United Nations FCCC/KP/CMP/2011/9

Framework Convention on Climate Change

Distr.: General
24 October 2011

Original: English

Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
Seventh session
Durban, 28 November to 9 December 2011

Item 8 of the provisional agenda
Issues relating to joint implementation

Recommendations on options for building on the approach embodied in joint implementation

Note by the secretariat*

Summary

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, by its decision 4/CMP.6, decided to initiate, at its seventh session, the first review of the joint implementation (JI) guidelines, in accordance with decision 9/CMP.1, and requested the Joint Implementation Supervisory Committee (JISC) to make recommendations on options for building on the approach embodied in JI. The JISC has prepared these recommendations over the course of its work during 2011. The JISC focused on practical approaches to generating offset credits, within the context of Parties with national emission commitments that would both ensure environmental integrity and compatibility with the domestic policy instruments otherwise implemented by Parties. This document sets out key recommendations, which the JISC believes should be considered in depth by Parties in the context of the review of the JI guidelines to be initiated at the seventh session of the CMP.

* This document was submitted after the due date in order to take into account the outcomes of the twenty-sixth meeting of the Joint Implementation Supervisory Committee, which was held on 13 and 14 September 2011.

Contents

I. Introduction

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), by its decision 4/CMP.6, took note of the view of the Joint Implementation Supervisory Committee (JISC) on the need for a future operation of joint implementation (JI) after the first commitment period of the Kyoto Protocol and decided to initiate, at its seventh session, the first review of the JI guidelines in accordance with decision 9/CMP.1.

2. By the same decision, the CMP requested the JISC to make recommendations to its seventh session on options for building on the approach embodied in JI, with a view to the CMP considering the recommendations as part of the first review of the JI guidelines. The recommendations of the JISC were to take into account, inter alia, the "report on experience with the verification procedure under the JISC and possible improvements to the future operation of JI"[1] and ongoing work being carried out by the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP).

B. Scope

3. In response to the above mandate, this document sets out key recommendations, which the JISC believes should be considered in depth by Parties in the context of the review of the JI guidelines to be initiated at the seventh session of the CMP. The JISC has prepared these recommendations over the course of its work during 2011. An earlier draft was the subject of a call for public input, through which many valuable and overall supportive inputs were received from JI stakeholders.

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

4. In the context of the first review of the JI guidelines in accordance with decision 9/CMP.1, the CMP may wish, at its seventh session, to consider the recommendations of the JISC on options for building on the approach embodied in JI and adopt a decision containing:

(a) A set of key attributes to describe the operation and governance of JI in the future, as the basis for a specific revision of the JI guidelines;

(b) A request to the Subsidiary Body for Scientific and Technological Advice (SBSTA) to prepare draft modalities and procedures for JI, with a view to the CMP adopting a decision on this matter at its eighth session;

(c) A request to the JISC to prepare recommendations relating to the preparation of modalities and procedures, for the consideration of the SBSTA at its thirty-sixth session.

[1] The report, hereinafter referred to as the JI experience report, is contained in annex I to the annual report of the JISC to the CMP, sixth session (FCCC/KP/CMP/2010/9).

II. Context for the recommendations

5. As argued in the JI experience report, the overwhelming sense of the JISC is that JI is at a crossroads. There remains much untapped potential in the approach currently implemented through JI, but the JISC considers that significant changes in 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. The JISC therefore values this opportunity to elaborate further on the thinking contained in its JI experience report and contribute to the discussion on how the approach embodied in JI can be taken forward in the future. The JISC remains willing to elaborate further on this thinking, taking account of guidance provided by the CMP at its seventh session, with a view to further assisting the CMP in its conclusion of the review of the JI guidelines.

6. The JISC is aware that significant issues remain to be resolved regarding the overall architecture of the international climate regime after 2012 and does not consider it to be the role of the JISC to enter into this debate. Instead, the JISC has endeavoured to consider practical approaches to the generation and promotion of offset credits within the generic context of national emission commitments. The JISC considers that such credits may be given recognition at either domestic or international levels and within many possible variants of a future international climate regime. In line with this approach, this document uses generic, functional terminology to describe steps in the project cycle and the institutions of JI.

III. Joint implementation under the first commitment period

A. Current role and approach

7. The origins of JI under the Kyoto Protocol lie in Article 4, paragraph 2(a), of the Convention, which states that Parties included in Annex I to the Convention (Annex I Parties) may implement policies and measures on the mitigation of climate change jointly with other Parties and may assist other Parties in contributing to the achievement of the objective of the Convention.

8. This provision led to the launching of the pilot phase of "activities implemented jointly" (AIJ) at the first session of the Conference of the Parties (COP), under which Annex I Parties may implement projects in other countries that reduce emissions of greenhouse gases or enhance their removal through sinks. The Kyoto Protocol took this approach a step further by formalizing JI within the context of the Protocol's quantified emission commitments and providing for the crediting of emission reductions and removals within the overall accounting of the Protocol.

9. The essence of JI is to provide a common basis for Parties with quantified emission targets to collaborate in the mitigation of climate change. This common basis comprises many factors, with the minimum being compatible accounting standards and procedures, leading in turn to the mutual recognition of emission reductions and removals against emission targets among these Parties.

10. The specific version of this approach under Article 6 of the Kyoto Protocol enables Annex I Parties (or legal entities authorized by them) to support projects that reduce or remove the emissions of other Annex I Parties, thereby allowing for greater cost-effectiveness in the overall mitigation actions taken by these Parties to meet their emission targets under the Protocol. The resulting offset credits, known as emission reduction units

(ERUs)[2], may be used within the host Party or in another Annex I Party as a means of meeting either government emission commitments under the Kyoto Protocol or the emission obligations of private and public entities under domestic or regional emissions trading systems.

11. The use of JI is of different value to different actors. The host entity or Party stands to gain financial and technological support in its efforts to reduce emissions or enhance removals, while the investing entity or Party stands to gain offset credits at lower cost than those involved in achieving emission reductions or removals within their own activities or territories. In many cases, the mere presence of an economic opportunity to reduce or remove emissions is not sufficient. JI provides a programme, with clear rules of engagement, which serves to incentivize and channel mitigation action, in particular among private sector actors.

12. JI under the current guidelines is divided into two "tracks". Commonly known as "JI Track 1", the first method represents the basic model as originally envisaged for JI during the preparation of the JI guidelines. Under this track, the host Parties assume responsibility for the approval of projects, the verification of the resulting emission reduction and removals, and the issuance of ERUs.

13. In order to ensure the integrity within Kyoto's overall accounting framework of the ERUs issued, host Parties need to meet a set of eligibility requirements relating to the accounting systems and processes that Parties are required to institute, at a national level, to measure their annual emissions and removals and demonstrate compliance with their emission commitments. Specifically, each Party must:

(a) Be a Party to the Kyoto Protocol;

(b) Have calculated its assigned amount pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol and had it recorded with the UNFCCC secretariat;

(c) Have in place a national system for the estimation of emissions and removals in accordance with Article 5, paragraph 1, of the Kyoto Protocol;

(d) Have in place a national registry in accordance with Article 7, paragraph 4, of the Kyoto Protocol;

(e) Have submitted the most recent inventory of emissions and removals that is required in accordance with Article 5, paragraph 2, and Article 7, paragraph 1, of the Kyoto Protocol;

(f) Have implemented the accounting of assigned amounts in accordance with Article 7, paragraph 4, of the Kyoto Protocol and, on this basis, have submitted its most recently required supplementary information on its assigned amount in accordance with Article 7, paragraph 1, of the Kyoto Protocol.

14. This integration of JI within the accounting framework of the Kyoto Protocol means that, in effect, JI projects redistribute mitigation effort among Annex I Parties without impacting on the overall magnitude of the mitigation undertaken. A reduction or removal of emissions in the host Party is compensated by the transfer of assigned amount, in the form of ERUs, to the investing Party. As a result, although the additionality of emission reductions and removals remains a core requirement of JI projects,[3] JI cannot contribute an increase in the overall level of emissions allowed from Annex I Parties as a whole.

15. The second method, commonly known as "JI Track 2", was originally conceived as a system of international oversight for projects in Annex I Parties that had not yet met all

[2] ERUs are issued by converting existing assigned amount units (AAUs) or removal units (RMUs).

[3] Article 6, paragraph 1(b), of the Kyoto Protocol.

the eligibility requirements for JI. Track 2 sets out a verification procedure under the JISC for JI projects. Once emission reductions and removals are deemed final under the Track 2 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;

(c) Having in place a national registry.

16. Despite meeting all the eligibility requirements for Track 1, some JI Parties have elected to make use of the Track 2 procedure for some or all of the projects 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.

B. Current status of the mechanism

17. There are currently over 200 active JI projects under Track 2 in the pipeline, including one programme of activities (PoA), with more than 30 so far having been finally determined to meet the relevant requirements. If all active projects in the pipeline were to be realized under Track 2, the number of ERUs generated may reach 350 million for the first commitment period. In addition, 280 projects are currently registered under Track 1.

18. These numbers reflect strong recent growth in the quantity of projects coming on stream and are consistent with the expectation of an influx of projects towards the end of the commitment period. This is also reflected in ERUs, with the issuance of ERUs across both tracks totalling over 48 million in the first eight months of 2011 and 31 million in 2010, compared to 6 million in 2009 and 120,000 in 2008. Of these, 10 million ERUs were issued for projects registered under the Track 2 process. The table below provides a more detailed view of the distribution of ERUs between track 1 and track 2 in the 2008-11 period

Table
Issuance of emission reduction units

	Track 1	*Track 2*	*Total*
2008	120 000	-	120 000
2009	4 670 641	1 324 448	5 995 089
2010	28 033 010	2 921 570	30 954 580
2011[a]	42 963 581	5 667 406	48 630 987
Total	**75 787 232**	**9 913 424**	**85 700 656**

[a] As at 1 September 2011. Source: UNFCCC Secretariat.

19. Although early project developers were active in JI as early as 2000, the JISC commenced its work only with the entry into force of the Kyoto Protocol in 2005. Although some host countries began around this time with their national policies, a number of key countries have relatively recently put in place the institutions and procedures needed to significantly upscale the number of projects being developed and verified. The JISC considers that, with key elements of a broader foundation for JI in place, the mechanism now has potential for considerable further growth.

C. Treatment during the "true-up" period

20. An 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 a second commitment period under the Kyoto Protocol or any other form of new commitments for the period beyond 2012. In the understanding of the JISC, as emission reductions and removals occurring from 1 January 2008 to 31 December 2012 are to be issued as ERUs for the first commitment period, verification activities relevant to this first commitment period will need to continue in 2013 and perhaps thereafter.[4] Such issuance is unrelated to any issues concerning the international climate regime beyond 2012.

21. It will, however, be in the interest of many Parties and entities to have ERUs relating to the first commitment period issued soon after the end of 2012, at the latest, if they are to be used for compliance purposes. 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 expected to extend until around mid-2015.[5] However, entities with compliance obligations fall under rules for domestic or regional emissions trading systems, such as the EU emissions trading system, which may impose earlier deadlines for using ERUs relating to the first commitment period.

22. Annex I Parties may "carry over" ERUs from the first commitment period under the Kyoto Protocol for use in complying with emission targets for a second commitment period.[6] 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.[7] Entities covered by emissions trading may be subject to other rules determining the extent and timing of banking into the next compliance period.

D. Treatment during a "gap" period

23. The JISC is aware of the current uncertainty regarding the nature of the international climate regime beyond 2012 and the level of ambition in reducing emissions that will be agreed. Uncertainty regarding the continuity of the clean development mechanism (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 project design documents (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.

24. As discussed in section III.C above, the JISC understands that the determination and verification of JI projects may continue after 2012 in relation to emission reductions or removals that occur during the first commitment period. This would allow all issuance and other accounting issues relating to the first commitment period to be resolved before the end of the true-up period.

[4] The serial numbers of these ERUs, although issued after 31 December 2012, will nevertheless indicate that they were issued for the first commitment period under the Kyoto Protocol.

[5] The true-up period, which is formally known as the "additional period for fulfilling commitments", is defined by decision 27/CMP.1, annex, article XIII, as extending to 100 days after the date agreed by the Parties for completing the reviews of Annex I Parties' emission inventories for the 2012 calendar year.

[6] This carry-over applies only to ERUs that have been converted from AAUs on the basis of reductions in emissions. It does not apply to those converted from RMUs on the basis of emission removals.

[7] Decision 13/CMP.1, annex, paragraph 15. Such carry-over results in the serial numbers of the ERUs being updated.

25. With regard to emission reductions and removals that occur after the first commitment period, the JISC understands that there is no prohibition of JI projects continuing to be determined and emission reductions and removals continuing to be verified in the absence of emission targets having entered into force for the period beyond 2012. Nevertheless, the JISC **recommends** that the CMP reaffirm that activities under the Track 2 procedure relating to emission reductions and removals after the first commitment period, including the determination of projects and the verification of emission reductions and removals, may continue beyond 31 December 2012.

26. The situation for the issuance of ERUs prior to entry into force of emissions targets is more complex, as there would be no AAUs or RMUs for a second commitment period that may be converted into ERUs through the issuance process. The JISC therefore **recommends** that the CMP, with regard to emission reductions and removals that occur after the first commitment period, either:

(a) Allow emission reductions and removals achieved by existing and new JI projects between 1 January 2013 and either the end of the true-up period or the establishment of assigned amount for a host Party for a second commitment period under the Kyoto Protocol, whichever is sooner, to be issued by host Parties as ERUs under the Track 2 procedure by converting AAUs or RMUs from the first commitment period; or

(b) Decide to adopt, at its eighth session, modalities and procedures for the issuance of offset credits under the Track 2 Procedure and their subsequent deduction from future emission reduction or limitation targets adopted by Parties hosting such activities.

IV. Process for the review of the joint implementation guidelines

27. By its decision 4/CMP.6, the CMP decided to initiate the first review of the JI guidelines at its seventh session. The JISC considers that the process to conduct the review would be best conducted in two phases:

(a) The CMP should first consider and adopt, at its seventh session, a set of key attributes that clearly characterize the operation of JI in the future;

(b) The CMP should subsequently consider and adopt, at its eighth session, a specific revision of the JI guidelines in order to implement the operation of JI agreed by the CMP at its seventh session.

28. While this process would complete the revision of the JI guidelines only at the end of 2012, the JISC is of the view that the issues to be considered are too numerous and complex to be resolved in a single session of the CMP. The proposed two-phase process would also allow for the revision of the JI guidelines to take account of emerging clarity with respect to wider issues in relation to the future international climate regime.

V. Recommendations relating to the evolution of joint implementation

A. Purpose and context

29. The JISC believes in the value of the offsetting approach for the “capped” environment of quantitative emission commitments, as embodied in JI, as a means of increasing the cost-effectiveness of mitigation and allowing for deeper cuts in emissions to be made. The specific value of JI, and in particular JI under the international oversight currently under the Track 2 procedure, rests in its ability to give integrity and value to the

measurement and issuance of offset credits in a way that a single Party working in isolation is not able to achieve. The resulting credits can be readily accepted in countries other than the host Party for the purpose of fulfilling emission targets – at a domestic or international level and under the Kyoto Protocol framework or any other international system of quantitative targets.

30. The need for such universal acceptance of offset credits would be reinforced in an environment of greater fragmentation in the carbon market. Many trading systems are currently under consideration or being implemented and the challenges in linking these remain strong. In offering the acceptance of offset credits within the accounting regimes established for each trading system, a universal offset standard would offer greater access to lower-cost abatement opportunities, lower transaction costs and stronger engagement of the private sector. It would provide a form of indirect linking between trading systems that would contribute to effective cost-containment and the convergence of offset and allowance prices.

31. However, the JISC considers that JI needs to evolve further if it is to realize its potential, provide a more substantive mitigation tool for Parties and contribute to the substantial scaling up of mitigation that is needed for the objective of the United Nations Framework Convention on Climate Change to be met.

32. This evolution needs to occur on different levels:

(a) Changes to the implementation of JI can occur within the current JI guidelines, with a particular focus on building more growth into JI in the near to medium term. Many such measures to re-orient the immediate work programme in this manner are being pursued by the JISC;[8]

(b) The current review of the JI guidelines adopted by the CMP through its decision 9/CMP.1 provides a wider opportunity to further evolve the underlying model of JI as it is known today. The JI experience report noted a number of areas where such changes of a more far-reaching nature could be made and these are the subject of the recommendations in this document.

33. Overall, the JISC considers that JI needs to evolve beyond 2012 into a more decentralized mechanism, which host Parties implement at the national level under the international guidance and oversight of a new governing body and under the authority of, and with accountability to, the CMP. Such a mechanism would be open for a wide range of activities, including those at project, programmatic, sector and policy levels. The JISC considers that such an evolution in JI would further enhance its value as a policy instrument that Parties may implement nationally in line with their overall mitigation objectives, in particular in sectors not covered by emissions trading systems, while at the same time providing for effective support to collaboration on mitigation efforts among Parties at the international level.

[8] Section VI of the JI experience report elaborates such measures, including: (a) clarifying and elaborating 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) further exploring the possibility of setting time limits on phases of the JI project cycle; (c) increasing cooperation with the 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; and (e) increasing the number and capacity of accredited independent entities (AIEs).

B. Project cycle

34. As described in section III.A, the project cycle under the current JI mechanism is split between procedures under the authority of host Parties (Track 1) and those under the authority of the JISC (Track 2). This has given rise to a number of concerns. The JISC is of the view that this two-track approach to JI is not sustainable for the future and is hindering the success of the overall JI mechanism in a number of ways:

(a) The national processes under Track 1 differ from host Party to host Party, increasing the burden on national policymakers and the knowledge barriers and transaction costs for project developers and participants involved in multiple countries;

(b) The national processes under Track 1 vary in the transparency of their procedures and decision-making and are frequently subject to calls for more transparency;

(c) The sustainability of the JISC financial model is undermined through its regulatory documents and accreditation processes subsidizing some national processes and through Track 2 projects migrating to Track 1, potentially to avoid the payment of Track 2 fees;[9]

(d) The Track 2 procedure may be seen by some host Parties as being too cumbersome and insufficiently tailored to their specific circumstances;

(e) The splitting of JI into two tracks, and into multiple national processes under Track 1, has the effect of dissipating the momentum present in JI as it makes it more difficult for any one process to develop economies of scale.

35. Although the original concern giving rise to the two tracks was that some Annex I Parties may not be in a position to meet all of the JI eligibility requirements, all such Parties have demonstrated in the past their ability to fulfil these requirements.

36. The JISC **recommends** that the JI guidelines be revised to replace the current two-track approach with a single, unified project cycle, such that JI activities are undertaken in accordance with common guidance that builds on the strengths of each of the current tracks, especially with regard to measures to ensure international oversight. This guidance should ensure the transparent and consistent measurement, reporting and verification of the achieved emission reductions or removals while ensuring that the transaction costs and knowledge barriers associated with JI are maintained at acceptable levels.

37. The JISC **recommends** that the single project cycle be developed in line with the following broad steps:

(a) Development of a design document by participants in the JI activity;

(b) Validation of the JI activity by an accredited verifier to ensure that the JI activity is consistent with relevant guidance;

(c) Approval and registration of the JI activity by the host Party;

(d) Recording of the JI activity with the governing body;

(e) Monitoring of emission reductions and removals by the participants in the JI activity;

(f) Verification of the emission reductions and removals by an accredited verifier;

[9] As a result of decision 4/CMP.6, the JISC has now introduced a fee for projects under the Track 1 procedure in order to compensate for this effect and the issue of fees is again to be reviewed at the seventh session of the CMP.

(g) Issuance of credits in a JI registry administered by the governing body, based on the verified emission reductions and removals, and distribution of the credits to the participants in the JI activity.

38. The JISC **recommends** that the registration of JI activities by the host Party and issuance of offset credits by the governing body should be carried out immediately upon the submission of appropriate validation and verification reports by accredited verifiers. This would accelerate the registration and issuance processes and reduce the risk taken by participants in activities with respect to the timing of registration and issuance decisions.

39. This approach would require strong and effective monitoring, under the authority of the governing body, of the performance of accredited verifiers in both their validation and verification functions, including through the possibility of spot checks. This performance monitoring should lead to sanctions being applied in the event of any failures or shortcomings being identified and, in the worst case, the suspension or withdrawal of the accreditation. In the case of issuance, further criteria would need to be developed for triggering special reviews of JI activities, which may in turn lead to the rejection of the issuance request. In this manner, the governing body would generally not be involved in the assessment of JI activities but would be empowered to take effective action as part of its oversight responsibilities.

40. The JISC **recommends** that the demonstration of additionality for activities be regulated primarily by host Parties as part of their registration processes. Similarly, host Parties may wish to require within their registration processes the application of measures that result in the credits issued numbering less than the actual emissions reductions or removals that occur. This would offer host Parties additional benefits and increased flexibility in meeting their emission targets and could be implemented through measures such as conservative baselines or discounting.

41. Under this approach, only the host Party would need to approve a JI activity and this approval would be integrated in the registration processes of these Parties. This would streamline the implementation of activities and recognize that the primary interest in approving them lies with host Parties. Best practice guidelines, as referred to in paragraph 42 below, would serve to harmonize the procedures at the national level for registering activities, thereby increasing the consistency across the procedures of host Parties, while still allowing them to determine the specific requirements of activities that proceed on their territories.

42. The JISC **recommends** that the issuance of credits by the governing body would trigger a subsequent and equivalent deduction from the emission targets adopted by the respective host Parties. This would be essential to ensure that emission reductions and removals are not accounted for in the national emission inventories of both the host Party and the Party receiving the credits (“double-counting”).

43. The JISC envisages that, on the basis of the revised JI guidelines adopted by the CMP at its eighth session, two broad forms of further guidance would be elaborated by the governing body:

(a) Mandatory standards and procedures to which all JI activities would need to conform. These would in particular apply to issues concerning the measurement, reporting and verification (MRV) of emission reductions and removals;

(b) Non-mandatory “best practice” guidelines to further align the overall implementation of JI activities across all host Parties while still allowing for some variations to be implemented where necessary to reflect policy objectives in different countries. For example, in relation to the registration of JI activities, host Parties could define preferences for specific activity types or the stringency of additionality requirements.

Best practice guidelines could also be used to establish standardized baselines or approaches to how they should be established by host Parties.

44. The JISC **recommends** that, in defining a single project cycle, care should be taken to ensure the wide understandability of the terms used.

C. Governing body

45. The JISC **recommends** that, as part of the revised JI guidelines, the CMP establish a new governing body for the single project cycle. This governing body should operate under the authority of, and be accountable to, the CMP and should focus on:

(a) Setting mandatory standards and procedures and best practice guidelines, including through collaboration with host Parties;

(b) Issuing offset credits, on the basis of verification by accredited verifiers;

(c) Accrediting verifiers and supervision of their performance;

(d) Overseeing the conformity of the implementation of JI with the mandatory standards and procedures and requiring the rectification of any cases of non-conformity;

(e) Reporting to the CMP on the implementation of JI and the conformity of JI activities with guidance provided by the CMP and the governing body;

(f) Fostering the robustness of the JI mechanism, ensuring its transparency, including with regard to its processes and decision-making, and actively promoting awareness of the JI mechanism.

46. The JISC **recommends** that further consideration be given to the development of a unified accreditation process for JI and the CDM. Under such a process, accreditation for JI purposes would require fulfilment of only a subset of the total requirements of the unified process.[10]

47. The JISC **recommends** that measures be implemented to ensure that the governing body conducts its work in an executive, impartial and transparent manner. It should delegate specific responsibilities to independent committees composed of external experts and to the UNFCCC secretariat as the primary source of support to the governing body and committees. The establishment of appropriate committees could ensure that any activities involving technical assessment and recommendations, such as those required for accreditation, performance monitoring or special reviews of issuance, are conducted in an independent manner.

48. The JISC **recommends** that the governing body be kept to a manageable size, with the members being drawn from Parties involved in JI activities. Members should act in their individual capacities. It would be necessary to ensure that the membership of the governing body reflects experience and competence in policy and strategic issues relating to regulatory processes and encompasses perspectives from both public and private sector stakeholders.

49. The JISC **recommends** that further consideration be given to establishing an appeals process to allow appeals against decisions of the governing body to be considered. The form of such an appeals process would depend on the specific nature of the JI mechanism and its institutions.

[10] Such a unified accreditation process for JI and the CDM could, for example, be supervised by a joint committee comprising JISC and Executive Board members.

D. Eligibility requirements

50. The current eligibility requirements for the Kyoto mechanisms perform an important function in ensuring that participating Parties have implemented agreed systems and processes relating to:

(a) The MRV of greenhouse gas emissions by sources and removals by sinks and the reporting of required information to the UNFCCC secretariat. These actions are to be conducted in accordance with decisions pursuant to Article 5, paragraph 1, and Article 7 of the Kyoto Protocol, and are reviewed under decisions pursuant to its Article 8;

(b) The accounting of compliance quantities, or "assigned amounts" in Kyoto terminology, including registry transactions to enact the issuance, transfer and acquisition of ERUs.

51. The JISC **recommends** that eligibility requirements should be fulfilled by Parties before they are able to participate as host Parties or recipients of offset credits under JI. These eligibility requirements should be specific to the relevant time period and address the MRV of emissions and removals and the accounting of compliance quantities, as well as possibly the nature of the emissions targets. The specific nature of the eligibility requirements for participation in JI would need to be considered in light of further clarity emerging on the future international climate regime beyond 2012.

E. Financial resources

52. The JI experience report discussed at length the historical and expected future financial situation of the JISC and its work under the Track 2 process, which has proven vulnerable in the past to unpredictable fluctuations in both fees and contributions from Parties. The JISC was initially funded through voluntary contributions of Parties, which continue to some extent, and a combination of flat fees on accreditation cases and variable fees on the verification of emission reductions and removals.[11] Income has generally not been sufficiently stable to allow the appropriate implementation of planned activities.

53. The JISC considers that 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 that is sufficient, and sufficiently predictable, to meet the needs of the system. It is therefore important to consider financial issues in the context of any revisions to the JI guidelines if JI is to become self-financing in the future.

54. The JISC **recommends** that a mixture of fees on accreditation and issuance cases should be established to fully fund the work of the governing body, its committees and support structure in a sustainable and predictable manner. Given the higher volume of JI activities that could be expected to result from the recommended revision of the JI guidelines, the JISC considers it to be possible to optimize the fee levels in a manner which is sufficient for the needs of the work while not being onerous for individual activities.

F. Transitional issues

55. It would be important to ensure a smooth transition for JI projects from treatment under the current JI guidelines, including during the true-up period, to the implementation

[11] For projects other than small-scale projects and PoAs, or projects with expected average emission reductions or removals below 15,000 t CO_2 eq per year, an advance payment of the verification fee is payable upon submission of determination reports regarding PDDs.

of any revisions, especially in view of the time that would be needed after the adoption of revised guidelines for the governing body and new standards and procedures to be established.

56. The JISC **recommends** that transitional measures be considered in the review of the JI guidelines, with a view to establishing principles to guide the implementation of any revision. Such measures could include some or all new guidance not being retroactively applied to existing projects, staged or discretionary implementation of new guidance, and adequate advance notice of new guidance becoming applicable.