

30 July 2012

English only

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

**Conference of the Parties serving as the meeting
of the Parties to the Kyoto Protocol**

Eighth session

Doha, 26 November to 7 December 2012

Item X of the provisional agenda

**Views from Parties, intergovernmental organizations and
admitted observer organizations on the revision of the joint
implementation guidelines**

**Submissions from Parties, intergovernmental organizations and
admitted observer organizations**

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its seventh session, invited Parties, intergovernmental organizations and admitted observer organizations to submit to the secretariat, by 16 April 2012, their views on the revision of the joint implementation guidelines, taking into account, as appropriate, their experience of implementing the mechanisms under the Kyoto Protocol, including national guidelines, and the recommendations on options for building on the approach embodied in joint implementation,¹ with key recommendations on the first review of the joint implementation guidelines in accordance with decision 9/CMP.1, paragraph 8.²

2. The secretariat has received eight such submissions. In accordance with the procedure for miscellaneous documents, the five submissions from Parties and the one submission from an intergovernmental organization are attached and reproduced* in the language in which they were received and without formal editing. In line with established practice, the two submissions from non-governmental organizations have been posted on the UNFCCC website.³

¹ FCCC/KP/CMP/2011/9.

² Decision 11/CMP.7, paragraph 14.

* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

³ Available at <http://unfccc.int/parties_observers/ngo/submissions/items/3689.php>.

FCCC/KP/CMP/2012/MISC.1

GE.12-62208

Contents

	<i>Page</i>
1. Denmark and the European Commission on behalf of the European Union and its member States* (Submission received 10 April 2012)	3
2. Gambia on behalf of the least developed countries (Submission received 29 April 2012)	6
3. New Zealand..... (Submission received 30 April 2012)	8
4. Republic of Nauru on behalf of the Alliance of Small Island States (Submission received 25 April 2012)	10
5. Ukraine (Submission received 17 April 2012)	14
6. World Bank (Submission received 17 April 2012)	17

* This submission is supported by Bosnia and Herzegovina, Croatia, Serbia, the former Yugoslav Republic of Macedonia and Turkey.

**Paper no. 1: Denmark and the European Commission on behalf of the European Union
and its member States**

**SUBMISSION BY DENMARK AND THE EUROPEAN COMMISSION ON
BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES**

**This submission is supported by Bosnia and Herzegovina, Croatia, the Former Yugoslav
Republic of Macedonia, Serbia and Turkey.**

Copenhagen, 10 April 2012

**Subject: Guidance on the implementation of Article 6 of the Kyoto Protocol (CMP)
Revision of the joint implementation guidelines, taking into account the
experience of implementing the mechanisms under the Kyoto Protocol, including
national guidelines, and the recommendations on the first review of the joint
implementation guidelines in accordance with decision 9/CMP.1, paragraph 8**

1. Introduction and general view

1. The EU welcomes the opportunity to submit its views on the revision of the JI Guidelines, taking into account, as appropriate, our experiences with implementing the mechanisms under the Kyoto Protocol, including national guidelines, and on the recommendations contained in document FCCC/KP/CMP/2011/9.
2. We also welcome the decisions taken at CMP.7 in Durban that provide further guarantees that the JI mechanism will continue after 2012. Importantly, the agreement in Durban provides for the commencement of the second commitment period from 1st of January 2013.
3. The EU wishes to reiterate that the JI mechanism will continue and that it is important to provide sufficient predictability to investors, market stability and credibility, while ensuring the robustness of the accounting and MRV system.
4. We look forward to constructive discussions during CMP.8 on the revised set of key attributes and transitional measures to be drafted by the JI Supervisory Committee, with a view to adopt revised JI guidelines at CMP.9.

2. General comments on JISC recommendations

5. The EU would like to commend the JISC for its broad and active consultation with stakeholders and for its comprehensive work that resulted in its recommendations on options for building on the approach embodied in joint implementation as contained in document FCCC/KP/CMP/2011/9.
6. We support the JISC view (expressed in paragraph 33 of the document FCCC/KP/CMP/2011/9) that JI should become a mechanism implemented by the host Parties at the national level under the international guidance and oversight of a new governing body and under the authority of, and with the accountability to, the CMP.
7. We further support most of the recommendations proposed by the JISC as included in paragraphs 36 up to 56 of the document FCCC/KP/CMP/2011/9, in particular in relation to:
 - the single, unified project cycle, and its broad steps;
 - the size, functioning and role of the new governing body;
 - the unified accreditation process;
 - the eligibility requirements;
 - the financial resources;
 - the transitional issues.

3. Specific comments on JISC recommendations

8. Beside our broad support for most of the JISC's recommendations contained in FCCC/KP/CMP/2011/9 as indicated in paragraph above, we have some concerns regarding some specific recommendations.
9. Before the EU could assess an alternative approach to the issuance of units (as proposed in paragraph 37(g) of FCCC/KP/CMP/2011/9): further details would need to be provided and impacts assessed and taken into account. These would include any impact on eligibility criteria, articles 5, 7 and 8 of the Kyoto Protocol or decisions related to the accounting of units.
10. On the immediate registration and issuance (paragraph 38): a minimum period of time is needed during which the host Party assesses and approves the project. In the case of an approval, an immediate subsequent registration could take place. Similarly, before immediate issuance can take place, a minimum period of time is needed during which a special review (paragraph 39) can be triggered.

11. On the special review (paragraph 39): the revised modalities and procedures should include criteria under which a review can be triggered (i.e.: who can do it, when and under which conditions). Host Party should have a prerogative to trigger a review of JI projects before units are issued. Any such request for review should be substantiated i.e. provide evidence for non-conformities of the project with applicable rules that would have an impact on the quantity of units to be issued.
12. On the demonstration of additionality (paragraph 40): some minimum mandatory criteria should be included in the revised modalities and procedures so that, at minimum, the project has to be additional to existing policies and measures. The JI status quo already requires relevant national and/or sectoral policies and circumstances such as sectoral reform initiatives to be reflected in the baseline. If anything, this standard should be strengthened further. Additionality should be construed as clear causality of the mechanism incentives for the project to be undertaken. Therefore the guidance should provide inter alia that the JI benefits must have been considered necessary in the decision to undertake the project as a JI project activity. A public notification process should be implemented taking into account the prior consideration process under the CDM, as appropriate.
13. On the single accreditation process (paragraph 46): the accreditation requirements requested from the verifiers should be tailored to the task they are appointed to, e.g:
 - requirements for determination could be different from requirements for verification, i.e.: some verifiers might be accredited to perform both determination and verification for certain sectoral scopes, while some might only choose to be accredited for the verification;
 - requirements when existing methodologies are used could be different to a situation when a new methodology has to be assessed by the verifier (which requires additional specific skills);
 - requirements should also be different for the different sectoral scopes of activities of the JI project.
14. Concerning the methodologies that could be used under the revised guidelines, modalities and procedures should define amongst others:
 - minimum standards for baseline setting (along the same line as contained in the Marrakech Accords for JI track II);
 - how methodologies can be harmonized and centralized;
 - who can define and assess the methodologies;
 - whether existing JI/CDM methodologies should be used;
 - how standardized baselines can be promoted;
 - potential for use of discounting and benchmarks.
15. On the new eligibility requirements (paragraph 51): they should not be weaker than the requirements existing for “track I” JI projects for the first commitment period of the Kyoto Protocol.

Paper no. 2: Gambia on behalf of the least developed countries

Views on the revision of the Joint Implementation guidelines: Submission by the Gambia on behalf of the Least Developed Countries (LDCs) Group

The Gambia on behalf of the group of LDC Parties has the honour to provide its views on “*the revision of the joint implementation guidelines, taking into account, as appropriate, their experience of implementing the mechanisms under the Kyoto Protocol, including national guidelines, and the recommendations*”.

The LDCs welcome the report by the Joint Implementation Supervisory Committee (JISC) found in document FCCC/KP/CMP/2011/9. While the LDCs are not beneficiaries of the Joint Implementation flexible mechanism in the Kyoto Protocol, they are concerned about any revisions of the flexible mechanisms and its implications to the Kyoto Protocol architecture.

In particular, the group has concerns with the treatment of emission reduction units from Joint Implementation (JI) projects after the first commitment period. The decision in Durban on the Kyoto Protocol 1/CMP.7, agreed that the second commitment period would start on 1 January 2013. Therefore, there should not be a gap between commitment periods and no need to address the issuance of Emission Reduction Units (ERUs).

The UNFCCC’s document on “Legal considerations relating to a possible gap between the first and subsequent commitment periods” outlined that the generation of ERUs is a distinct issue from their transfer and acquisition and that the latter can continue. Therefore, the key issue is whether ERUs can be transferred or acquired and this will be resolved with the continuation of the second commitment period of the Kyoto Protocol and the establishment of Assigned Amount Units (AAUs) for this period.

The flexible mechanisms are market-based offsetting mechanisms that can be utilized by those countries that are Parties to the Kyoto Protocol. The LDCs do not support the transferability of units from the Kyoto mechanisms by any country that is not a Party to the Kyoto Protocol. This is also true for those countries that do not ratify the second commitment period of the Kyoto Protocol. The LDCs do not support any units from the Kyoto Protocol being used to meet emission reduction commitments that are not in the form of AAUs or other Kyoto units. Parties to the Kyoto Protocol have spent many years establishing and developing the JI mechanism and eligibility to this mechanism is very clear: **Countries must be a Party to the Kyoto Protocol.**

The LDCs are also of the view that any special rules for the flexible mechanisms will have precedents for the other flexible mechanisms. Therefore, it is not practical to have alternative rules for one flexible mechanism relating to the post-2012 process. Furthermore, the amendments to the rules for the second commitment period are still being considered under the AWG-KP and consistency needs to be the main focus.

The LDCs believe that AAUs should not be converted from first commitment period to JI projects in the second commitment period, as AAUs for this period should be established. The units issued under JI should be converted as AAUs in accordance with the eligibility requirements. Furthermore, this is essential to provide certainty to those projects that will continue to deliver credits beyond 2012. **The**

LDCs urge all Annex I Parties to submit QELRCs for the second commitment period to be eligible for AAUs, which can then be converted as ERUs for any JI activities.

On the JI governing body issue, the LDCs view that there is no need for a new governing body to be established for the JI mechanism. Furthermore, the group does not support a new governing body being established and comprising of only parties that are involved in JI projects. Currently the Chair of the JISC is from an LDC country, which the group believes supports the overarching aim of the UNFCCC and its Kyoto Protocol in ensuring environmental integrity when achieving emission reductions. Furthermore, the LDCs are of the view that a balanced representation of Annex I and non-Annex I Parties, including dedicated seats for LDCs and SIDS should continue to be the main form of participation of parties in the bodies that are created under the UNFCCC.

The LDCs encourage all countries interested in hosting JI projects to continue to explore opportunities and deliver Track 1 projects. Finally, the LDCs are of the view that the Kyoto Protocol rules system has been established to ensure environmental integrity and this should continue to be the basis for consideration of JI activities.

Paper no 3: New Zealand

New Zealand submission to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

Views on the revision of the joint implementation guidelines

April 2012

1. New Zealand welcomes this opportunity to provide views on the revision of the joint implementation guidelines in response to an invitation from the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (decision 11/CMP.7, paragraph 14 refers). Up to and during the first commitment period of the Kyoto Protocol, New Zealand has gained some useful experience and insights into the operation of Track 1 JI. We make this submission on the basis of that experience. We make this submission without prejudice to any position we might take on future market mechanisms and their role in the carbon market.

2. New Zealand generally agrees with and supports the *Recommendations on Options for Building on the Approach Embodied in Joint Implementation* from the Joint Implementation Supervisory Committee (document FCCC/KP/CMP/2011/9 refers). In particular, we agree with and support:

- paragraph 25 that recommends that CMP reaffirm that activities under the Track 2 procedure, relating to emission reductions and removals after the first commitment period, may continue beyond 31 December 2012.
- paragraph 26(a) that recommends allowing emission reductions and removals achieved by existing and new JI project 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.
- paragraph 29, we believe 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.
- paragraph 37, that 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 activities
 - 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
 - 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.

- paragraph 40, that recommends that the demonstration of additionality for activities be regulated primarily by host Parties as part of their registration processes.
- paragraph 42, that 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.
- paragraph 45, that recommends that as part of the revised JI guidelines, the CMP establish a new governing body for the single project cycle. We agree that this governing body should operate under the authority of, and be accountable to, the CMP and should focus on items (a) to (f) outlined in paragraph 45.
- paragraph 46 that recommends that further consideration be given to the development of a unified accreditation process for JI and the CDM. We agree that the accreditation requirements for JI would be a subset of the requirements for the unified process, given that CDM will include additional requirements for ensuring additionality.
- paragraph 51 that 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.
- paragraph 54 that 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.
- paragraph 56 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.

3. In addition, we provide further comment on the following points:

- Paragraph 44 recommends that in defining a single project cycle, care should be taken to ensure the wide ‘understandability’ of the terms used. We propose that this recommendation be changed to: “...in defining a single project cycle, the terms used should align with the CDM terms.”
- We agree with the recommendations in paragraph 48, in particular that members of the governing body should be ‘drawn from Parties involved in JI activities’ (both hosting JI projects and investing in JI projects). However, we would be open to up to two members representing developing countries. The use of CDM methodologies in JI activities, and the likely use of a unified accreditation process for JI and the CDM, mean that there will be ongoing benefits in representation from CDM host countries.
- We support the idea of an appeals process to allow appeals against decisions of the governing body to be considered, as recommended in paragraph 49. However, we suggest the recommendation be more specific on what would be considered in the appeals process, or refer back to paragraph 45 that outlines the decision-making role of the governing body.

4. New Zealand is of the view that this revision of the guidelines for joint implementation must be completed on schedule, i.e. by CMP.9. Parties and project participants wishing to establish new JI activities in the second commitment period would benefit from the certainty that these guidelines provide as early as possible.

Paper no. 4: Republic of Nauru on behalf of the Alliance of Small Island States

**Submission by the Republic of Nauru on behalf of the
Alliance of Small Island States (AOSIS)**

**Guidance on the implementation of Article 6 of the Kyoto Protocol:
Views on revision of Joint Implementation Guidelines**

24 April 2012

AOSIS welcomes the opportunity to present its views on the possible revision of the Joint Implementation Guidelines (9/CMP.1) ¹ taking into account experiences of the implementation of the mechanisms under the Kyoto Protocol including national guidelines and the recommendations on the first review of the joint implementation guidelines.

The successful functioning of the Kyoto Protocol and its Kyoto mechanisms is of great importance to AOSIS, hence AOSIS is interested in participating actively in these discussions.

I. Role of Article 6

Article 6 of the Kyoto Protocol was established specifically for the purpose of assisting Annex I Parties in meeting their quantified economy-wide commitments under Article 3.1 of the Protocol. For this reason, only Annex I Parties with commitments under Article 3 may issue, transfer or acquire emission reduction units (ERUs) resulting from project-based activities undertaken in Annex I Parties.

Joint Implementation is intended to operate in a capped environment, in which the overall number of fungible units does not change, but where the location of the emission reductions undertaken changes. In the absence of binding emissions caps for both participating Parties – investor Party and host Party -- this fundamental aspect of JI will not be present. The success of Joint Implementation in the second commitment period will depend on ambitious, clear and unambiguous quantified emission reduction commitments from Parties participating in the Kyoto Protocol's second commitment period in order to drive demand for ERUs.

II. Participation requirements / eligibility

Decision 9/CMP.1, paragraphs 21 and 24, provides clear eligibility requirements for participation in Joint Implementation. AOSIS is of the view that these eligibility criteria continue to be essential in the second commitment period to ensure environmental integrity.

To be eligible to **transfer and/or acquire** ERUs, an Annex I Party with a commitment inscribed in annex B must:

- a) be a Party to the Kyoto Protocol;

¹ These guidelines, among other things, provide eligibility requirements for participation in JI activities, establish two tracks of Joint Implementation (Track I and Track II), address the verification process for emission reductions achieved through JI project activities, establish the Joint Implementation Supervisory Committee (JISC), address the process for the issuance of emission reduction units (ERUs) as a result of JI project activities, set out standards and procedures for the accreditation of independent entities and set out criteria for baseline setting and monitoring.

- b) have had its assigned amount calculated pursuant to Article 3, paragraphs 7 and 8 and recorded in accordance with decision 13/CMP.1;
- c) have in place a national system for the estimation of anthropogenic emissions by sources and removals by sinks, in accordance with Article 5;
- d) have in place a national registry in accordance with Article 7;
- e) have submitted the most recent required inventory, in accordance with Article 5, paragraph 2 and Article 7, paragraph 1;
- f) submit supplementary information on assigned amount and makes the necessary additions to and subtractions from assigned amount.

Where a host Party does not satisfy each of these requirements, it may nevertheless have its emissions reductions verified under JISC oversight and **issue and transfer** ERUs if it:

- a) is a Party to the Kyoto Protocol;
- b) has had its assigned amount calculated and recorded in accordance with decision 13/CMP.1; and
- c) has in place a national registry in accordance with the relevant guidelines for registries.

As a result of these existing rules, an Annex I Party will satisfy the eligibility requirements for participation in JI in the second commitment period, for emission reductions taking place in the **post-2012 period**, only if adopts an economy-wide emission reduction commitment under the Protocol for the **second** commitment period and establishes an Assigned Amount for the **second** commitment period.

Establishment of an initial Assigned Amount for the **first** commitment period is not sufficient to maintain eligibility to participate in Joint Implementation into the **second** commitment period. See decision 9/CMP.1 and decision 13/CMP.1, annex, para. 23 (“Each Party included in Annex I shall, prior to any transactions taking place for that commitment period, issue a quantity of AAUs equivalent to its assigned amount pursuant to Article 3, paragraphs 7 and 8...”). Without second commitment period AAUs to convert to ERUs, ERUs cannot be issued for post-2012 emission reductions. Any other interpretation would be contrary the very purpose of Article 6 itself.

A country’s residual listing in Annex B, through a reference in Annex B to a Party’s first commitment period quantified commitment, is not sufficient to maintain that country’s eligibility into the second commitment period.

AOSIS has sought the agreement of Kyoto Parties to the provisional application of amendments to Annex B that are agreed and adopted, pending their entry into force. Such an approach, if adopted, should expedite the process of calculating and recording assigned amounts.

III. Proposed Revisions to the JI Guidelines

The Joint Implementation Guidelines, together with related decisions on emissions trading and the registries, provide the current rules and modalities relating to Joint Implementation. A series of revisions to these guidelines have been proposed by the Joint Implementation Supervisory Committee (JISC) for consideration by the CMP.²

² Annual report of the Joint Implementation Supervisory Committee to the CMP (FCCC/KP/CMP/2011/4) (24 October 2011) para 28; Recommendations on options for building on the approach embodied in joint implementation (FCCC/KP/CMP/2011/9) (24 October 2011).

Certain of the proposals made by the JISC were formulated before there was clarity on the start date of the second commitment period.

By decisions taken in Cancun and Durban (1/CMP.6 and 1/CMP.7), all Kyoto Parties have now agreed that there will be a second commitment period under the Kyoto Protocol which will begin on 1 January 2013, and that emissions trading and the project-based mechanisms under the Kyoto Protocol shall continue to be available to Annex I Parties as a means to meet their quantified emission limitation and reduction objectives in accordance with relevant decisions of the CMP.

As a result of these decisions, the existing rule set that applies to Joint Implementation activities can continue to govern the issuance, transfer and acquisition of ERUs as commitments for the second commitment period enter into force and Parties' assigned amounts for the second commitment are established.

A. Post-2012 reductions and new project activities

The JISC report suggests that with regard to emission reductions and removals that occur after the first commitment period, the CMP may wish to 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.³

In AOSIS's view, it would not be consistent with existing rules, or desirable, to allow for the conversion of AAUs valid in the first commitment period to ERUs valid for the second commitment period. Surplus AAUs from the first commitment period will only be valid in the second commitment period, and available for conversion to ERUs, once they have been carried over consistent with the relevant rules following the true up period.

It would also be inappropriate to permit Annex B Parties to present *new* project activities for the post-2012 period (for reductions post-2012), or allow issuance of for post-2012 reductions, where the Parties involved have not taken binding quantified economy-wide emission limitation or reduction commitments for the second commitment period under the Kyoto Protocol.⁴ The stated objective of Article 6 is to assist Annex I Parties in meeting their commitments under Article 3.1 and such Parties will not have new commitments under Article 3.

Finally, the alternative proposal of the JISC, for the establishment of modalities and procedures for offset credits under Track II, was made before a second commitment period under the Kyoto Protocol was agreed and confirmed by decision 1/CMP.7. Accordingly, there is no need to

³ See FCCC/CMP/2011/9, Recommendations on options for building on the approach embodied in joint implementation, paragraph 24.

⁴ Decision 4/CMP.6, paragraphs 10 and 11, are not applicable here, insofar as they apply to a Party whose quantified emission limitation or reduction commitment for the *first* commitment period has not yet been inscribed in Annex B but that wish to host projects, and do not address the issue of issuance prior to amendment of Annex B, entry into force and satisfaction of eligibility requirements.

consider this option further at this time. Any proposal to reframe Joint Implementation as a unilateral offset generating mechanism raises broader issues, relevant to discussions under all three mechanisms, and should be addressed in a wider forum.

B. Joint Implementation Supervisory Committee / Governance

The JISC has proposed that as part of revised JI guidelines, the CMP may wish to establish a new governing body for a consolidated single track under JI, kept to a manageable size, with the members being drawn from Parties involved in JI activities.

The JISC is currently comprised of: (a) 3 members from Parties included in Annex I that are undergoing the process of transition to a market economy; (b) 3 members from Parties included in Annex I that are not economies in transition; (c) 3 members from Parties not included in Annex I; and (d) 1 member from the small island developing States.

All Parties to the KP have an interest in ensuring the smooth functioning and environmental integrity of project-based activities under the Kyoto Protocol. The composition of the JISC is representative and this representative aspect plays an important role in transparency and legitimacy.

Joint Implementation should continue to be overseen by a body comprised of representatives of both developed and developing country Parties, under the umbrella of the Protocol. If cost or expertise is a concern, other ways should be explored to bolster the necessary capacity.

C. Tracks I and II – ensuring environmental integrity and additionality

The JISC has also proposed that JI Track I and JI Track II be considered for consolidation. In considering consolidation, or improvements to the operation of JI's two tracks, the paramount consideration should be that of environmental integrity. It is essential to ensure the additionality of emission reductions undertaken in host countries through more transparent reporting and a more centralized approach to additionality, baselines and monitoring. Guarantees of additionality should be at least as strict at the national level as they are for JI Track II projects. To achieve this, greater centralization and harmonization of approaches may be desirable, rather than reliance on individualized, national approaches.

D. Share of the proceeds for adaptation

The Adaptation Fund, established under Article 12.8 of the Protocol, benefits from a share of the proceeds from CDM project activities. Any revision of the JI guidelines must consider how best to ensure that a share of the proceeds from JI project activities is also directed to the Adaptation Fund.

III. Avoidance of parallel negotiations

Certain proposals that have been made for possible revisions to the JI Guidelines have implications for issues that continue to be under negotiation in the AWG-KP. These include broader issues of eligibility to access the mechanisms, means to address first and second commitment period surplus AAUs, the role of the commitment period reserve, and carryover rules. It may be most appropriate to defer consideration of such proposals until after a full discussion and final resolution of the above political issues has taken place.

Paper no. 5: Ukraine

Ukraine's submission on the revision of the Joint Implementation guidelines

Supporting in general the recommendations of the Joint Implementation Supervisory Committee regarding the options for building on the approach embodied in joint implementation, as set out in the document FCCC/KP/CMP/2011/9, chapter V, it is deemed necessary to highlight the core principles on which the joint implementation mechanism should be based during the second commitment period under the Kyoto Protocol.

1. Project cycle

1.1. The joint implementation mechanism should be based on a single project cycle which is implemented by the host Parties on the national level in accordance with the mandatory international standards and procedures and under the supervision of a new governing body.

1.2. The single project cycle should be developed in line with the following broad steps:

- development of a project design document by participants in the joint implementation activity;
- approval of the joint implementation activity by the host Party;
- determination of the project design document by an accredited independent entity;
- registration of the joint implementation activity by the host Party;
- recording of the joint implementation activity with the governing body;
- monitoring of emission reductions and removals by the participants in the joint implementation activity;
- verification of the emission reductions and removals by an accredited independent entity;
- issuance of the emission reduction units by the host Party and their further distribution to project participants in the joint implementation activity.

1.3. Demonstration of additionality for the joint implementation activity should be a constituent part of the approval process by the host Party.

1.4. Emission reduction units should be issued by the host Party on the basis of the verified emission reductions and removals.

1.5. The role and responsibilities of accredited independent entities should be clearly defined, including possible sanctions for non-compliance with the rules of determination and verification of the joint implementation activity.

1.6. The governing body, supported by the UNFCCC secretariat, should provide a strong monitoring of the performance of accredited independent entities in both their determination and verification activities, and should be vested with authority to impose sanctions for non-compliance.

2. Governing body

2.1. The governing body for the new joint implementation mechanism should be established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and should operate under its authority and be accountable to it.

2.2. The governing body should be authorized to the following:

- setting mandatory international standards and procedures with which joint implementation activities need to conform. These apply in particular to issues concerning the measurement, reporting and verification of emission reductions and removals, and should be developed in consultation with host Parties;
- establishing non-mandatory guidelines to support a consistent adoption and approval of joint implementation activities at national level taking into account the peculiarities of their application by each host Party;
- accrediting independent entities and supervision of their performance;
- overseeing the conformity of the implementation of JI activities with the mandatory standards and procedures and requiring the rectification of any cases of non-conformity;
- reporting to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on the implementation of JI activities and the conformity of joint implementation activities with guidance provided by the governing body and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
- fostering the robustness and transparency of the joint implementation mechanism and promoting awareness of the joint implementation mechanism.

2.3. The governing body should be kept to a manageable size, with the members being drawn from Parties involved in joint implementation activities. At the same time members should act in their individual capacities and should have experience and competence in policy and strategic issues relating to joint implementation regulatory processes.

2.4. The governing body should conduct its work in an effective and transparent manner.

2.5. The governing body should be entitled to delegate specific responsibilities to independent committees composed of external experts and should be supported in this by the UNFCCC secretariat.

2.6. Project participants, accredited independent entities and host Parties should be allowed to appeal against the governing body's rulings regarding JI activities. The appeals should be considered by a special body (committee of appeals) designated by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for this purpose.

3. Eligibility requirements

3.1. Parties should fulfill the eligibility requirements before they are able to participate as host Parties or recipients of the emission reduction units under joint implementation activity.

3.2. Issuance of the emission reduction units and their further distribution to the project participants in the joint implementation activity after its recording by the governing body should not be subject to the current state of the eligibility requirements fulfillment by a host Party.

3.3. Eligibility requirements should be formulated in the context of the international climate regime in the second commitment period under the Kyoto Protocol.

4. Transitional issues

4.1. Joint implementation activities should continue to be operational under existing Track 1 and Track 2 procedures between 1 January 2013 and either the end of the “true-up” period or the establishment of assigned amount for a host Party for the second commitment period under the Kyoto Protocol, whichever is sooner (hereinafter “transitional” period)

4.2. Emission reductions or removals achieved by existing or new joint implementation activities during the “transitional” period may be issued by the host Party as emission reduction units under the Track 1 and Track 2 procedures by converting assigned amount or removal units from the first commitment period under the Kyoto Protocol with subsequent deduction of equivalent amount from assigned amount units from the first commitment period under the Kyoto Protocol to be carried-out to the second commitment period under the Kyoto Protocol.

Revision of the Joint Implementation guidelines

Introduction

The World Bank Group appreciates the opportunity to contribute to Parties' important work on the first review of the joint implementation (JI) guidelines as referred to in the decision 11/CMP.7 on Guidance on the implementation of Article 6 of the Kyoto Protocol (paragraphs 11 and 14) inviting views on the revision of the JI guidelines.

This submission draws from insights and lessons derived from the World Bank Group's carbon finance experience across many different types of projects, programs and sectors around the world over the past decade, including JI projects. It is hoped that this submission will be considered as constructive input to Parties' deliberations. The World Bank Group would be pleased to elaborate further and contribute to this important work as needed.

The submission is divided into two parts: (i) our key insights from experience with the JI mechanism; and (ii) recommendations for Parties' consideration.

I. Some key insights from our experience with the Joint Implementation mechanism

1. The JI mechanism has contributed to emission reductions, but has not been used up to its potential. In the market dominated by a small number of sellers with great potential for low-cost emission reductions (e.g., Ukraine, Russia), JI has attracted a relatively small number of participating countries and its use among countries with tight emission caps has been limited. The main reasons could be:

- its late start (in 2006) and the short crediting period;
- the limited eligibility of many promising sectors for JI activities (e.g., power) that are covered by the European Union Emission Trading Scheme (EU ETS) or have indirect impact on EU ETS installations (e.g., energy efficiency), due to double-counting concerns; and
- the considerable time required for setting the regulatory framework for JI projects not only internationally, but also in many JI host countries, reducing the attractiveness of the mechanism for private investors.

2. The host country risks have remained significant taking into account the regulatory and institutional requirements at the national level. National governments are responsible for establishing a national regulatory framework for JI projects as well as for setting procedures for project selection and approval and allocation of the JI reserve (e.g., allocation of EU Allowances

(EUAs) for JI projects in National Allocation Plans of EU ETS countries). The associated policy and regulatory risks contributed to the uncertainty of the JI process and increased transaction costs for investors.

3. *The differentiated approach under JI Tracks 1 and 2 helped kick-start activities, but it was not meant to alleviate barriers in terms of host country regulatory environment.* A number of stakeholders raised concerns about the lower level of transparency under the national procedures established under JI Track 1, which has led, among other things, to criticisms regarding the environmental integrity of some projects.

4. *Countries adopted quite different strategies toward the use of JI.* These strategic choices were mainly driven by:

- the tightness of their respective commitments under the KP (compliance risk; management of the available stock of Assigned Amount Units (AAUs) that have to be converted into ERUs based on JI projects);
- the expected economic gains from the use of JI at the government and private sector level;
- the interest to use the JI mechanism for domestic offset projects to allow greater flexibility for private sector compliance under the EU ETS and reach out to sectors not covered by the latter; and
- the fact that the JI market was first dominated by governments and later became largely a private sector compliance instrument.

5. *The overall emission cap ensures the environmental integrity of JI if mitigation objectives are met.* Any transfer of the emission reductions from a JI project needs to be reflected in an equivalent deduction from the host country's AAUs. This feature distinguishes JI from the CDM in the sense that the overall emission cap is maintained. This could allow greater simplification and streamlining of the mechanism leading to reduced transaction costs while increasing its impact. At the same time, ambitious targets/tight emission caps at the national level are necessary for providing a sufficient incentive to a host country to ensure that there is no overestimation of the emission crediting. A tight emission cap would therefore lessen the risk of over-supply that could otherwise distort the carbon price signal.

6. *The JI guidelines provided flexibility in terms of methodological approaches; however this opportunity has not been fully used by the market.* The methodologies used for JI activities can be established at the same time as the project or Programme of Activities is determined, rather than ex ante. This represents another key distinguishing feature of JI as compared to the CDM where methodologies are pre-approved by the CDM Executive Board. While it may potentially create discrepancies and inconsistencies in project appraisal, such a bottom-up approach offers significant opportunities to develop innovative methodological frameworks (e.g., sectoral baseline

setting, standardization and/or simplified methodology approaches and demonstration of additionality). This flexibility has had a very limited up-take, predominantly due to the lack of sustained support from decision makers and regulators both at the national and international level. The smaller overall market for JI and the persistent uncertainty about the continuation of JI post 2012 could also have been reasons for such a limited engagement in accepting the burden of new methodological development efforts.

II. Recommendations for Parties' consideration

In revising the JI guidelines, Parties may consider the following ways of improving the efficiency and attractiveness of the mechanism:

1. The JI Supervisory Committee could play a more proactive role in facilitating dialogue, sharing knowledge and leading relevant efforts in terms of innovative approaches to the use of JI. Overarching international oversight could alleviate concerns regarding the robustness of national approaches and support the development of a liquid market. It could be achieved by the JISC playing a high-level advisory role and becoming a hub of expertise on the following:

- Best practices,
- Ongoing efforts in term of simplification and streamlining of JI procedures, and
- Innovative methodological approaches.

2. The JI guidelines could benefit from a better definition of key principles that would help ensure environmental integrity and transparency of the national JI procedures. This could include for example:

- Overarching principles for establishing simplified/standardized approaches for baselines that embed additionality demonstration;
- Approaches for ensuring that offset projects contribute to compliance at the host country level (e.g., based on some useful insights from experience with the domestic use of JI in countries with tight emissions caps);
- Innovative approaches for accounting for and crediting the mitigation impacts of policy-driven activities beyond a project-by-project mode to increase the complementarity of JI with other climate policy instruments while avoiding double-counting.

A broader use of JI could be considered by Parties to improve its relevance in the post-2012 context:

3. The JI mechanism and its established regulatory frameworks could be used in broader ways to contribute to GHG mitigation objectives at the national and international level, such as:

- A project-by-project approach to supporting the engagement of new countries falling under a cap or tapping the mitigation potential of nationally defined priority sectors (it reveals useful information on costs, clarifies baseline emission levels, stimulates technology transfer and builds capacities);
- A transitional instrument that would help link different national and regional markets and enhance mitigation in sectors that may be less suitable for cap-and-trade schemes (e.g., demand-side energy efficiency, forestry, agriculture);
- A domestic compliance offset scheme;
- A testing ground for new approaches for the use of offset schemes under New Market Mechanisms to provide a direct carbon price signal to individual investors within a capped environment.

4. Experience gained by other GHG mitigation programs implemented in a capped environment could be taken into consideration while defining the scope of the revision of the JI guidelines. JI guidelines may include provisions for more flexible crediting based on upfront financing approaches as compared to the performance-based annual crediting of JI activities (e.g., through the establishment of reserves and clear definition of liability).

April 13, 2012
