

In its report¹ to the upcoming sixth conference of the Parties to the Kyoto Protocol in Cancun, the **Joint Implementation Supervisory Committee (JISC)** makes a range of suggestions how to improve the working of JI. The suggestion that has drawn most attention is the proposal to extend the JI mechanism until mid-2015 without having to change the Kyoto Framework. The proposal is based on the finding that JI is built as a long-term mechanism:

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

From this finding the JISC draws its recommendation:

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

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

At the same time the **European Commission** released the following statement²:

The EU has been advocating a move away from crediting mechanisms based on the "do nothing" baseline. The Commission favours the creation of new sectoral carbon market mechanisms with a "do something" baseline as an interim step towards the development of (multi-sectoral) cap and trade systems. Similarly, the Commission believes that JI should be phased-out and participating sectors should be covered by cap-and-trade. A continuation of the recognition of credits from JI would slow down such a move because beneficiaries resist the loss of revenues from the sale of credits.

The **Joint Implementation Action Group (JIAG)** has been advocating JI as an effective mechanism to unleash a market force that triggers entrepreneurs and investors to make *long-term* investments in energy efficiency, renewable energy and other measures to reduce emissions. JI happens mainly in Economies in Transition including a range of EU Member States which have to modernize an *existing, carbon intensive* infrastructure while assuming economy-wide targets under the Kyoto Protocol.

It is unrealistic to assume that an EU ETS-style transnational cap-and-trade scheme could be established in 2013. The economic conditions among the different countries and country blocs are not comparable; the mitigation needs and potentials vary greatly; and the political and organizational requirements are

¹ <http://unfccc.int/resource/docs/2010/cmp6/eng/09.pdf>

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<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/615&format=HTML&aged=0&language=EN&guiLanguage=en>

enormous. To phase out JI at this moment is not helpful as it would remove the only existing mitigation mechanism that exists to-date. If a transnational cap-and-trade system can ever be established, it is JI that would bring us there. JI has the potential to move from emission reduction projects to sectoral approaches and beyond.

Below you can find further clarifications of the position of JIAG in the form of Q&As.

1. WHAT IS POSITIVE ABOUT THE JISC PROPOSAL ON CONTINUED ISSUANCE AS A GAP MEASURE?

The JISC proposal can be categorized as “do something”. The JISC proposal allows new projects to be registered and a continued issuance of ERUs. The JISC proposal builds upon an existing infrastructure that has proven to deliver. The JISC proposal only extends JI with two years which is providing not the long term horizon investors are looking for. But it may just be long enough to bridge the period until the negotiators have concluded a new international agreement.

2. WHAT IS AGAINST PHASING OUT JI NOW?

Apart from the ETS within the EU, there is currently no alternative incentive in place to promote long-term investments in energy efficiency and renewables. Introducing a cap-and-trade scheme outside the EU is a possibility but will take 5-10 years. In the mean time people will not be incentivized to invest or will put planned investments on hold pending clarity on the allocation method of a cap-and-trade scheme. Even worse, some existing JI projects will go in reverse and are likely to be decommissioned (like methane destruction projects at coal mines and landfills or catalytic destruction of nitrous oxide at fertilizer plants). The proposal of the Commission to phase out JI without providing a realistic alternative, in fact, is worse than a “do nothing”; it is “undo everything”.

3. SHOULD NON-EU ANNEX I NOT INTRODUCE CAP-AND-TRADE SCHEMES?

Introducing cap-and-trade schemes is being considered by several countries outside the EU (for example by Ukraine that has drafted a law to introduce, in phases, a cap-and-trade system³). However, this is a gradual process and takes time. JI in turn helps facilitate the transition to cap-and-trade system.

4. WHAT DOES THE COMMISSION MEAN WITH “THE RECOGNITION OF CREDITS FROM JI WOULD SLOW DOWN A MOVE TO A CAP-AND-TRADE SCHEME”?

This is not clear. What is however clear, is that JI introduces new technology, solutions and a wealth of MRV information, which can guide regulators in designing cap-and-trade schemes and set appropriate and more ambitious baselines. JI incentivises operators to be early movers and reduce their long-term compliance costs under an ETS.

5. CAN A CAP-AND-TRADE AND OFFSETS CO-EXIST?

Yes, offsets complements a cap-and-trade system and can effectively reduce emissions in sectors not covered by a cap-and-trade scheme. A good example is the domestic JI scheme in Germany that co-exists with the EU ETS. Currently some 23 JI projects have been registered in Germany of which most projects will not be covered by the third phase of the EU ETS⁴. Those projects helped to develop standards and benchmarks that partly have been used for the benchmarks applied in the EU ETS as of 2013 – a very good example that offset mechanisms can not only coexist with cap-and-trade, they support their further development. JI is furthermore helpful to develop standards and methods for MRV and baseline setting that could be used in new mechanisms like NAMA as well. This is especially true for PoAs.

6. WILL JI CREDITS NOT FLOOD THE EU ETS?

No, JI is a relative small mechanism compared to the CDM due to limitations imposed by the EU ETS and fewer Host Countries. In the EU ETS in 2008 and 2009 only 3.1 million ERUs have been surrendered

³ http://gska2.rada.gov.ua/pls/zweb_n/webproc4_1?id=&pf3511=35712 (Ukrainian only)

⁴ See <https://heka.uba.de/promechg/pages/project1.aspx>

compared to 163 million CERs. The reductions volumes in published JI PDDs is 15 % of the CDM PDD volume. The ETS directly does restrict offsets and applies this restriction equally to ERUs and CERs.

7. ARE THERE NO ALTERNATIVES TO JI UNDER THE KYOTO FRAMEWORK?

Yes, there are alternatives but time is needed to develop these alternatives. For example the EU ETS allows for non-ETS domestic offsets. The EU framework is also open to conclude bilateral agreements⁵ with third parties allowing JI credits in the EU ETS. But on both accounts the details need to be fleshed out and agreed before there is any basis for real investments to be initiated. The alternatives are thus a poor replacement for JI today, which can incentivise investments in energy efficiency and renewables TODAY.

8. ISN'T THE JISC PROPOSAL A FORM OF 'BORROWING'?

No, there is no borrowing as no AAUs are borrowed from a future commitment period. For more details see the JIAG Q&A on the JISC proposal⁶.

9. CONTACT DETAILS

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⁵ JIAG does support the conclusion of bilateral agreements as a measure beyond the true-up period. Arguments why this is of strategic interest of Europe can be found in the Article "Why the EU and Ukraine should sign bilateral agreement on JI" at <http://www.jiqweb.org/images/stories/JIQmagazine/2010Oct.pdf>

⁶ www.jiactiongroup.com