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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***

Summary

This report covers the work carried out by the Joint Implementation Supervisory Committee (JISC) between 24 September 2013 and 17 September 2014. The report expresses the firm view of the JISC that the joint implementation (JI) mechanism has an important continuing role to play in helping Parties achieve the ultimate objective of the Convention. However, activity under the JI mechanism has been in severe decline since the end of the first commitment period of the Kyoto Protocol. Prevailing levels of mitigation ambition, slow progress in the ratification of the second commitment period of the Protocol and the inability to issue emission reduction units without assigned amount units from the second commitment period all threaten the existence of the JI mechanism. This report contains recommendations on facilitating a smooth transition of the mechanism from its current operation under the “Guidelines for the implementation of Article 6 of the Kyoto Protocol” to operation under the revised guidelines, currently being considered by Parties. Finally, it reports on the status of the financial resources available for the work on JI.

* This document was submitted after the due date in order to take into account the outcomes of the 35th meeting of the Joint Implementation Supervisory Committee, held in Bonn, Germany, on 16 and 17 September 2014.

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Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction	1–7	3
A. Mandate	1–2	3
B. Scope of the report.....	3–5	3
C. Action to be taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol	6–7	3
II. Future role of joint implementation.....	8–14	4
III. Recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.....	15–16	5
IV. Work undertaken in the reporting period	17–29	6
A. Ensuring a productive future for joint implementation.....	17–21	6
B. Verification procedure under the Joint Implementation Supervisory Committee	22–26	7
C. Accreditation of independent entities	27–29	8
V. Governance and management matters.....	30–39	9
A. Interaction with bodies and stakeholders	30–32	9
B. Outreach activities	33	9
C. Membership issues.....	34–35	9
D. Election of the Chair and the Vice-Chair of the Joint Implementation Supervisory Committee	36–37	10
E. Meetings in 2014	38–39	10
VI. Status of financial resources for the work of the Joint Implementation Supervisory Committee and its supporting structures	40–43	10

I. Introduction

A. Mandate

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

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

B. Scope of the report

3. This annual report of the JISC to the CMP covers JI activities carried out between 24 September 2013 and 17 September 2014 (hereinafter referred to as the reporting period). The Chair of the JISC, Mr. Piotr Dombrowicki, will highlight any relevant subsequent matters in his oral report to CMP 10. During the reporting period, the JISC held two meetings.

4. This report describes the status of the JI mechanism and recommends action for consideration at CMP 10. As in past years, it covers the work undertaken by the JISC during the reporting period, including the operation of the verification procedure under the JISC (hereinafter referred to as JI track 2),³ the associated project caseload, the operation of the JI accreditation process and the financial status of the JI mechanism.

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

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

6. After reviewing this report and taking note of the oral report by the Chair of the JISC, CMP 10 may wish to consider the recommendations of the JISC relating to the transition of the JI mechanism from the existing JI guidelines to the revised JI guidelines, after their adoption (see chapter III below).

7. In accordance with paragraphs 4–6 of the JI guidelines, the CMP is to elect JISC members for a term of two years, upon receipt of nominations from Parties, as follows:

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

¹ Joint implementation.

² Annex to decision 9/CMP.1.

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

⁴ <<http://ji.unfccc.int>>.

- (b) Two members and two alternate members from Annex I Parties not referred to in paragraph 7(a) above;
- (c) One member and one alternate member from Parties not included in Annex I to the Convention (non-Annex I Parties).

II. Future role of joint implementation

8. Almost a decade has now been spent developing, strengthening and improving the JI mechanism. The mechanism showed its value in the first commitment period of the Kyoto Protocol, mobilizing investment, delivering emission reductions on a scale that exceeded expectations, and reducing costs for Parties of complying with their emission reduction targets.

9. Today, despite being a successful and mature mitigation tool, few Parties and private sector entities are taking advantage of JI. Activity under the mechanism has been in severe decline since the end of the first commitment period of the Kyoto Protocol and the knowledge and institutional capacity that were built over the years by Parties and the private sector are rapidly being lost. This will hinder future global efforts to reduce greenhouse gas (GHG) emissions. The JISC itself is considering reducing its operational activities and meeting load and refocusing its efforts on contributing strategically to the longer-term development of the mechanism.

10. Prevailing levels of mitigation ambition, combined with slow progress in the ratification of the second commitment period of the Kyoto Protocol and the inability to issue emission reduction units (ERUs) without assigned amount units from the second commitment period all threaten the existence of the JI mechanism. For the mechanism to continue to be effective, the Kyoto Protocol second commitment period needs to enter into force as early as possible and Parties need to come to agreement on allowing the expedited issuance of ERUs.

11. Looking further ahead, the JISC is of the firm view that the ultimate objective of the Convention can only be met if market and non-market approaches are made operational in the context of the 2015 agreement and are able to bring about long-term shifts in economic behaviour. It will be important that such approaches include crediting mechanisms that can operate in the context of both capped and uncapped emissions. It can be expected that, by 2020, many countries and sectors will be operating under some form of GHG emission limitation. The architecture of future carbon markets that can facilitate effective mitigation can benefit a great deal from the experience gained with JI.

12. The JISC has worked in the past years to translate its experience with JI into recommendations to the CMP on the review of the JI guidelines. This work continues to provide a good starting point for Parties for reconsidering the role of JI in the future. However, in the context of the 2015 agreement, it will be important for Parties to consider JI in the wider context of market mechanisms.

13. Several lessons from the experience with JI, and in particular the operation of two separate tracks within JI, are pertinent in this context:

- (a) International oversight and transparency are critical to the credibility of market mechanisms and, ultimately, to the value ascribed to their mitigation credits. This issue should be of particular relevance to the further consideration of the framework for various approaches and the review of the JI guidelines;

- (b) The consolidation of market mechanisms is generally preferable to having multiple mechanisms that fulfil fairly similar functions. In this regard, it may be worthwhile

to explore further synergy and/or consolidation of the clean development mechanism (CDM), JI and the new market mechanism under development.

14. The JISC remains at the service of the CMP and will continue to consider how the approach embodied in JI can contribute to future mitigation.

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

15. The JISC has continued this year to develop inputs for Parties on the review of the JI guidelines by the CMP. Considering earlier work and that the revised JI guidelines are currently under negotiation in the Subsidiary Body for Implementation (SBI), the JISC decided to focus its consideration in 2014 on matters relating to the transition from the existing to the revised JI guidelines. In doing so, the JISC reviewed its previous recommendations to the CMP, the latest developments in the negotiations and views expressed by Parties and admitted observer organizations over the past years.

16. As it is critical that the JI mechanism remain fully operational throughout the transition from the existing to the revised JI guidelines, the JISC recommends that the CMP, through the decision adopting the revised JI guidelines:

(a) Decide that the entry into force of the revised JI guidelines shall be 12 months from the date of their adoption to allow a sufficient transition period for their operationalization;

(b) Request interested host Parties and the new JISC established under the revised JI guidelines to make every effort to ensure the revised JI guidelines are operational not later than the date of their entry into force;

(c) Provide for registration under the revised JI guidelines of existing projects determined under the host Parties' procedure (hereinafter referred to as JI track 1),⁵ where the project participants and the respective host Parties agree to continue the projects, subject to updating the baseline and monitoring plans of the projects and meeting other requirements under the revised JI guidelines;

(d) Provide for automatic registration under the revised JI guidelines of existing projects determined under JI track 2, where the project participants and the respective host Parties agree to continue the projects;

(e) Put on hold the processing of new projects submitted under either JI track 1 or JI track 2 during the transition period and later consider them as potential JI activities under the revised JI guidelines when the organizational and procedural aspects are in place for accepting new projects;

(f) Decide that the JISC shall deem all accredited independent entities accredited at the time of the adoption of the revised JI guidelines as provisionally accredited under the revised JI guidelines until the end of the transition period, in anticipation of their request for reaccreditation for the period thereafter;

(g) Decide that the current JISC will remain operational during the transition period;

(h) Decide that the JISC established under the revised JI guidelines will commence its functions upon adoption of the revised JI guidelines, taking due care to streamline and avoid overlaps with the current JISC;

⁵ Outlined in paragraph 23 of the JI guidelines.

- (i) Decide that the funds available for supporting JI activities may be used for the purpose of supporting the new JISC during the transition period and that, when the current JISC ceases its operations, the remaining funds shall be transferred to the new JISC;
- (j) Establish a transparent and fair system for fees under the revised JI guidelines to ensure that the new JISC becomes self-financing after the end of the transition period.

IV. Work undertaken in the reporting period

A. Ensuring a productive future for joint implementation

17. In the reporting period, taking into account the diminished income and the prevailing uncertainty, the JISC maintained the JI mechanism using a minimal level of support for operations. The JISC is responsible, within the guidance set by the CMP, to ensure infrastructure and capacity sufficient for the mechanism's use by Parties as a tool to mitigate GHG emissions, in accordance with the Kyoto Protocol, for as long as the mechanism is needed. In working to fulfil this responsibility, the JISC agreed at its 34th meeting, held in March 2014 in Bonn, Germany, on a two-year business plan and management plan for 2014–2015 with a modified set of objectives:⁶

(a) Objective 1: effective contribution to the future development of the JI mechanism. The JISC continued to contribute in the reporting period to the consideration by Parties and other stakeholders of how the mechanism could be further developed;

(b) Objective 2: promotion of the JI mechanism. The JISC continued its outreach activities aimed at ensuring an enhanced understanding among stakeholders and policymakers of the benefits and contributions of JI to addressing climate change;

(c) Objective 3: maintain efficient operations of the JI mechanism. With the support of the secretariat, the JISC continued to consider and assess the project-related submissions received under the JI track 2 procedure.

18. In each of the past five years, as early as at CMP 6, in 2010, the JISC raised serious concern to Parties regarding the risks facing the mechanism together with detailed proposals for safeguarding and improving the mechanism in the form of revised JI guidelines. This year the JISC has focused its attention on transition to the new JI guidelines.

19. During the reporting period, with regard to the system of accreditation of independent entities, the JISC agreed on the possibility to partially use the CDM accreditation system while maintaining the oversight of accredited independent entities. The JISC initiated a dialogue with the CDM Executive Board with a view to reaching a common decision on this option. The Chair of the JISC met with the Chair and Vice-Chair of the CDM Executive Board on the margins of SBI 40. In response to an invitation made at that meeting, the JISC Chair made a presentation at the 80th meeting of the CDM Executive Board held in July 2014 in Bonn. The JISC took note of the progress of the dialogue at its 35th meeting, held in September 2014 in Bonn.

20. The JISC stands ready to collaborate fully with the CDM Executive Board in quickly implementing a closely aligned accreditation system and giving momentum to this work.

21. With a view to reducing costs for accredited independent entities in maintaining accreditation while developing accreditation best practices consistently for both

⁶ Available at <http://ji.unfccc.int/Sup_Committee/Meetings/034/JISC34_repan04.pdf>.

mechanisms, the JISC submitted an elaborated recommendation on the accreditation system for JI aligned with that of the CDM for consideration at SBI 40, in accordance with the mandate given by the CMP in decision 5/CMP.9. The SBI considered the recommendation and forwarded a draft decision to the CMP for consideration at CMP 10. The JISC took note of the progress of this work at its 35th meeting.

B. Verification procedure under the Joint Implementation Supervisory Committee

22. By 17 September 2014, under JI track 2, 332 project design documents and one programme of activity design document had been submitted and made publicly available on the JI website in accordance with paragraph 32 of the JI guidelines.

23. In total, 52 determinations regarding project design documents have been published on the JI website in accordance with paragraph 34 of the JI guidelines, of which:

(a) A total of 51 positive determinations for projects located in six host Parties were deemed final in accordance with paragraph 35 of the JI guidelines;

(b) One determination was rejected by the JISC.

24. By 17 September 2014, 130 verifications of emission reductions had been published on the JI website, of which 129 were deemed final in accordance with paragraph 39 of the JI guidelines and one was withdrawn. The positive verifications were from 42 JI projects that had determinations deemed final and allowed for 25 million ERUs to be issued. In total, 20 of the 51 positive determinations referred to in paragraph 23(a) above submitted monitoring/verification reports for emission reductions occurring up to the end of 2012, and were deemed final.

25. In addition to the project-related submissions under JI track 2, by 17 September 2014, 597 projects had been published by host Parties on the JI website under JI track 1, of which 548 have received unique project identifiers registered in the international transaction log.

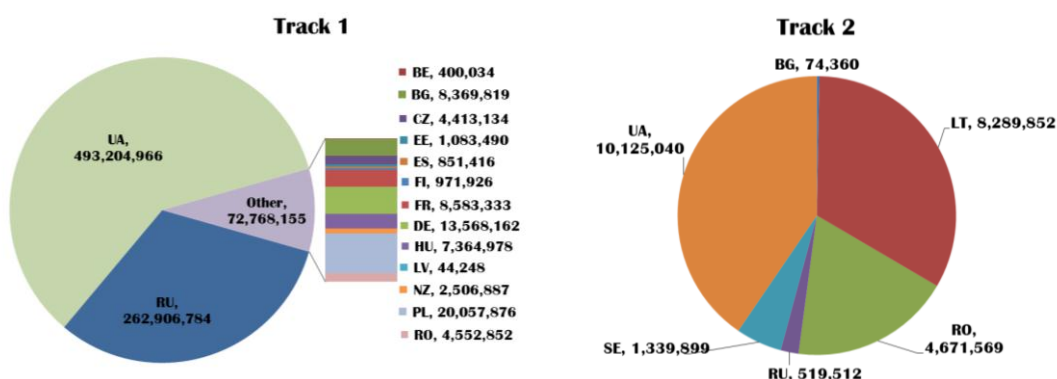
26. Detailed information on the project-related submissions under both JI track 1 and JI track 2 is available in the “JI projects” section of the JI website. The total ERUs issued by host Parties under both JI tracks is shown in table 1, while the breakdown by country is shown in figure 1.

Table 1

Total emission reduction units issued under joint implementation, 2008–2014

<i>Year</i>	<i>JI track 1</i>	<i>JI track 2</i>	<i>Total</i>
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	86 702 918	6 818 250	93 521 168
2012	517 108 849	9 083 486	526 192 335
2013	179 116 529	4 599 135	183 715 664
2014	15 916 562	273 343	16 189 905
Total	831 668 509	25 020 232	856 688 741

Figure 1
Total emission reduction units issued under joint implementation, by host Party



Abbreviations: BE = Belgium, BG = Bulgaria, CZ = Czech Republic, DE = Germany, EE = Estonia, ES = Spain, FI = Finland, FR = France, HU = Hungary, LT = Lithuania, LV = Latvia, NZ = New Zealand, PL = Poland, RO = Romania, RU = Russian Federation, SE = Sweden, UA = Ukraine.

C. Accreditation of independent entities

27. The JISC revised the terms of reference of the Joint Implementation Accreditation Panel to allow alternate members of the JISC to serve as chair or vice-chair of the Panel. Following this decision, the JISC elected Mr. Benoît Leguet and Mr. Carlos Fuller to serve as the Chair and Vice-Chair, respectively, of the Joint Implementation Accreditation Panel. Also, the JISC extended the term of the current members of the Panel by one year.

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

29. Since the inception of the JI accreditation process, 14 independent entities⁷ have been granted accreditation. Currently, there are five accredited independent entities⁸ after eight voluntarily withdrew (six voluntary withdrawals were processed in the reporting period⁹) and after one accreditation expired.¹⁰ During the reporting period, no additional independent entities were accredited and no scope of accreditation was extended for any accredited independent entity.

⁷ See <<http://ji.unfccc.int/AIEs/List.html>>.

⁸ DNV Climate Change Services AS, TÜV Rheinland (China) Ltd., TÜV NORD CERT GmbH, Spanish Association for Standardisation and Certification (AENOR), and Swiss Association for Quality and Management Systems (SQS).

⁹ Japan Quality Assurance Organization, Lloyd's Register Quality Assurance Ltd., JACO CDM. LTD, Bureau Veritas Certification Holding SAS, TÜV SÜD Industrie Service GmbH and KPMG Advisory N.V.

¹⁰ SGS United Kingdom Ltd.

V. Governance and management matters

A. Interaction with bodies and stakeholders

30. The JISC continued its regular interactions with independent entities and accredited independent entities in the reporting period, encouraging them to provide written inputs and inviting the Chair of the CDM designated operational entity and JI accredited independent entity coordination forum to meetings of the JISC.

31. The JISC made itself available to registered observers at its meetings and held question and answer sessions as side events at CMP 9 and the fortieth sessions of the subsidiary bodies. Those sessions are available as on-demand webcasts on the JI website.

32. The designated focal points forum held an informal meeting in conjunction with CMP 9.

B. Outreach activities

33. The secretariat supported the JISC in reaching out to the press, in question and answer sessions with stakeholders, and maintained the JI website as a promotional tool and repository of information relating to the mechanism.

C. Membership issues

34. The CMP, by decision 10/CMP.1, established the JISC and subsequently elected its members and alternate members in accordance with paragraphs 4–6 and 8 of the JI guidelines.

35. CMP 9 elected new members and alternate members of the JISC to fill vacancies arising from the expiration of the terms of tenure of outgoing members and alternate members. During the reporting period, the JISC comprised the members and alternate members listed in table 2.

Table 2

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 ninth session

<i>Member</i>	<i>Alternate member</i>	<i>Constituency</i>
Ms. Carola Borja ^b	Mr. Carlos Fuller ^b	Non-Annex I Parties
Mr. Mykhailo Chyzhenko ^a	Ms. Milya Dimitrova ^a	Annex I Parties with economies in transition
Mr. Piotr Dombrowicki ^b (Chair)	Mr. Yury Fedorov ^b	Annex I Parties with economies in transition
Mr. Derrick Oderson ^b	Mr. Albert Williams ^b	Small island developing States
Mr. Guoqiang Qian ^b	Mr. Chebet Maikut ^{b, c}	Non-Annex I Parties
Mr. Konrad Raeschke-Kessler ^b	Mr. Marko Berglund ^{b, c}	Annex I Parties
Mr. Evgeny Sokolov ^a	Mr. Hiroki Kudo ^a	Annex I Parties

<i>Member</i>	<i>Alternate member</i>	<i>Constituency</i>
Ms. Julia Justo Soto ^a (Vice-Chair)	Mr. Evans Njewa ^a	Non-Annex I Parties
Ms. Irina Voitekhovitch ^a	Ms. Mihaela Smarandache ^a	Annex I Parties with economies in transition
Ms. Gertraud Wollansky ^a	Mr. Benoît Leguet ^a	Annex I Parties

^a Term: two years, that is, ending immediately before the first meeting in 2015.

^b Term: two years, that is, ending immediately before the first meeting in 2016.

^c The candidate was deemed elected at the ninth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

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

36. At its 34th meeting, the JISC elected by consensus Mr. Piotr Dombrowicki, a member from an Annex I Party, as its Chair, and Ms. Julia Justo Soto, a member from a non-Annex I Party, as its Vice-Chair. The tenures of the Chair and the Vice-Chair will end immediately before the first meeting of the JISC in 2015.

37. The JISC expressed its deep appreciation to the outgoing Chair, Mr. Derrick Oderson, and Vice-Chair, Mr. Dombrowicki, for their excellent leadership during 2013.

E. Meetings in 2014

38. The JISC held two meetings in 2014 (see table 3).

Table 3

Joint Implementation Supervisory Committee meetings in 2014

<i>Meeting</i>	<i>Date</i>	<i>Location</i>
Thirty-fourth	17–18 March	Bonn, Germany
Thirty-fifth	16–17 September	Bonn, Germany

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

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

40. During the reporting period, the JISC continued to carefully monitor¹¹ the status of, and prudently utilize, the resources available for the work on JI. Resources were used in

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

support of the approved two-year business plan and management plan for 2014–2015, including:

- (a) Two meetings of the JISC;
- (b) Activities relating to the project cycle, including the handling of submissions of project design documents, determinations, monitoring reports and verifications of JI track 2 projects, and JI track 1 project submissions;
- (c) Activities relating to the JI accreditation system, including decisions of the Joint Implementation Accreditation Panel reached by electronic means.

41. The budget performance report provided in this chapter contains information on income and expenditure for the reporting period, including status of income and expenditure against budget. Table 4 provides a summary of the income of the JISC in 2014.

Table 4

Income for the work of the Joint Implementation Supervisory Committee, 2014

(United States dollars)

<i>Status of income in 2014^a</i>	<i>Amount</i>
Carry-over figure from 2013 ^b	8 405 956
Contributions received in 2014	-
Total joint implementation JI track 1 fees for 2014	20 000
Total joint implementation JI track 2 fees for 2014	15 000
Total income with 2013 carry-over	8 440 956

^a The financial reporting period in 2014 is from 1 January to 31 August. Includes secretariat-wide total cost of operations expenses as at 30 June.

^b Includes JI track 2 fees previously held in reserve.

42. The budget of the JISC for 2014 amounted to USD 1,364,110, with expenditure amounting to USD 740,665, yielding a difference of USD 623,445, as shown in table 5.

Table 5

Comparison of the actual expenditure versus the budget of the Joint Implementation Supervisory Committee, 2014

(United States dollars)

<i>Comparative status of expenditure against budget</i>	<i>2014^a</i>
Budget	1 364 110
Expenditure	740 665
Difference	623 445

^a The financial reporting period in 2014 is from 1 January to 31 August.

43. Table 6 summarizes the financial status of the JI mechanism for 2014, showing a balance at the end of the reporting period of USD 7.7 million.

Table 6

Financial status of the Joint Implementation Supervisory Committee, 2014

(United States dollars)

<i>Summary of current financial status as at 31 August 2014</i>	<i>Amount</i>
Carry-over from 2013	8 405 956
Contributions from Parties in 2014	-
Income from joint implementation fees (tracks 1 and 2)	35 000
Subtotal	8 440 956
Expenditure in 2014	740 665
Balance	7 700 291
