JIAG Post-2012 Position

Joint Implementation Action Group
Policy Paper
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1. INTRODUCTION

This Policy Paper puts forward recommendations to UNFCCC negotiators to improve JI and adapt it to the requirements and features post-2012 climate agreement. This paper complements the first JIAG Policy Paper[1] in which we argue that JI has a crucial role in a post-2012 framework. JI has the advantage that it is not restricted in scope and complements existing trading schemes in Annex 1 countries; JI allows for innovation in an area with a guaranteed environmental integrity and is an effective project-based mechanism emphasising positive incentives incentivising entrepreneurship. For COP 14 in Poznan JIAG also developed concrete suggestions on how projects could graduate from CDM to JI, how JI governance, baseline setting and additionality could be improved and how the mechanism could be strengthened to generate co-benefits and transfer of technology.

This paper elaborates on the role of the Joint Implementation Supervisory Committee (JISC) and the distinction between Track 1 and Track 2, both in a port 2012 framework. The paper defines the essence of JI, clearly distinguishing it from International Emissions Trading (IET), it elaborates on the role of the JISC and the consequences for the double-track structure and additionality.

2. THE ESSENCE OF JOINT IMPLEMENTATION

Joint Implementation is a project-based mechanism that operates in a capped environment. Resulting Emission Reduction Units (ERUs) lead to a cancellation of a country's Assigned Amount Units (AAUs). The essence of JI is that ERUs are issued *after* emission reductions have been generated. This distinguishes JI from Green Investment Schemes (GIS) where AAUs can be traded freely before any reductions have taken place. Therefore we believe that any JI project should meet two key criteria:

1. *The projects should have a baseline and monitoring plan which is independently determined.*
2. *The emission reductions should be monitored and independently verified.*

Each JI project owner should be sure that both key criteria are met, whether the project is developed under Track 1 or Track 2. The current design of Track 1 projects leaves some doubt as to whether these criteria are met.

JI is the largest comprehensive regulated project-based mechanism in a capped environment. Other emerging mechanisms are:

[1] The first JIAG Policy Paper "Joint Implementation Strategies for a Post-Kyoto World" (2009), is available at: http://jiactiongroup.com/publications.html.

- Article 24a of the amended EU ETS Directive allows members states to issue credits for domestic measures implemented outside the ETS;
- In the USA the Waxman-Markey House bill allows signification off-sets to be imported into the scheme, both from domestic projects as from abroad.

Another, voluntary offset scheme is the Japanese Voluntary Action Plan on the Environment (VAP).

We believe that *all* project-based mechanisms should meet above mentioned two key criteria. We also think that the international carbon market would benefit from a harmonized offset standard that ensures (i) environmental credibility; (ii) liquidity; and enables (iii) the indirect linking of Annex 1 emissions trading schemes. A fragmented system would result in legal trade issues, confuse the market, and threaten the environmental credibility of offsets (race to the bottom). JIAG claims that with JI an international offset standard exist that could serve as the basis of a harmonized international offset standard.

3. TWO DIFFERENT TRACKS

When JI was negotiated concerns were raised whether all Annex 1 countries would be able to meet the eligibility requirements, i.e. being able to monitoring annual emissions and have a registry in place. A hybrid system was put in place, called JI Track 2 for those countries not eligible and JI Track 1 for eligible Annex 1 countries. The JISC was created to supervise JI Track 2 projects only. In JI Track 1 the host country is left on its own devices: It can design Track 1 verification procedures as is deemed suitable.

While the current scrutiny may be overly restrictive for JI Track 2, Track 1 does not guarantee the compliance with the two minimum requirements listed above in section 2. In reality host countries meet the criteria discussed above and require independent determination of the baseline and independent verification of the monitored emissions reduction. However, in theory a host country could issue ERUs for JI projects that have not monitored actual emission reductions. In that case JI Track 1 will start to resemble Article 17 International Emissions Trading. We believe that in a post-2012 regime a clear border should be drawn between these two mechanisms so that a buyer of an ERU can be sure that this credit results from verified emission reductions, a certainty a buyer of AAUs will never have.

4. GOVERNANCE AND THE ROLE OF THE JI SUPERVISORY COMMITTEE

In a post-2012 regime, the COP/MOP should give a mandate to the JISC to supervise a system that ensures the two key criteria of any JI project are met. The JIAG suggests that, under this mandate, the JISC formulates minimum requirements for any JI project, building on the experience of the JISC so far. In this mandate the JISC will maintain its current supervising role where all project specific supervision is delegated to Accredit Independent Entities.

The JIAG argues that the supervising mandate of the JISC for any JI project should be:

- Set standards for the establishment of baselines;
- Set standards for monitoring methodologies;
- Accredit independent entities;
- Maintain, operate and supervise the procedures that are required to allow project developers to develop projects, have the reductions verified and receive the ERUs.

The JISC would also continue to register Track 2 JI projects. The reasons for the project participants or host country could be:

- Save resources by relying on the international services of the JISC;
- Obtain more credibility for the JI project;
- Avoid issuance risk due to a host country losing eligibility;

- Avoid issuance risk due to a host country not meeting the Commitment Period Reserve.

5. ADDITIONALITY

JIAG argues that the necessarily subjective and thus controversial establishment of project additionality can be replaced by rules that ensure a conservative establishment of project baselines. The integrity of JI is guaranteed since for the issuance of one ERU the host country has to cancel one AAU. In addition, additionality is superfluous since the guidance on baseline setting and determining the baseline scenario[2] already provides sufficient guarantee on the concerns that the additionality concept tries to address. Nevertheless if the Project Participant or Host Country wishes to do so, it can integrate an additionality test in the project. This additionality test should be based on guidance issued by the JISC and assessed by the AIE.

6. CONVERSION AND TRANSFER OF ERUS

Currently the receipt of ERUs is subject to the host country's willingness and ability to convert AAUs into ERUs and transfer them. This exposes transactions to risks associated with the host country situation which forward buyers in the JI market consider a serious barrier. This risk can be reduced by allowing host countries to transfer an amount of AAUs to a dedicated JISC registry account upon issuance of the Letter of Approval. The amount of AAUs transferred can equal the expected amount of emission reductions in a given Kyoto crediting period as estimated in the Project Design Document. Upon positive verification of the emission reductions by an Independent Entity, the JISC can convert and transfer ERUs to the account specified by the project participants. If emission reductions as estimated in the PDD do not mature or are not positively verified, the JISC can periodically return AAUs to the host country account.

7. MEMBERS OF THE JISC

The JISC is the governing body of JI and should therefore consist of representatives from Annex 1 countries and countries that choose to graduate to Annex 1 for the post-2012 period. By definition JI projects take place in Annex 1 countries having a commitment under Annex B. Contrary to the CDM, JI operates in a capped environment and there is no risk that the transfer of ERUs inflates the emissions that are capped under the Kyoto targets listed in Annex B. This makes JI a mechanism that should be governed by Annex 1 parties and by parties that decide to accept a clear cap on its GHG emissions for the post-2012 period.

ABOUT THE JOINT IMPLEMENTATION ACTION GROUP

The Joint Implementation (JI) mechanism under the Kyoto Protocol has developed a project pipeline that is expected to generate 330 million tons of greenhouse gas (GHG) emission reductions in the period 2008-2012. Its central principle has proved simple and effective: countries under the Kyoto Protocol with capped emissions can trade project credits and reduce their total emission profile. The JI mechanism delivers low transaction costs, substantial benefits, and should be expanded in the next climate framework.

The Joint Implementation Action Group (JIAG) was formed in March 2008 to support the post-2012 negotiations with hands-on experience from market participants. The consortium of carbon market pioneers representing over 100 millions of tonnes of greenhouse gas emission reductions through JI

[2] See Guidance on criteria for baseline setting and monitoring, version 01, in particular paragraph 10, 11, available at http://ji.unfccc.int/Ref/Documents/Baseline_setting_and_monitoring.pdf

projects constantly interacts with policy-makers and interest groups to communicate its views. The JIAG believes it is essential that JI is enhanced in the next climate agreement, maximize its potential as a project finance mechanism, creating incentives to reduce GHG emission in a wide range of sectors and among a broad range of actors.

On the web-site www.jiactiongroup.com you will find an overview of the JIAG's activities, its publications, policy papers, legal papers, information on how the JIAG works and how entities can support its activities by becoming a JIAG member.

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