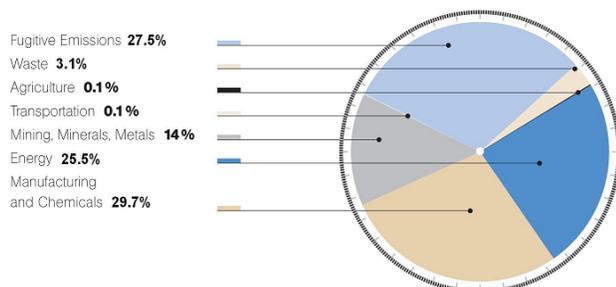
Figure 2  
**Percentage breakdown of emission reductions for 2008–2012 proposed in project design documents submitted under the joint implementation Track 2 procedure, by country**



Source: UNFCCC.

<sup>25</sup> One determination was rejected by the JISC, one is currently under review by the JISC and five further determinations are open for requests for review.

Figure 3  
**Percentage breakdown of emission reductions for 2008–2012 proposed in project design documents submitted under the joint implementation Track 2 procedure, by sectoral scope**



Source: UNFCCC.

68. According to their PDDs, the total volume of emission reductions and removal enhancements to be achieved by the 20 projects whose determinations have been deemed final under the Track 2 procedure is estimated to be around 35 million t CO<sub>2</sub> eq between 2008 and 2012. The average period of time between the publication of the PDD and the publication of the determination for the same project is 18 months, with a range of four to 31 months. The length of this period of time is affected by a variety of factors, including delays in approval by host Parties, the limited number and capacity of AIEs, and delays in response by project participants.

69. In accordance with the JI guidelines, 22 verifications of emission reductions generated by 11 projects have been published on the JI website to date, of which 20 verifications have been deemed final. These final verifications allow for 3.6 million ERUs to be issued.

70. As requested by the CMP, in order to provide an overview of all JI projects on the UNFCCC JI website and more transparent access to all project information, the secretariat has developed a web-based interface to receive information from DFPs on projects under the Track 1 procedure.<sup>26</sup> As at 30 September 2010, 190 Track 1 projects had been published on the JI website.

71. According to a recent report, a total of 24.5 million ERUs have been issued to date under the Track 1 and Track 2 procedures. These issuances were made for 80 projects in 11 host Parties and represent a substantial increase from the 4.5 million ERUs that had been issued for 27 projects up to November 2009. Approximately 85 per cent of the units issued to date originate from projects in host countries with economies in transition. In addition, according to the same report, the volume of ERUs issued under the Track 1 and Track 2 procedures is expected to reach 140 million units by the end of the first commitment period.<sup>27</sup>

72. In terms of market volumes, the primary JI market saw a slight increase in transactions, from 25.2 Mt CO<sub>2</sub> eq in 2008 to 26.5 Mt CO<sub>2</sub> eq in 2009. However, the value of ERUs decreased slightly in 2009, to an average price of USD 13.4 per unit, resulting in the total value of the primary JI market declining from USD 367 million in 2008 to USD 354 million in 2009. In comparison, in 2009 the primary CDM market represented 211 Mt CO<sub>2</sub> eq, with a market value of USD 2,678 million, and the market for transactions of assigned amount units (AAUs) represented 155 Mt CO<sub>2</sub> eq, with a market value of

<sup>26</sup> In addition, project identifiers are allocated via this interface, which are provided to the international transaction log to ensure the transparent tracking of ERUs generated by JI projects.

<sup>27</sup> Vertis Environmental Finance, quoted by Point Carbon on 1 October 2010.

USD 2,003 million. The primary JI market therefore represented approximately 11 per cent of the combined primary market for JI and the CDM in terms of volume and 12 per cent in terms of value.<sup>28</sup>

73. The Track 2 procedure has faced competition from other programmes offering opportunities for investment in emission reductions or removal enhancements, or investment in other environmental fields:

(a) The CDM, which offers opportunities for investment in similar projects in non-Annex I Parties, of which JI has sometimes been seen as a ‘younger sibling’;

(b) Track 1 projects, which are sometimes able to operate on the same procedural basis as Track 2 projects, but on different timelines and without the need to pay verification fees;

(c) Green investment schemes, under which revenues from selling AAUs are expected to be invested in activities that are of demonstrable benefit to the environment;

(d) Emissions trading schemes, under which allowances may be purchased without the need to first invest in projects.

74. Furthermore, since 2005, the viability of developing JI projects in most Annex I Parties in Central and Eastern Europe has been affected by the accession of these Parties to the European Union (EU), as, under the European Union emissions trading scheme (EU ETS), any ERUs generated by a JI project at an installation covered by the scheme are required to be matched by a cancellation of the same amount of EU allowances (which typically command a higher market value). This has discouraged the development of JI projects in sectors such as energy and industry.

### C. Current status of accreditation

75. In late 2006 and 2007, 15 applications for accreditation to become AIEs were received.<sup>29</sup> To date, based on the recommendations of the JI-AP, the JISC has accredited four of these applicants as AIEs (one voluntarily withdrew its accreditation in 2010). Based on the work of JI assessment teams that it has established, the JI-AP has issued an indicative letter (indicating successful completion of the desk review and on-site assessment) to 10 of the 11 remaining applicants.

76. Five of the remaining applicants have now initiated the last assessment in the process for initial accreditation by submitting a determination or a verification regarding a project to be used as a witnessing activity. These are currently under consideration by the JI assessment teams. It can therefore be expected that more applicants will be accredited as AIEs in the near future.

77. In accordance with decision 10/CMP.1, eight of the 11 remaining applicants may act provisionally as AIEs under the Track 2 procedure for at least one function (determination regarding a PDD or verification of emission reductions or removal enhancements) in at least one sectoral scope, until the JISC takes a final decision on the accreditation of these entities.

<sup>28</sup> World Bank. 2010. *State and Trends of the Carbon Market 2010*. pp.1 and 50.

<sup>29</sup> A further application was received in 2010 but was subsequently withdrawn by the applicant.

## **V. Context to guide future work**

### **A. Robust foundation for growth**

78. JI is part of the Kyoto Protocol and, although the emission targets of Annex I Parties are negotiated on a commitment period by commitment period basis, it is designed as a long-term mechanism that continues from one period to the next and is not tied to specific commitment periods. This continuity applies to all aspects of JI, including the determination of projects, issuance of ERUs and accreditation of independent entities.

79. The JISC is of the strong conviction that it has, under the guidance and authority of the CMP, built a robust foundation of policy guidance and experience in project evaluation upon which there is potential for a substantial increase in the number of projects under the Track 2 procedure. Notwithstanding the ongoing need for the JISC to further refine its policy guidance in order to further strengthen its efficiency, transparency and governance, the guidance provided so far is widely considered to be comprehensive and constructive.

80. It is important to recognize the context in which the JI mechanism exists. In particular, JI projects are applicable to Parties operating within a framework of measuring emissions and complying with quantitative emission targets. Within this 'capped environment', projects are given international recognition for the emission reductions or removal enhancements that they generate, and the resulting credits are counted against the overall emission targets adopted by those Parties.

81. The JISC believes that the specific value of JI, and the Track 2 procedure in particular, rests in its ability to give integrity and value to the measurement of emission reductions and issuance of offset credits to a degree that a single Party working in isolation would not be able to achieve. The resulting credits are readily accepted by countries other than the project host, not only for compliance under the Kyoto Protocol but also for trading and compliance purposes under domestic trading systems and potentially under any international system of quantitative targets.

### **B. Post-2012 international climate regime**

82. At the same time, the JISC is aware of the uncertainty surrounding the future of both JI and the Kyoto Protocol more generally. As Parties continue their deliberations under the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol and the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, it is not yet clear what level of ambition in reducing emissions will be adopted by developed countries or what form corresponding emission targets will take. This is of acute relevance to the future of JI, as JI was originally envisioned to assist Annex I Parties in meeting their emission targets under the Kyoto Protocol, and because ERUs need to be converted from either AAUs or removal units (RMUs).

83. It is the understanding of the JISC that the eligibility requirements adopted for JI by the CMP would not stop Parties, or legal entities authorized by them, from continuing to have projects determined or emission reductions and removal enhancements verified beyond 2012. However, it is also the understanding of the JISC that AAUs for the second commitment period will not be issued without the relevant emission targets having entered into force, and that some elements of the accounting rules for LULUCF need to be completed, in order to be applicable after the first commitment period, before RMUs may be issued. Under these circumstances, while the projects themselves would be able to continue unimpeded, it needs to be clarified whether the issuance of ERUs can occur before the Parties' emission targets for a period beyond 2012 have entered into force.

84. Uncertainty regarding the continuity of the CDM and JI in the post-2012 period is often cited as a major hindrance to investment in both mechanisms, as longer crediting periods are typically required to ensure the financial viability of projects. Of the PDDs received under the Track 2 procedure in recent years, most envisage a continuation of crediting beyond 2012, and some host Parties have begun approving projects with longer crediting periods, on the understanding that JI will continue beyond 2012.

85. A further area of uncertainty often identified by JI stakeholders is how JI activities under the first commitment period would be ‘closed off’ as part of the transition to either a second commitment period of the Kyoto Protocol or to any other form of new commitments for the period beyond 2012. In the understanding of the JISC, as ERUs issued for the first commitment period are to relate to emission reductions or removal enhancements occurring between 1 January 2008 and 31 December 2012, it will be necessary for verification activities relevant to this first commitment period to continue in 2013 and perhaps thereafter.<sup>30</sup> The consequent issuance of ERUs would however need to occur soon after the end of 2012 if they are to be used for compliance purposes by Parties or entities.<sup>31</sup>

86. Annex I Parties may ‘carry over’ ERUs from the first to a second commitment period of the Kyoto Protocol for use in complying with their emission targets. However, each Annex I Party may carry over ERUs from the first commitment period only up to a limit of 2.5 per cent of its original assigned amount for the first commitment period.<sup>32</sup> The carry-over of AAs into the second commitment period is not subject to any limits, while the carry-over of RMUs is not permitted.

### C. Possible market directions

87. The JISC considers that it would be worthwhile to further consider potential ways in which the experience gained with JI could be used along different paths that the future market could take. In particular, it appears that there are two general directions that the carbon market may take as it grows:

(a) The future market could be characterized by greater unification, by continuing to emphasize the applicability of emissions monitoring and offset standards that are universally accepted in all jurisdictions and are tradable as such. This could be led by the continuation of an international framework embodying common accounting modalities, such as those under the Kyoto Protocol. This would provide an ongoing basis for linking trading systems, allowing greater access to lower-cost abatement opportunities and providing ‘capped’ countries with flexibility in meeting their emission targets. It would also

<sup>30</sup> In the understanding of the JISC, the processing and issuance of emission reductions and removal enhancements occurring within the first commitment period is unrelated to any issues surrounding the nature of the international climate regime beyond 2012 and is therefore to continue unimpeded. The serial numbers of these ERUs, although issued after 2012, would indicate that they were issued for the first commitment period under the Kyoto Protocol.

<sup>31</sup> ERUs may be used by Parties for compliance with their commitments under the first commitment period of the Kyoto Protocol up to the end of the ‘true-up’ period, which is formally defined as extending to 100 days after the date set by the CMP for the completion of the reviews of Annex I Parties’ emission inventories for the 2012 calendar year (decision 27/CMP.1, annex, chapter XIII). On this basis, the true-up period associated with the first commitment period is expected to extend to around mid-2015. However, most non-government buyers and sellers of ERUs fall under the rules of domestic or regional emissions trading systems, such as the EU ETS, which may impose earlier deadlines for using ERUs from the first commitment period.

<sup>32</sup> Decision 13/CMP.1, annex, paragraph 15. Such carry-over results in the serial numbers of the ERUs being updated.

provide a basis for strong growth in the carbon market and greater engagement of the private sector;

(b) The future market could also be characterized by greater fragmentation, through less emphasis being placed on universally accepted emissions monitoring and offset standards. This could arise from a shift from the use of common accounting modalities, such as those under the Kyoto Protocol, towards the use of more disparate accounting modalities, in particular where these are established by different Parties under their legislation or through bilateral arrangements. Although market activity and offsets may, overall, continue to grow, it would likely be more difficult to establish links between trading systems to ensure that units accepted under one system would be accepted under another.

88. A shift towards the greater unification of the market would continue, and perhaps strengthen, the framework within which JI exists today. The JISC considers that JI has much potential to continue and expand its provision of assistance to Parties within the capped system in order to help them to meet their mitigation targets.

89. A shift towards greater fragmentation in the carbon market would increase the need for offset standards that are universally accepted, such that offset credits may be readily understood by and accepted in countries other than the project host. The JISC considers that, in a situation of greater market fragmentation, the approach embodied in JI would have much to offer as a universally accepted offset standard among countries with quantitative emission targets. Whereas JI is currently explicitly linked to the use of ERUs for compliance purposes under the Kyoto Protocol, this approach could in principle be applied within any domestic or regional emissions trading scheme or to any international system of quantitative targets.

90. It is important to note the potential for an increasing number of countries to adopt policy measures, either domestically or at the international level, that involve caps on emissions. The JISC believes that it is worthwhile to preserve and enhance the approach developed through JI in order for it to be a valuable tool in assisting Parties or entities to remain below their caps. Such enhancement could include improvements to the efficiency, transparency and governance of the operation of JI, as well as potential changes to build further upon the approach of JI for its application in the period beyond 2012.

## **VI. Reorientating the present work programme**

91. Although there are indications that the number of JI Track 2 projects is poised to grow considerably by the end of the first commitment period, it is nevertheless true that the size of the mechanism remains small in absolute terms, even when projects under the Track 1 and Track 2 procedures are considered together. Currently, JI does not appear to be considered a major influence among decision makers in governments or business.

92. This has implications in terms of making it difficult to maintain sufficient knowledge for those few organizations and individuals active in the area. Given the expectation of Parties that the activities under the Track 2 procedure, including the work of the JISC, should be covered by fee income, the current level of JI Track 2 activities brings about serious concerns regarding the financial stability and sustainability of the JISC.

93. The JISC considers it important to focus its attention on promoting the growth of JI in the near to medium term if JI is to tap the potential for offsetting, make a sizeable contribution to reducing emissions and better sustain the work of the JISC. In this context, the JISC considers that it should focus its attention for the remainder of the first commitment period in the areas where action would best contribute to maximizing the

potential for JI, under the current rules for JI, by increasing the number of JI projects being developed and implemented. These areas of action are outlined in the following sections.

## A. Further improving the verification procedure

94. The call for public inputs regarding experience with the Track 2 procedure, as launched by the JISC for the period of 22 April to 21 May 2010, resulted in a range of suggestions for revising the policy guidance issued so far by the JISC. These suggestions focused on the following specific documents:

- (a) “Guidance on criteria for baseline setting and monitoring” (version 02);
- (b) “Guidelines for users of the JI PDD forms (including those for SSC and LULUCF projects)” (version 04);
- (c) “Glossary of JI terms” (version 02);
- (d) PDD forms (including those for SSC and LULUCF projects).

95. **Action area:** In general, the suggestions called for the clarification of issues between project participants and AIEs and the acceleration of the processes of project development, determination and verification. Based on the responses to the public call for inputs, the JISC, without undermining the credibility of the Track 2 procedure, has agreed to amend the relevant documents by:

- (a) Ensuring the consistent definition of “JI project” and “project” between documents;
- (b) Avoiding duplications, repetitions and inconsistencies between documents in relation to baseline setting and monitoring;
- (c) Applying the concept of materiality in establishing the project boundary and estimating leakage;
- (d) Clarifying the option in baseline setting of taking a JI-specific approach already taken in comparable cases;
- (e) Clarifying which aspects of the CDM additionality tool, and its associated guidelines, are applicable under the Track 2 procedure;
- (f) Clarifying the use of the English language, the confidentiality requirements and the possibility of modifying the JI PDD forms in specific cases;
- (g) Implementing editorial changes in the guidelines for users of the PDD forms and to the PDD forms themselves, to increase clarity and user-friendliness;
- (h) Merging the documents referred to in paragraph 94 (a) and (b) above into a PDD manual, in order to consolidate and ensure the coherence of all requirements and instructions for JI project development.

96. **Action area:** In addition, the JISC has agreed to explore with stakeholders the possibility of setting time limits or expectations for each phase of the JI project cycle, in particular regarding the time between the publication of a PDD and when its determination is deemed final, in order to increase the pace and predictability of the system. As part of this action, the JISC has agreed to revise the review process in order to increase its independence from the meeting cycle of the JISC, as the current process specifies that reviews must be completed by the second meeting of the JISC (these meetings may be three or four months apart) after the review was requested.

97. **Action area:** The JISC has further agreed to make use of electronic decision-making, in particular in relation to reviews, based on project assessments conducted by independent experts and/or the secretariat.

98. **Action area:** The JISC has also agreed to consider further revisions of its guidance to encourage and support simple and innovative methodological approaches, including:

(a) The application of standardized baselines and default values, such as emission factors or energy intensity indicators, to increase the level of objectivity in the calculation of baselines and facilitate the development of projects;

(b) The streamlined demonstration of additionality, for example by agreeing on 'positive lists' of technologies, perhaps related to renewable energy or energy efficiency, which would be deemed to meet the relevant additionality requirements, or by clarifying the requirements for additionality;

(c) Allowing multiple measures that reduce emissions or enhance removals in a single project;

(d) Further developing guidelines for programmatic approaches under JI, including PoAs.

## **B. Increasing the number of accredited independent entities**

99. It appears that the development of JI projects may be being hindered by the relatively low number of AIEs available to provide determination services, as well as by the speed at which determinations and verification reports are prepared. There are currently only three AIEs in the JI market, although some other applicant independent entities may act provisionally as AIEs under JI, in a limited capacity, prior to the final accreditation decision of the JISC. The impact of this low number of AIEs is not clear, as it is only one of many factors impacting on the implementation of projects and issuance of ERUs.

100. The low number of AIEs appears to be attributable to a number of factors:

(a) The size of the JI market relative to that of the CDM, resulting in accreditation as an AIE under JI being less attractive to independent entities and prioritized less;

(b) Features of the accreditation process, in particular the requirement for witnessing activities to assess whether the applicant independent entity has the required competence and is effectively implementing its policies, procedures and systems. It has been difficult to identify projects that could be used as a basis for such witnessing activities under the Track 2 procedure;

(c) Competition with CDM activities, for which no retroactive issuance of CERs is allowed, resulting in the determination and verification activities of AIEs under the JI Track 2 procedure being given a lower priority;

(d) Competition with the Track 1 procedure, under which some host Parties do not require any form of accreditation specific to the requirements of JI or any monitoring of their performance.

101. The JISC has been considering a number of aspects of the witnessing activities required under the current JI accreditation procedure and has taken the following decisions in this regard:

(a) The JISC decided, at its 21<sup>st</sup> meeting, to replace ex post witnessing activities with performance assessments, while maintaining the requirement of one successful initial witnessing activity before granting accreditation;<sup>33</sup>

(b) The JISC also decided, at its 21<sup>st</sup> meeting, that Track 1 projects may be used for witnessing activities, provided that Track 2 rules and requirements were applied in the determination or verification. This action was taken to relieve some of the difficulties in identifying suitable Track 2 projects for witnessing purposes;

(c) The JISC further decided, at its 22<sup>nd</sup> meeting, to temporarily suspend the provisions in the JI accreditation procedure requiring ex post witnessing activities within one and a half years for sectoral scopes not witnessed as part of the initial accreditation. This action was taken in order to avoid suspending the accreditation of AIEs on these grounds.

102. **Action area:** The JISC has agreed, as a priority, to implement the decisions referred to in paragraph 101 above, by revising the JI accreditation procedure. In addition, the JISC has agreed to consider further means of streamlining the accreditation process by building on synergies with and lessons learned from other accreditation processes, including the possibility of removing the provision requiring a witnessing activity as part of the initial accreditation of an independent entity.<sup>34</sup>

103. Furthermore, the JISC is aware of the benefits of increasing the number of local independent entities applying for accreditation under JI. In addition to increasing the number of AIEs available and reducing delays in determination and verification, this could contribute to the enhancement of national practices and the application of JI guidance.

### C. Enhancing cooperation with designated focal points

104. The JISC believes that it is important to enhance the engagement and collaboration of DFPs in the JI process. Parties have adopted varying approaches to the specific roles of their DFPs, with some considering their role as being only to approve projects at the national level and others taking greater policy-setting and promotional roles.

105. In the view of the JISC, JI would benefit from more harmonized institutional frameworks and procedures at the national level. This relates to both the national approval of projects and the wider verification procedures under the Track 1 procedure. The need to understand and work with a wide range of procedures and information requirements among different host countries creates additional barriers to the development and implementation of JI projects.

106. National project approval processes have also experienced considerable delays in some host Parties, reducing the number of projects proceeding to the determination stage and affecting the interest of the carbon market in JI. These delays typically arise from delays in establishing procedures and institutions at the national level, the limited capacity of DFPs, and bottlenecks in the approval processes.

107. Furthermore, the JISC considers that DFPs should make every effort to increase the transparency of Track 1 projects, by providing sufficiently detailed information on projects

<sup>33</sup> Initial and ex post witnessing activities have recently been replaced under the CDM accreditation process by a system of performance assessments after accreditation has been granted.

<sup>34</sup> Procedure for accrediting independent entities by the Joint Implementation Supervisory Committee, paragraph 15.

through the revised web-based interface referred to in paragraph 70 above, so that the UNFCCC JI website may provide an overview of these projects in a transparent way.<sup>35</sup>

108. **Action area:** The JISC has agreed to explore with DFPs the possibility of the establishment of a DFP forum, based on experience gained with the Designated National Authorities Forum under the CDM. Such a forum could:

- (a) Create a platform for DFPs to exchange views and experiences;
- (b) Harmonize the requirements of the different national approval processes and increase transparency for the benefit of interested stakeholders;
- (c) Provide a basis for capacity-building under both tracks.

#### **D. Enhancing communication with other stakeholders**

109. The effectiveness of JI depends highly on the active and informed engagement of stakeholders in the mechanism. Some delays in the development of JI projects have been attributed to some extent to the insufficient quality of both project documents and the technical implementation of the projects, as well as to slow responsiveness when it comes to contract negotiations, data submissions, decision-making and communication. Such issues could be improved by promoting greater awareness and understanding of JI rules and more effective communication between project participants and AIEs.

110. More generally, the JISC considers that it should undertake more targeted actions to make stakeholders and the wider policymaking community more aware of the characteristics and strengths of the JI mechanism. Specific messages identified in this context include:

(a) The wide applicability of JI. With the development of projects in countries such as Finland, France, Germany, New Zealand, Spain and Sweden, JI is demonstrating its usefulness as a framework for channelling support towards projects in countries outside the earlier JI movers in Central and Eastern Europe. Germany has been particularly active in implementing PoAs under JI and Denmark is initiating a national JI programme;

(b) Assurance of real and additional emission reductions. The environmental integrity of JI is underscored by the requirement for verified emission reductions or removal enhancements to have taken place, over and above what would have happened in the absence of the project, before any ERUs are issued. As a result, the conversion of AAUs to ERUs is always on the basis of reductions in the host Party's emissions;

(c) The engagement of the private sector in mitigation efforts. JI is a bottom-up mechanism in that it is primarily based on opportunities for private-sector entities to engage in mitigation activities and use the mechanism to support investments in environmental projects.

111. The JISC considers that it should make more use of formal communication channels, to disseminate information on decisions taken, provide additional opportunities for dialogue and ensure means for stakeholders to give feedback. In addition to the greater use of JI workshops, round-table consultations and calls for public input, such channels could include meetings to strengthen the understanding of and further develop the DVM, as well as working groups with stakeholders to develop proposals on topics of common interest.

112. **Action area:** The JISC requests the secretariat to enhance its outreach activities in relation to JI by:

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<sup>35</sup> Decision 3/CMP.5, paragraph 13.

- (a) Developing and implementing a comprehensive communication strategy;
- (b) Improving the structure and format of, and information on, the UNFCCC JI website;
- (c) Publishing JI-related articles on relevant web portals and organizing interviews with members and alternate members of the JISC;
- (d) Preparing responses to frequently asked questions about JI;
- (e) Supporting capacity-building activities and training by external organizations;
- (f) Publishing information on JI success stories;
- (g) Providing updated information on the availability of resources for the activities of the JISC;
- (h) Organizing JI-related events during important carbon market events.

113. **Action area:** In addition, the JISC has agreed to consider further involving other stakeholders in activities to raise awareness and understanding of JI among policymakers and potential project developers. These stakeholders could include Parties, non-governmental organizations, players in the carbon market, project participants and AIEs. The JISC has also agreed to explore the possibility of conducting cooperative activities with international institutions interested in JI to promote the mechanism, and to undertake concrete actions to increase awareness of the mechanism.

114. **Action area:** The members and alternate members of the JISC, and especially its Chair and Vice-Chair, wish to engage more actively in JI-related outreach activities by participating in and making presentations at external events. The JISC has agreed to strengthen its engagement with the media, in particular via its Chair and Vice-Chair.

## **E. Enhancing the financial stability of the Joint Implementation Supervisory Committee**

115. As discussed in chapter III C 2 above, the operational environment of the JISC has been vulnerable to unpredictable fluctuations in both fees and contributions from Parties, and the JISC is not confident, given the current funding mechanisms, that sufficient fees will be received in the next few years to allow it to become self-financing during the first commitment period. Furthermore, as discussed in chapter VII B below, the work undertaken by the JISC is in effect subsidizing activities under the Track 1 procedure without that procedure sharing any of the costs.

116. The JISC believes that, in order to maintain a stable operational environment in which to undertake the remaining activities pertaining to the current commitment period, it is important to make greater use of existing funding measures available to the JISC, including fees and opportunities for further contributions from Parties, and also to ensure a strict prioritization of expenditure on essential activities and activities which can be expected to add the most value to the ongoing development and success of the mechanism.

117. **Action area:** The JISC has agreed to develop a contingency plan identifying further areas for saving resources in relation to its JI management plan for the biennium 2010–2011. This plan is to strictly prioritize the activities of the JISC, taking into account the areas of action contained in this report for reorientating the present work programme of the JISC, the activities required by JI stakeholders for the day-to-day operation of the mechanism, and ongoing updates on financial status and expectations of future fee income.

To the extent possible, meetings of the JISC and the JI-AP will be kept to a minimum in the immediate future, as will staff recruitment, until the financial situation stabilizes.

118. **Action area:** The JISC has also agreed to consider increasing the non-reimbursable portion of the advance fee payment due at the determination stage. This would have the effect of bringing forward the payment of fees in order to assist with covering the costs associated with the initial determination of projects.

119. **Recommendation:** The JISC recommends to the CMP that consideration be given to introducing a fee relating to activities under the Track 1 procedure, such as a fee payable by project participants upon publication of projects or issuance of ERUs under Track 1, as soon as possible.

## **VII. Building on the approach of joint implementation for the period beyond 2012**

### **A. Addressing the potential gap in emission commitments**

120. As discussed in chapter V B above, without emission targets having entered into force for the period beyond 2012, it is the understanding of the JISC that the eligibility requirements for JI would not stop Parties, or legal entities authorized by them, from continuing to have projects determined or emission reductions and removal enhancements verified beyond 2012.

121. However, it is less clear whether the JISC has a mandate under these circumstances to undertake activities under the JI Track 2 procedure in relation to projects initiated, or emission reductions and removal enhancements achieved, during the period beyond 2012. In addition, further clarification is required from the CMP as to whether ERUs may be issued for emission reductions and removal enhancements that occur after the end of the first commitment period and prior to the entry into force of commitments for beyond 2012.

122. This uncertainty surrounding the post-2012 period is significantly impeding the development and uptake of the JI mechanism, especially given that it was not able to commence in earnest until 2006 and that some Parties are now at the stage of developing their JI programmes, and will also hinder the smooth transition of JI from one commitment period to the next.

123. **Recommendation:** The JISC recommends that the CMP, with regard to the continuation of activities under the Track 2 procedure in the immediate period beyond 2012:

(a) Clarify that these activities may continue;

(b) Allow emission reductions and removal enhancements achieved by existing and new JI projects between 1 January 2013 and either the end of the 'true-up' period or the entry into force of new commitments, whichever is sooner, to be issued by host Parties as ERUs by converting AAUs or RMUs from the first commitment period.

### **B. The need for a new operational model for joint implementation**

124. As argued in chapter V above, the JISC considers that JI is well positioned to contribute, as a universally accepted offset standard, to the carbon market, in the context of either targets for a second commitment period being agreed under the Kyoto Protocol or of any other international system of emission targets. However, it is also clear to the JISC that

this contribution to the market, and to global efforts to address climate change more generally, would be considerably enhanced if the current model for JI could be changed to overcome some of the difficulties that have been faced to date.

125. In particular, the JISC is of the view that the two-track approach to JI, as it is currently applied, is not sustainable and is hindering the success of the overall JI mechanism in a number of ways. The original concern that gave rise to the development of the two tracks, namely the concern that some Annex I Parties may not be in a position to meet all of the eligibility requirements of JI, has proven unfounded.<sup>36</sup> Some Annex I Parties have decided to host only projects operating under their own Track 1 procedures, while other Annex I Parties allow project participants to decide under which track they wish to have their projects determined and verified, and have established a consolidated national approval process that is applicable to both tracks.

126. Since its establishment, the JISC has allocated important resources and effort to developing the Track 2 procedure, including through the establishment of an overall policy framework by developing standards, procedures, guidelines, clarifications and forms. These elements of the policy framework have in many cases been adopted for use by host Parties under the Track 1 procedure. Some Parties also require verification bodies to become accredited as AIEs under the Track 2 procedure before conducting determination and verification work under their Track 1 procedures.

127. Although the JISC welcomes the adoption of common approaches across JI activities, it is also aware that the development of regulatory documents for the Track 2 procedure in many cases in effect subsidizes the work under the Track 1 procedure without that procedure sharing any of the costs. In addition, there have been instances of projects being initiated under the Track 2 procedure and subsequently migrating to the Track 1 procedure, potentially to avoid the payment of fees under the Track 2 procedure.<sup>37</sup>

128. The JISC considers that, in the light of JI projects taking place within a capped environment and not leading to any increase in the overall emissions of Annex I Parties, a number of revisions to the current procedures for JI would prove useful in streamlining the procedures and better enabling JI to reach its potential while ensuring environmental integrity. Such revisions could include:

(a) Allowing for a streamlined demonstration of additionality for JI projects. Additionality is essential in ensuring that JI projects result in emission reductions and removal enhancements that are additional to any that would otherwise occur. There may be ways of streamlining approaches to the demonstration of additionality such that projects may more quickly move on to the implementation stage;

(b) Clarifying the definition of “Parties involved”, for the purposes of national project approval, to refer only to the host Parties of the project.<sup>38</sup> This would streamline the process of implementing projects, in recognition of the fact that the primary interest in approving projects lies with host Parties;

(c) Harmonizing the procedures for the national approval of projects that need to be followed by project participants;

(d) Amending the procedures and standards for the accreditation processes under JI, including through the consideration of synergies with other accreditation procedures, with a view to the possible development of a unified accreditation process for JI and the

<sup>36</sup> Several Parties have had their eligibility for JI Track 1 suspended by the Compliance Committee in the past but have also had it reinstated shortly thereafter.

<sup>37</sup> There may be other reasons, for example owing to the PDD used by early-mover JI projects not being accepted by the JISC or to the delay of some host Parties in approving projects.

<sup>38</sup> The term “Parties involved” appears in Article 6, paragraph 1 (a), of the Kyoto Protocol.

CDM. This approach could involve making accreditation as an AIE subject to the fulfilment of a subset, as necessary, of the total requirements of a unified accreditation process;

(e) Establishing measures to set aside, upon the positive determination of a project's PDD, AAUs or RMUs for subsequent conversion to ERUs through the issuance process. This may help to accelerate the issuance process once verification has been deemed final, and reduce the risk taken by project participants with respect to the host Party's fulfilment of the necessary eligibility requirements and its ability to issue and transfer ERUs. Such measures could include the creation of a dedicated registry account for JI, either in a Party's national registry or in a separate JI registry.

129. The assessment of the JISC to date has identified two broad options for building on the current approach to JI to better enable it to reach its potential and strengthen it as a valuable mitigation tool for use beyond 2012:

(a) Establishing a unified track for JI, such that JI projects are undertaken in accordance with a consolidated set of guidance that emphasizes the strengths of each of the current tracks, especially with regard to measures to ensure international oversight, transparency and consistency, and ensuring that Parties are able to contribute to the definition of the procedures and standards. Such a unified track could involve:

(i) The constitution by the CMP of a new regulatory body, under its authority. There may be scope to focus the role of such a body on: the setting of harmonized standards and procedures for the operation of the mechanism; the monitoring of the implementation of these standards and procedures at the national level; and reporting to the CMP on the overall compliance of JI activities with the policy framework established;

(ii) The full self-financing of the activities of the new regulatory body through accreditation and verification fees. Given the higher volume of projects that would result from the establishment of such a unified track, and that the costs incurred in supporting JI would be covered by the full range of JI projects, it may be more likely that fee-based income would be sufficient to cover all the activities of the regulatory body;

(b) Strengthening both of the current tracks, in particular by harmonizing the national procedures and requirements under Track 1 and further streamlining the procedures and requirements under Track 2. Given the likelihood that the increase in the number of projects under the Track 2 procedure under this option would not be sufficient to fully secure the financial stability and sustainability of its activities, the JISC considers that it would be necessary to extend the fee income of the JISC to Track 1 activities.

130. Either of the broad options referred to in paragraph 129 above could involve making further amendments to the governance of JI. The scope of such amendments could include:

(a) Improving communication with DFPs, AIEs and other stakeholders in the JI process, in order to ensure collaboration, dissemination of information and feedback;

(b) Indicating the skills and expertise necessary to regulate the mechanism, in order to inform the process of selecting the members of any new JI regulatory body;

(c) Aligning the membership and composition of any new JI regulatory body with any new operational model for JI.

131. As discussed in chapter III C 2 above, the JISC considers it necessary to ensure a stable and predictable means of financing the work relating to JI after 2012. A truly sustainable and acceptable approach to financing must lie in ensuring the development of JI to a necessary scale such that it can provide fee-based income sufficient to meet the needs

of the system. The JISC therefore believes that it is essential to consider potential changes to the financial model of JI, and the possibility of it becoming self-financing, in any discussion of changes to the operational model put in place for JI.

132. In the event that it is not possible to achieve the necessary scale of JI to make the mechanism self-financing, options which may be considered for raising additional income include:

(a) Providing for contributions from Parties of a mandatory nature. Contributions could be determined on the basis of either equal shares or the UNFCCC funding scale (adjusted to limit its applicability to Annex I Parties);

(b) The amendment of the structure of fees applicable to Track 2 projects;

(c) The establishment of new fees to cover Track 1 projects, such as fees for the issuance of ERUs to be paid by project participants (rather than for verification) or fees for the use of procedures and systems established by the JISC.

133. The JISC would welcome the further consideration by Parties of the potential amendments to the JI approach set out in this report, including in their current deliberations on the post-2012 climate regime, and would be available and willing to contribute further to such consideration.

134. In this context, the JISC recalls that the JI guidelines may be revised by the CMP on the basis of periodic reviews of the mechanism, which are, in turn, based on, *inter alia*, recommendations of the JISC.<sup>39</sup> The first such review is to be carried out no later than one year after the end of the first commitment period.

135. **Recommendation:** The JISC recommends that the CMP:

(a) Initiate the first review of the JI guidelines, in accordance with decision 9/CMP.1, paragraph 8, at its seventh session;

(b) Request the JISC to make recommendations to the CMP, at its seventh session, on options for building on the approach embodied in JI, with a view to considering the recommendations of the JISC as part of the aforementioned review.

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<sup>39</sup> Decision 9/CMP.1, paragraph 8.

**Annex II****Status of contributions to support joint implementation activities in the biennium 2010–2011 (as at 23 October 2010)**

Table 5

**Status of contributions to support joint implementation activities in the biennium 2010–2011 (as at 23 October 2010)**

<i>Party</i>	<i>Received (USD)</i>
Denmark	60 000
Finland	20 188
Germany	500 000
Japan	82 965
Netherlands	100 000
Sweden	54 911
Norway	1 200 000
<b>Total</b>	<b>2 018 063</b>

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