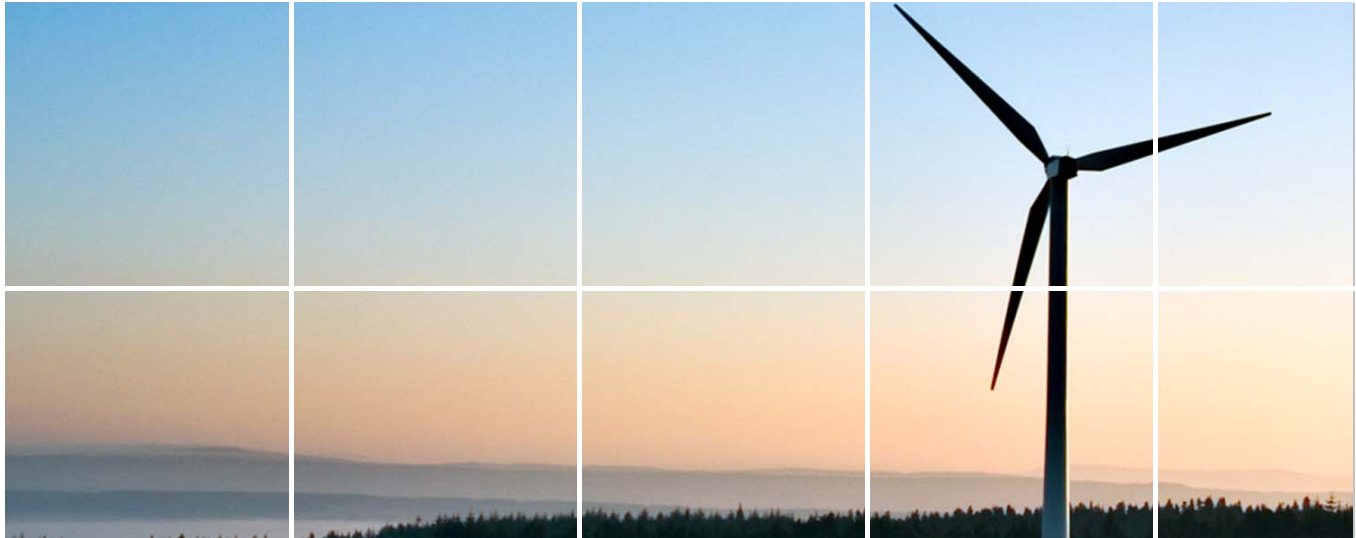




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Briefing paper “JI Track 1 preliminary assessment”

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Study on the Integrity of the Clean Development Mechanism



Briefing paper “JI Track 1”

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1 Summary of key findings

Main problems of JI Track 1:

- *Reliability of national procedures to set methodologies:* As countries using Track 1 are entitled to set their own methodologies for baseline determination and monitoring, concerns have been raised on the reliability of the ERUs issued, and whether these reflect actual emissions reduction and are additional.
- *Lack of coherence of the different national procedures:* The determination of the eligibility of the project and the monitoring and verification of emission reductions are subject to national rules and procedures only.
- *Transparency and access to information:* National processes vary in the transparency of their procedures and decision-making. Currently most information about Track 1 is available in national languages, not necessarily in English.

Different views over:

- *Additionality:* Additionality testing may be justified to enhance environmental integrity of ERUs, which is central to their use for compliance with the EU ETS Directive.
- *Emissions generated in a gap period:* In Phase III the EU ETS Directive provides operators with a limited access to 1) ERUs issued in respect of emission reductions up until 2012 and 2) ERUs from projects that were registered before 2013 and issued in respect of emission reductions from 2013 onwards (Article 11a.2 & 3). However, the Kyoto framework does not enable ERUs to be created from 2013 onwards without new quantified emission targets being in place for host countries. A mainly political question is whether emission reductions generated after 2012, based on AAUs carried over from the first commitment period (CP1), can qualify for ERUs.

Implemented reform options:

- *Improvements in the procedure:* The UNFCCC launched an improved web-based interface to give Parties the opportunity to publish information on their JI Track 1 procedures and projects 'in an enhanced transparent way';
- *A proposed reform option:* Possibility to merge the two tracks of JI into a single track, in the context of post-2012 reforms to the Kyoto Protocol.

2 Definition and scope

Joint Implementation (JI) is one of the three flexibility mechanisms¹ set forth under the Kyoto Protocol (Art. 6). Its objective is to enable countries with binding greenhouse gas (GHG) emissions targets (i.e. Annex I countries) to meet their obligations cost-effectively by investing in emission reduction projects in any other Annex I country where such reductions are cheaper, as an alternative to reducing emissions domestically. The credits earned through JI projects (or ERUs²) can then be counted towards their commitments expressed in Assigned Amount Units (AAUs)³. The host country moreover benefits from foreign investment and technology transfer.

A key requirement for the eligibility of a JI project is that the reductions obtained must be 'additional'⁴ to what would otherwise have occurred, i.e. baselines.⁵

Generally speaking the JI project cycle consists of the following six stages: Project Design Document (PDD); Letters of Approval; Determination; Monitoring; Verification; and Issuance.⁶ The determination of the eligibility of a project⁷ and the verification of the emissions reductions and the verification of the emissions reductions can be done through two different procedures:

- The Track 1 procedure is a 'simplified' JI procedure which can be applied to any given Annex I host Party to the Kyoto Protocol that fulfills all the eligibility requirements listed in paragraph 21 of the JI Guidelines⁸, i.e. countries which "can fully account for their GHG emissions and movements of units in their registry" (Korppoo and Gassan-Zade 2008). If this is the case, "the determination of the eligibility of the project and the monitoring and verification of emission reductions is *subject to national rules and procedures only*^{9,10}, and the host country government can decide which projects qualify and can issue ERUs without third party interference. No supervision by the Joint Implementation Supervisory Committee (JISC) is required. However, "Parties that meet the eligibility criteria may still elect to be subject to the Track 2 verification process under the JISC, or may adopt rules that modify only part of this Track 2 process and adopt the remainder" (JI Rulebook¹¹).
- Parties that do not meet all the eligibility criteria are required to use the Track 2 verification procedure set by the JISC. Therefore, "projects developed under Track 2 are subject to the rules, procedure and criteria defined by the JISC (see Annex 2). By centrally defining Track 2 guidelines, de facto this track became the standard for baseline setting and monitoring of JI projects" (JIAG, 2010)¹².

The Compliance Committee of the Kyoto Protocol is responsible for deciding on parties' eligibility for Track 1 or Track 2 based on the reports of the international experts team, who determine whether the eligibility requirements are met. These requirements consist in:

¹ The three flexibility mechanisms are: Emissions Trading, the Clean Development Mechanism (CDM) and Joint Implementation (JI). These mechanisms are intended to lower the overall costs of achieving the emissions targets under the Kyoto Protocol, by enabling Parties to achieve emission reductions in other countries at lower costs, while still contributing to a decrease in emissions at the global level.

² ERUs (or Emission Reduction Units) are equivalent to one tonne of CO₂ equivalent.

³ The ERUs lead to a cancellation of a Party's Assigned Amount Units (AAUs).

⁴ The additionality requirement means that emissions reductions from a JI project must be higher ('in addition to') than what would have occurred in the absence of the project.

⁵ A baseline is defined as "the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed JI project" (AENOR, 2008). The criteria for baseline setting are listed in appendix B of the JI guidelines (downloadable on:

<http://unfccc.int/resource/docs/2005/cmp1/eng/08a02.pdf#page=2>), which in brief states that a baseline "shall cover emissions from all gases, sectors and source categories listed in Annex A of the Kyoto Protocol", and will be established "on a project-specific basis and/or using a multi-project emission factor", "in a transparent manner [...]" and "taking into account relevant national and/or sectoral policies and circumstances [...]".

⁶ <http://www.jirulebook.org>

⁷ The determination of project eligibility in JI Track 2 is defined in 9/CMP.1, Annex, Paragraph 30.

⁸ "Decision 9/CMP.1 – Guidelines for the implementation of Article 6 of the Kyoto Protocol" (the 'JI Guidelines'), (2006): (<http://unfccc.int/resource/docs/2005/cmp1/eng/08a02.pdf#page=2>), FCCC/KP/CMP/2005/8/Add.2.

⁹ *Italic added by the authors*

¹⁰ "Track 1", *JI Rulebook*, last accessed 29 March 2011: (<http://www.jirulebook.org/track1>)

¹¹ *Ibid.*

¹² *Post-2012 Position Paper* (2010), JIAG, available on: <http://www.jiagroundtable.com/JIAGPositionPaperJIroundtable7Jun10.pdf>

- Criteria common to Track 1 and Track 2:
 - Being a Party to the Kyoto Protocol
 - Having calculated the Assigned Amount Units
 - Having in place a national greenhouse gas registry
- Additional criteria for eligibility to Track 1:
 - Having in place a national system of greenhouse gas inventories
 - Having submitted the most recent inventory, as well as the national inventory report and the CRF (Common Reporting Format) tables
 - Having submitted supplementary information on Assigned Amounts

3 The status of JI projects

Approval of JI Track 1 projects has gained momentum since 2009 (Leguet, 2010). To date¹³ out of a total of 429 JI projects 229 projects have been registered in Track 1 (see Table 1, Annex 1) in contrast to only 28 projects in Track 2. The remaining section shows i) the patterns of JI Track 1 projects distribution by host countries and by project types; and ii) potential buyers of ERUs.

Host countries: Central and Eastern Europe, Russia, and Ukraine

Although the 'economies in transition'¹⁴ are meant to be the main beneficiaries of JI projects - with Russia and Ukraine having the highest potential, they have not yet fully benefited from opportunities to participate in the carbon market.

Russia has a total of 203 JI projects in the pipeline of both tracks, but due to administrative problems it has only registered 14 projects in Track 1 (see Table 1, Annex 1). While Ukraine has less JI projects in the pipeline of both tracks than Russia (79) it already has 39 registered projects under Track 1 (Table 1, Annex 1). Nevertheless the expected yearly ERUs under Track 1 for both Russia and Ukraine are similar in value - approximately 10 million ERUs due to a larger impact on emissions per project in Russia. Most Russian projects were approved in recent months, partly due to a shift from Track 2 to Track 1. As no Russian project has been approved under Track 2 to date, shifting projects to Track 1 may have helped towards their approval.

The impact of projects to be hosted by Russia and Ukraine in JI Track 1 is important. The distribution of JI Track 1 projects in Table 1, Annex 1 shows the general trend that Russia and Ukraine host a small number of bigger projects on average while Central and Eastern European countries mainly host a large number of small- to medium-sized projects. The total of 176 projects located in "Central and Eastern Europe" and "industrialised Annex I countries" have the potential to issue the same amount of ERUs as those expected from the 53 projects to be hosted by "Russia and Ukraine" (see Table 1, Annex 1).

In terms of the number of projects, most Central and Eastern European countries that are members of the EU, except for Lithuania, host the majority of their JI projects under Track 1 (176 projects in the pipeline under Track 1, see Table 1, Annex 1). To date the Czech Republic hosts the highest number of JI Track 1 projects (58 projects), followed by Ukraine (39) and Bulgaria (26).

In terms of the expected volume of emission reductions, in Track 1 Russia issues the highest number of ERUs per year (10,668k), followed by Ukraine (10,032k), Poland (2670k) and Bulgaria (2561k) (see Table 1, Annex 1). Ukraine hosts the two biggest JI projects both on methane (CH₄) leakage under Track 1 (issuing 3087k ERUs and 2419k ERUs in 2010) (Point Carbon 2011). Until 2012 these Ukraine Track 1 projects will issue 7822k ERUs and 4750k ERUs respectively while one Russian project on destruction of HFC and SF₆ and one Bulgarian project on nitrous oxide (N₂O) reduction, both in Track 1 will issue 5240k ERUs and 3224k ERUs (Point Carbon 2011).

Host countries: industrialised Annex I countries

A number of industrialised Annex I countries also host JI projects, mostly under Track 1 (Korppoo and Gassan-Zade 2008). Among these countries, the lead JI Track 1 hosts are France (16 projects issuing 4436 ERUs) and Germany (11 issuing 3744 ERUs). Finland, Spain and New Zealand also host JI Track 1 projects each (see Table 1, Annex 1).

Project types

In terms of project type (see Table 3, Annex 1) under Track 1, the largest number of projects is on landfill gas (59 projects), followed by nitrous oxide (N₂O) (34), biomass energy (23), energy efficiency in industry (21) and wind energy projects (16). There are only 8 projects on fugitive emissions. In

¹³ Data quoted throughout this section were updated as of 31 May 2011. The data were thoroughly checked and analysed at the end of May. As the authors looked at the update as of August 19, they found no substantial or fundamental change to the general trend or pattern.

The UNFCCC publishes the documentation about ongoing JI projects on: http://ji.unfccc.int/JI_Projects/ProjectInfo.html

¹⁴ Economies in transition (EITs) are "countries undergoing the process of transition to a market economy, which are included in the Annex I of the UNFCCC and are thus eligible for international emissions trading and Joint Implementation (JI) under the Kyoto Protocol" (IISD Climate Compendium, <http://www.iisd.org/ckn/compendium/economies.asp>, last accessed 28 March 2011). Annex B of the Kyoto Protocol identifies 13 economies in transition: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Russian Federation, Slovakia, Slovenia and Ukraine, with the addition of Belarus in 2006, while some countries (the Czech Republic, Hungary, Poland and Slovakia) have by now relinquished this status.

terms of numbers of ERUs issued in Track 1, however, the most important are N₂O projects which amount to 30% of ERUs, followed by fugitive emissions (17%), and energy efficiency in industry (16%). Landfill gas projects, although the biggest in number, only account for 3% of ERUs (Table 3, Annex 1).

Potential buyers

Buyers contracting JI projects consist of EU member states and a few third countries. The Netherlands are leading with a total of 106 JI projects, followed by the United Kingdom (49), Denmark (37), Germany (30) and Japan (20). Under Track 1, the Netherlands contract 46 projects, followed by Germany (20) and Denmark (19), then the UK (13) and Japan (11) (see Annex 1, Table 2).

Due to risks associated with the status of ERUs after 2012, it is suggested that participants in the EU ETS might have surrendered more ERUs, regardless of project types, for compliance in 2010 than in the previous years.¹⁵ Between 5 million and 26 million ERUs are estimated to be surrendered under the ETS.¹⁶

¹⁵ Emmanuel Fages, Société Générale quoted in Point Carbon, 'Use of Kyoto credits in EU scheme to soar: Socgen', 30 March 2011.

¹⁶ Point Carbon, 'Use of Kyoto credits', 30 March 2011.

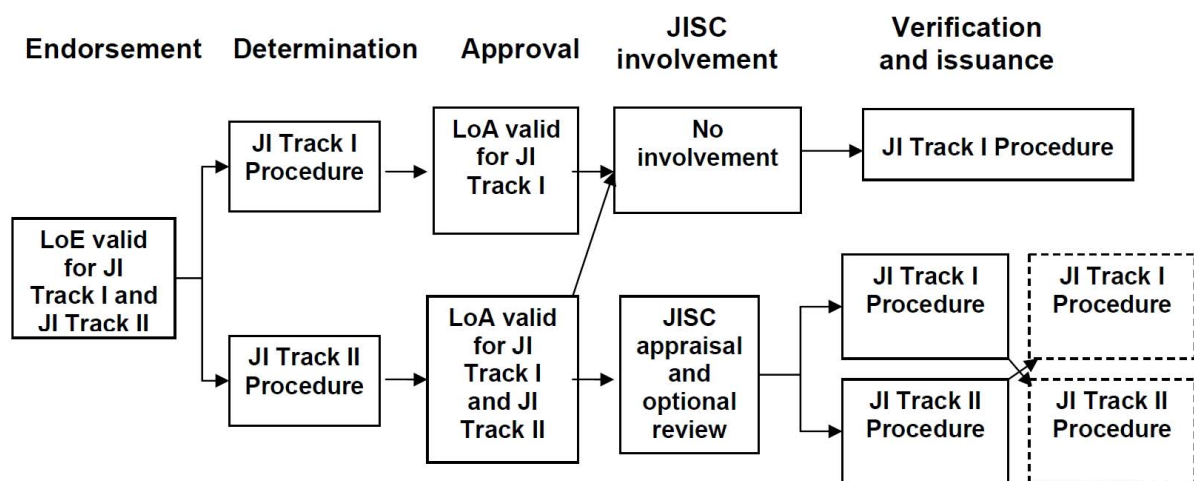
4 Governance

JI Track 1 allows in principle national governments of Annex 1 countries, which met the common and Track 1-specific eligibility criteria (see section 1), to set their own JI procedures and have them tailored to the specific needs and potential of the country.

In theory the existence of multiplicity of rules and procedures would make it difficult for project developers to apply a common approach. Instead they need to follow the respective legislations enacted in host countries, provided that these legislations are clear and articulate on the requirements. As far as the English translations are concerned, some legislations are compact without special reference to Track 1 but JI in general (e.g. Russia¹⁷) while others are detailed about Track 1 (e.g. Bulgaria¹⁸, Romania¹⁹). Following different rules in different countries could mean extra costs to project developers. For example, a recent Joint Implementation Supervisory Committee (JISC) report notes that the national processes under Track 1 differ from host Party to host Party, increasing the burden on national policymakers and the knowledge barriers and transaction costs for project developers and participants involved in multiple countries.²⁰

In practice, many countries implement the rules and methodologies broadly in line with the JISC rules and guidelines for Track 2. For example, Romania’s legislation explicitly states that the national JI Track 1 procedure aims to ensure the same level of confidence as under the JI Track 2 procedure.²¹ Towards this goal, Romania enables project developers to select between two Tracks and to move from Track 2 for the determination and approval of the project to Track 1 for the verification and issuance of ERUs (Chapter II, see Figure below).

Figure: The available options for JI project approval process and the validity of the Letter of Endorsement (LoE) and the Letter of Approval (LoA)



Source: Government of Romania, “National procedure for using Joint Implementation (JI) mechanism under Track I (National JI Track I Procedure).

Similarly Bulgaria also allows project developers to select between two Tracks and to switch from one track to another upon request (Article 5 (1) (2)).²²

The question therefore is what and how efficient the procedures are in countries that diverge from Track 2 procedures.

¹⁷ Government of the Russian Federation, “Decree No 843 Towards Implementation of Article 6 of the Kyoto Protocol to the United Nations Framework Convention on Climate Change”. http://ji.unfccc.int/JI_Parties/PartiesList.html

¹⁸ Government of Bulgaria, “Instruction for approval of projects generating emission reduction units under Track 1 of the Joint Implementation Mechanism”. http://ji.unfccc.int/JI_Parties/PartiesList.html

¹⁹ Government of Romania, “National procedure for using Joint Implementation (JI) mechanism under Track 1 (National JI Track 1 Procedure). http://ji.unfccc.int/JI_Parties/PartiesList.html

²⁰ “Joint Implementation Supervisory Committee Twenty sixth meeting Report”, 13-14 September 2011, Annex 4.pdf.

²¹ Government of Romania, National JI Track 1 Procedure.

²² Government of Bulgaria, “Instruction for approval of projects generating emission reduction units under Track 1 of the Joint Implementation Mechanism”.

The efficiency of Track 1 depends on the administrative and institutional capacity of the host countries, in particular in economies in transition, to enforce appropriate rules on baseline determination and on monitoring and verification of emissions reductions. The environmental performance of this system can be also influenced by the capacity of auditors for whom Track 1 does not formally require international accreditation but approves national or local one (see section 4).

Consequently, the JISC questions the sustainability of the two track approach and raises the concern that JI Track 1 might be “hindering the success of the overall JI mechanism in a number of ways²³. [...] The splitting of JI into two tracks, and into multiple national processes under Track 1, has the effect of dissipating the momentum present in JI as it makes it more difficult for any one process to develop economies of scale”.²⁴

As a response to those concerns the JISC proposes the following reform options²⁵:

- The possibility to merge the two tracks of JI into a single track, in the context of post-2012 reforms to the Kyoto Protocol;
- The introduction of practical guidelines with the aim to “harmonize the procedures at national level”.

Access to information about JI Track 1 projects has been often limited, as countries have total discretion about the amount and type of information they disclose, which has moreover in many cases only been published in the language of the country. The JISC noted recently that “the national processes under Track 1 vary in the transparency of their procedures and decision-making and are frequently subjects to call for more transparency”.²⁶

In an attempt to improve the lack of transparency the UNFCCC now hosts a webpage on which a potential host country can provide information about national guidelines and procedures for approving JI projects under Track 1 as well as Track 2. Some countries publish unofficial English versions.²⁷ Moreover, the JISC requested the UNFCCC secretariat to provide a summary of these guidelines and procedures including a comparison analysis of the key differences between them.²⁸

²³ “Joint Implementation Supervisory Committee Twenty sixth meeting Report”, 13-14 September 2011, p. 8, para 33, Downloadable on: http://ji.unfccc.int/Sup_Committee/Meetings/026/Reports/Annex 4.pdf.

The Annexes can be downloaded on: http://ji.unfccc.int/Sup_Committee/Meetings/024/index.html.

²⁴ “Joint Implementation Supervisory Committee Twenty sixth meeting Report”, 13-14 September 2011, p. 8, para 33, Downloadable on: http://ji.unfccc.int/Sup_Committee/Meetings/026/Reports/Annex 4.pdf.

²⁵ “Joint Implementation Supervisory Committee Twenty sixth meeting Report”, 13-14 September 2011, Annex 4.

²⁶ “Joint Implementation Supervisory Committee Twenty sixth meeting Report”, 13-14 September 2011, p. 8, para 33, Downloadable on: http://ji.unfccc.int/Sup_Committee/Meetings/026/Reports/Annex 4.pdf.

The Annexes can be downloaded on: http://ji.unfccc.int/Sup_Committee/Meetings/024/index.html

²⁷ http://ji.unfccc.int/JI_Parties/PartiesList.html

²⁸ “Joint Implementation Supervisory Committee Twenty-fifth Meeting Report”, 22 June 2011.

5 Technical requirements

To determine where ERUs are based on real and additional emission reductions, there is a need for appropriate methodologies and baseline scenarios. The auditors have to verify compliance with methodological requirements for baselines, additionality and emission reductions using country-specific terms of references or procedures.

The authors examined the English translations of the relevant legislations in six Annex I countries which are available on the UNFCCC webpage: Bulgaria, Hungary, Poland, Romania, Russia, Ukraine (see section 3). As far as the English versions are concerned, these legislations can be roughly categorised into three groups:

- i) The legislation sets no specific requirements for Track 1 procedures (e.g. Hungary²⁹, Russia)
- ii) The legislation makes references to specific requirements under Track 1 but not in a systematic way (e.g. Poland³⁰, Ukraine³¹)
- iii) The legislation sets specific requirements for Track 1 procedures in a systematic way (e.g. Bulgaria, Romania)

In the technical content some procedural variation across countries may exist in two aspects: procedures for determination and validation; and accreditation processes.³²

The main difference concerns the process flow: for example, whether auditors first report to the ministry and publish the report, or vice versa. This variation would have little importance on the final quality of credits.³³

To ensure fulfilment of the requirements for baseline setting, additionality testing, and monitoring, reporting, and verification of emission reductions achieved, governments of host countries typically require project participants to use the Accredited Independent Entities (AIEs) accredited by the JISC, even under Track 1. However, it is not a formal requirement.³⁴ The authors examined the English translations of the relevant legislations in the six Annex I countries mentioned earlier, complemented by an interview. There are two categories of national legislations as regards the accreditation of independent entities:

- i) No reference (e.g. Hungary, "independent joint implementation project verifier"; Russia, "Independent Auditor selected by the Project Investor")
- ii) Verifiers may be accredited nationally (e.g. Czech Republic, see below; Poland, Article 36;

For example, the Czech Republic requires project participants to use organisations accredited by the Czech Institute of Accreditation which sets its own terms of references. The main motive for not requiring AIEs is because their services are expensive.³⁵

- iii) Verifiers may be accredited or in process of accreditation by the JISC (e.g. Bulgaria, Article 10(2); Romania; Ukraine, Article 2.17)

In Track 1 local or national organisations could use interpretations which are not in line with international interpretations under Track 2. Divergence in interpretation might lead to lack of consistency across borders in the quality of credits. Therefore, if the host country prefers to see local organisations, the government could set up a scheme in which they provide a common quality of

²⁹ Government of Hungary, "Government Decree 323/2007. (XII.11.) Korm. On the implementation of Act LX of 2007 on the implementation framework of the UN Framework Convention on Climate Change and the Kyoto Protocol thereof", see 'II. Rules of procedure of project activities implemented through international cooperation'. http://ji.unfccc.int/JI_Parties/PartiesList.html

³⁰ Government of Poland, "The Act of 17 July 2009 on the System to Manage the Emissions of Greenhouse Gases and Other Substances". http://ji.unfccc.int/JI_Parties/PartiesList.html

³¹ Ukraine does not use the term of 'Track 1' but 'national procedures'. Cabinet of Ministers of Ukraine, "Decree No.206 dated February 22, 2006, Kyiv, on Approval of the Procedure of Drafting, Review, Approval and Implementation of Projects Aimed at Reduction of Anthropogenic Emissions of Greenhouse Gases as amended by the Decrees of the Cabinet of Ministers of Ukraine No.392 dated April 17, 2008 and No.718 dated August 20, 2008"; Ministry of Environmental Protection of Ukraine, "Order 17.07.2006 N 341 on approval of the Requirements to the documents in which the volumes of anthropogenic emissions and absorption of greenhouse gases are substantiated for the receiving of the Letter of Endorsement by the owner of the emissions source, where the implementation of the joint introduction project is intended to be" and "Order 17.07.2006 N 342 on approval of requirements to preparation of the joint implementation projects". http://ji.unfccc.int/JI_Parties/PartiesList.html

³² An interview with a JI expert, 23 May 2011.

³³ Ibid.

³⁴ Ibid.

³⁵ An interview with a JI expert, 25 May 2011.

credits.³⁶ On the other hand, the merit of using local or national organisations is to create opportunities for their activities and, if there is a bottleneck, increase their capacities.³⁷

It is recognised that despite recent steps taken to retain environmental integrity, a number of JI Track 1 projects would not have met JI Track 2 requirements (Point Carbon 2010). It is difficult to assess the quality of the methodologies used by the host country, thus to verify whether real and additional emissions reductions have taken place, the baseline was appropriate and monitoring has been done at an appropriate level. There is some potential risk that both parties would tolerate weak methodologies rather than running the risk of a project failing.

For example, Ukraine allows the mover of the project to choose between two variants of monitoring implementation (sub-paragraph 4.6.2): Variant 1 (sub-paragraph 4.6.3) contemplates the *usage of the formulas* for the calculation of anthropogenic emissions and/or absorption of GHGs according to basic scenario and JI project and definition of the reduction of anthropogenic emissions and/or absorption of GHGs following the project as the difference between them; and Variant 2 (sub-paragraph 4.6.4) is based on the implementation of the *direct monitoring* of the reduction of anthropogenic emissions and/or absorption of GHGs within the limits of the project and the basic scenario.³⁸ Even though the legislation stipulates detailed requirements for Variant 1, it opens a way for omitting the actual monitoring of emission levels.

Point Carbon (2010), in its risk assessment of the CDM and JI portfolio of projects under the supervision of the Danish Energy Agency (DEA), indicates that for some Track 1 projects, it is unlikely that actual monitoring has been done, meaning that authorities de facto have to assume that actual emission reductions have taken place. This is the case for Polish landfills projects which do not monitor actual gas flow emissions, but estimate the ERUs based on a regression analysis. This method is tolerated by the host country under Track 1 but not in line with JI Track 2 standards. Moreover, it is not a requirement for buyers to demand proof of actual emission reductions from a host country, and only a limited number of countries set such a requirement (for example the UK requires project developers to submit appropriate guidance and procedures in the host country. The Netherlands, on the other hand, only requires that the project developer submit a declaration of compliance with host country guidelines).³⁹

Point Carbon (2010) concludes that despite the DEA's serious commitment to ensure that projects generate real emission reductions, some of their JI projects can still be questioned, due to the lack of appropriate methodologies. It is important to note that the DEA has stricter standards for the selection of host countries than other countries.

Technical requirements affecting Track 1 have been addressed in recent proposals by the JISC. The proposed changes include⁴⁰:

- the clarification of the guidance and "the possible use of innovative methodological approaches such as standardized baselines and programmatic approaches";
- building up the capacity of the accredited independent entities (AIEs), i.e. the auditors (paragraph 14 (a) to (e));
- introduction of timelines for the project cycle of Track 2 to accelerate the process⁴¹;
- introduction of a fee payable upon publication of projects or issuance of ERUs under Track 1, in order to avoid project migrating to Track 1 to avoid the payment of Track 2 fees.⁴² The fee was effectively introduced from 1 March 2011.^{43 44}

³⁶ An interview with a JI expert, 23 May 2011.

³⁷ Ibid.

³⁸ Ministry of Environmental Protection of Ukraine, "Order 17.07.2006 N 342". http://ji.unfccc.int/JI_Parties/PartiesList.html

³⁹ Streck, C. (2007). "The various tracks of JI.", Presentation for the UNFCCC Technical Workshop on JI, Bonn, 14 February 2007

⁴⁰ "The Joint Implementation Supervisory Committee Twenty fourth meeting Report", 25 March 2011.

⁴¹ This reform is relevant to Track 1 insofar the use of Track 1 can be influenced by the desire to avoid the lengthy delays in the Track 2 project cycle.

⁴² "Joint Implementation Supervisory Committee Twenty sixth meeting Report", 13-14 September 2011, p. 8, para 33, Downloadable on: http://ji.unfccc.int/Sup_Committee/Meetings/026/Reports/Annex_4.pdf.

⁴³ The fee was introduced in accordance with Decision 4/CMP.6 is downloadable from the UNFCCC website on: <http://unfccc.int/resource/docs/2010/cmp6/eng/12a02.pdf#page=22>

⁴⁴ "The Joint Implementation Supervisory Committee Twenty fourth meeting Report", 25 March 2011, Annex 3.

6 Additionality

This section first discusses whether, given the current circumstances and practice, Track 1 procedures suffice to guarantee that all reductions are truly additional. The second part raises the related question concerning higher risks of ERUs issued in Track 1 resulting from conversion of surplus AAUs without actual monitoring or appropriate verification of emission reductions, i.e. being non-additional. The third and last part looks at a specific question about whether emission reductions generated after 2012, based on AAUs carried over from the first commitment period (CP1), can qualify for ERUs.

6.1 Additionality testing under the current JI

In theory additionality of a JI Track 1 project would be assessed against any specific requirement. If the host country does not set specific requirement on additionality in Track 1, which is a common practice, they will apply the Track 2 approach. If the requirement exists but it is not clear, they will follow the Track 2 approach. Finally, if the requirement exists but it is not strict, they will assess against the given requirement. It is a common practice that there is no specific rule or requirement for additionality in the host country and accordingly a Track 1 project could be treated like a Track 2 project. Thus the Track 2 approach can be considered to be a *default*.⁴⁵

As an exception, not the common practice, it has been known that Ukraine had an intention to include specific additional requirements under Track 1 concerning general assessment of additionality for a chosen industry sector where projects are considered to be additional. In such a case additionality is already defined on a sector basis and it will not be tested project by project.⁴⁶ Whether the country actually has taken such a move is not clear and needs further investigation.

6.2 Risk of non-additional ERUs that are converted from surplus AAUs

The additionality issue is closely linked with surplus AAUs and their convertibility into ERUs. There are different views over how important this issue is in relation to additionality.⁴⁷

Some suggest that surplus AAUs do not create extra allowances like CERs do, and that therefore there is no problem if not all reductions are additional. From this perspective, there is no environmental problem if track 1 reductions are not additional. In the first commitment period of the Kyoto Protocol (CP1) JI operates in a capped environment: i.e. Annex I Parties are committed to a fixed amount of GHG emission reductions expressed in Assigned Amount Units (AAUs) compared with a base year. Annex I Parties can issue ERUs by converting them from a corresponding number of AAUs (see definition of ERUs in section 1).⁴⁸ This means that Parties can issue ERUs without actually testing whether emission reductions are additional. What is not questioned is the consequence of potential non-additionality: the potential non-additionality of Track 1 projects can create economic inefficiency, as it may create rents for emission reductions that could have happened anyway in the absence of JI (i.e. non-additional projects).⁴⁹ Most importantly for the EU ETS, non-additional credits extend the conversion of AAUs (not usable in the EU ETS) into ERUs (usable in the EU ETS), and can therefore impact the EUA price. The risk of ERUs being converted from AAUs and non-additional is considered to be higher under Track 1, depending on the host countries.

Others argue that surplus AAUs create extra allowances for emissions as CERs do. When surplus AAUs are converted into ERUs, these ERUs can be used to offset emissions in the EU ETS. In this instance strict additionality testing is needed to guarantee the environmental integrity of the mechanism.

⁴⁵ An interview with a JI expert, 23 May 2011.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ The Kyoto Protocol's Assigned Amount Units correspond to the permitted emissions, in CO₂ equivalents, during a commitment period. Each unit is equivalent to 1 tonne (metric ton) of CO₂-equivalent emissions. If one Annex I country chooses not to convert surplus AAUs into ERUs, the country can sell them to another Annex I country under Article 17 of the Kyoto Protocol or bank them into a subsequent period (banking).

⁴⁹ An interview with a JI expert, 29 March 2011.

The debate is well summed up below⁵⁰:

“First, ERUs are not generated ex nihilo like CERs⁵¹, but converted from the stock of Assigned Amount Units (AAUs), the Kyoto currency of the project’s host country [...] While Track 2 aims at ensuring that projects are backed with real, verifiable and long-term emission reductions, which means that projects have to follow UN-approved procedures to generate ERUs, *procedures for issuing ERUs under Track 1 depend solely on the host country. Converting AAUs into ERUs can thus be done in the blink of an eye if political will exists. Assuming surplus AAUs are available, those ERUs created would not necessarily be backed by real emission reductions.*” (the emphasis added by authors)

In practice ERUs can only be issued for actual emission reductions which have been achieved against the baseline and verified by the auditors.⁵² A proposal has been already put forward to simplify the requirements for additionality testing as well as baseline setting (Fujiwara 2009).⁵³ Moreover, the JISC recently proposed streamlining the procedures for the demonstration of additionality, “for example by agreeing on ‘positive lists’ of technologies, perhaps related to renewable energy or energy efficiency, which would be deemed to meet the relevant additionality requirements, or by clarifying the requirements for additionality” (paragraph 98 (b)).⁵⁴ Considering the above-mentioned dependence of Track 1 procedures on the host country, some caution may be required to apply the JISC proposal for streamlining the additionality testing procedures to the Track 1 procedures.

6.3 Risks of non-additional ERUs in a gap period

Both track 1 and track 2 have a common question about how to treat emission reductions generated in a gap period before new quantified emission targets are agreed as part of a new international agreement. Also, it is not yet decided what will happen with the excess AAUs in a possible second commitment period (CP2), and it could be envisaged to limit the banking of AAUs as there is no limit to the amount of AAUs that can be carried over under the current rule. Using these AAUs to convert into non-additional ERUs would then negatively impact the overall environmental outcome. Such a risk is considered to be higher in Track 1 than in Track 2.

The carry-over rule in the Marrakech Accords (see Annex 3) and the possibility for a gap period after 2012 before subsequent periods of the Kyoto Protocol have raised a question about late crediting of emission reductions.

While there is no specific requirement for the end of a JI crediting period, many projects will end at the end of CP1. However, given risk of long-term investments beyond 2012, some host countries may conclude that the existing framework allows for the continued issuance of ERUs for post-2012 emission reductions under CP1, and may issue ERUs accordingly. For example, Ukraine’s procedural rules would have a consequence to allow for emission reductions generated beyond CP1 to be converted into ERUs beyond CP1, even in the absence of a CP2, based on AAUs banked from CP1 (von Unger et al. 2011).⁵⁵ Technically speaking, however, CP1 AAUs cannot be banked if there is no CP2.

The JISC has provided some guidance to address the potential gap in commitments to emission reductions. The Committee is of the opinion that the eligibility requirements for JI would not prevent host countries from continuing to have projects determined or emission reductions verified beyond 2012 (Paragraph 120, JISC Annual Report). However, the Committee is less clear about whether ERUs may be issued for emission reductions that occur after the end of CP1 and prior to the entry into force of subsequent commitments (Paragraph 121, JISC Annual Report).

Some suggest that care should be taken because the continuation of crediting JI projects impact on the inventories of Annex I Parties. The continuation of the mechanisms needs also to be considered in the broader context with CDM and International Emissions Trading. In this respect, the

⁵⁰ Leguet, B. (2010), *Supply of Kyoto credits: some unCERTainty*, Tendances Carbone Newsletter n°45, CDC Climat, Arcueil, March

⁵¹ The Certified Emissions Reductions under the CDM

⁵² An interview with a JI expert, 30 March 2011. Also pointed out in the interview, ERUs are not awarded for closing installations whereas the EU ETS awards EUAs, i.e. EU allowances, for doing so.

⁵³ The proposal was originally drafted by a group of JI experts.

⁵⁴ “The Joint Implementation Supervisory Committee Twenty fourth meeting Report”, 25 March 2011.

⁵⁵ In Ukraine’s procedural rules project owners apply to the national authority to deposit AAUs ‘with the purpose to carry over them to the next commitment period of the Kyoto Protocol’ (Cabinet of Ministers of Ukraine quoted in Von Unger et al. 2011). The rough translation of the guideline makes it unclear what the exact consequence of this provision is (Von Unger et al. 2011).

recommendations by the JISC are not in line with the recommendation given by the CDM executive board regarding crediting for reductions post 2012.

7 Concluding remarks

This Briefing Paper gives an overview of the current JI Track 1, the status of JI Track 1 projects, and highlights key issues such as governance, technical requirements including monitoring, verification and accreditation, and additionality.

National legislations vary in the degrees of setting specific requirements (from none to the level comparable to Track 2 requirements) and accrediting independent verifiers (from no specification to national and international accreditation). Questions about the performance level of the additionality testing or monitoring and verification should be directed to the practices under countries where no specific requirements are set by national legislations.

The main problems specific to Track 1 are concerned with governance (lack of coherence of the different national procedures, lack of administrative and institutional capacity, or lack of transparency), technical requirements (weak methodologies) and additionality. Additionality is discussed in a section separate from technical requirements as it also raises a political question about the possibility for carrying over AAUs CP1 and converting them into ERUs. The risk of non-additional ERUs that are converted from surplus AAUs is considered to be higher in Track 1. Accordingly, it is recommended to consider introducing technical fixes to control over possible entry of non-additional ERUs into the EU ETS in Phase III. Such technical fixes should enter into effect under pre-determined conditions, however, because not all ERUs will be considered non-additional. The priority for further research should be placed on the potential host countries for JI Track 1 where i) a large number of ERUs are expected to be issued; ii) legislations do not necessarily require actual monitoring of GHG emissions but calculations or estimates for issuance of ERUs; and iii) legislations do not specify the accreditation of independent verifiers.

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9 Annex 1. Status of JI Track1 projects

Table 1: Track 1 JI projects classified according to host countries

Rejected & withdrawn projects are not included	JI track 1	
Host country for JI projects	Number of Projects	kERUs per year
Russia & Ukraine	34	11516
Russia	3	2466
Ukraine	31	9051
Eastern Europe	120	10205
Bulgaria	26	2561
Czech Republic	45	1223
Romania	11	1551
Poland	15	2670
Hungary	11	1778
Estonia	12	421
Latvia	0	0
Lithuania	0	0
Slovakia	0	0
Others	39	9386
Germany	11	4436
Finland	3	497
France	16	3744
Spain	3	164
Sweden	0	0
New Zealand	6	544
Total JI countries	193	31107
+ Programmatic track 1 projects	6	
Total including programmatic CPAs	199	

Source: UNEP/Risoe website (May 2011): <http://cdmpipeline.org/ji-projects.htm>

Table 2. Track 1 and Track 2 JI projects classified according to buyers

Buyers	Number of projects		
	JI track 1	JI track 2	Total JI
Austria	8	12	20
Belgium	1	3	4
Canada	1		1
Denmark	18	17	35
Finland	4	6	10
France	6	2	8
Germany	18	11	29
Greece			0
Hungary	1		
Iceland			0
Ireland		1	1
Italy			0
Japan	11	9	20
Latvia			0
Luxembourg		3	3
Netherlands	44	58	102
New Zealand			0
Norway	5	1	6
Portugal			0
Spain	1	5	6
Sweden	5	10	15
Switzerland	10	9	19
United Kingdom	11	36	47
NEFCO	2	11	13
WBCF	8		
n.a.	54	66	120
Total	208	260	459

Note: In some projects, more than one investor country participate.

Source: UNEP/Risoe website, JI Pipeline spreadsheet, downloadable on <http://cdmpipeline.org/ji-projects.htm#1>, last accessed 31 May 2011.

Table 3. Track 1 JI projects classified according to project type

JI projects in the pipeline (numbers, ERUs & issuance)	All JI projects			Track 1 projects		
Type	Projects	1000 ERUs	2012 kERUs	Projects	1000 ERUs	2012 kERUs
Afforestation	1	82	410	1	82	410
Agriculture	0	0	0	0	0	0
Biogas	7	842	3497	4	511	2149
Biomass energy	30	2248	10881	17	1289	6391
Cement	4	704	2593	0	0	0
CO ₂ capture	1	268	1071	0	0	0
Coal bed/mine methane	21	10288	50595	5	398	1760
Energy distribution	17	1575	7853	13	1418	7089
EE households	0	0	0	0	0	0
EE industry	47	16572	75659	15	3752	18334
EE own generation	6	2193	10847	4	2063	10316
EE service	1	138	692	1	138	692
EE supply side	22	7235	23514	6	1036	5017
Fossil fuel switch	15	2968	12939	6	409	2043
Fugitive	40	22791	105609	5	2085	9093
Geothermal	3	60	1172	3	60	1172
HFCs	6	3709	15898	3	1934	9319
Hydro	23	2020	8821	13	925	4275
Landfill gas	62	3109	15056	49	1023	5054
N ₂ O	49	25993	104831	33	12826	49675
PFCs	2	336	1631	1	103	466
Reforestation	0	0	0	0	0	0
Solar	0	0	0	0	0	0
Tidal	0	0	0	0	0	0
Transport	0	0	0	0	0	0
Wind	35	2899	11948	14	1057	4776
Total	392	106029	465517	193	31107	138032

Source: UNEP/Risoe website, JI Pipeline spreadsheet, downloadable on <http://cdmpipeline.org/ji-projects.htm#1>, last accessed 31 May 2011.

10 Annex 2. Procedures JI Track 2

E. Verification procedure under the Article 6 Supervisory Committee

30. The verification procedure under the Article 6 Supervisory Committee is the determination by an independent entity, accredited pursuant to appendix A below, of whether a project and the ensuing reductions of anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks meet the relevant requirements of Article 6 and these guidelines.

31. Project participants shall submit to an accredited independent entity a project design document that contains all information needed for the determination of whether the project:

(a) Has been approved by the Parties involved; FCCC/KP/CMP/2005/8/Add.2

(b) Would result in a reduction of anthropogenic emissions by sources or an enhancement of anthropogenic removals by sinks that is additional to any that would otherwise occur;

(c) Has an appropriate baseline and monitoring plan in accordance with the criteria set out in appendix B below.

32. The accredited independent entity shall make the project design document publicly available through the secretariat, subject to confidentiality provisions set out in paragraph 40 below, and receive comments from Parties, stakeholders and UNFCCC accredited observers on the project design document and any supporting information for 30 days from the date the project design document is made publicly available.

33. The accredited independent entity shall determine whether:

(a) The project has been approved by the Parties involved;

(b) The project would result in a reduction of anthropogenic emissions by sources or an enhancement of anthropogenic removals by sinks that is additional to any that would otherwise occur;

(c) The project has an appropriate baseline and monitoring plan in accordance with the criteria set out in (appendix B of the JI guidelines);

(d) Project participants have submitted to the accredited independent entity documentation on the analysis of the environmental impacts of the project activity, including transboundary impacts, in accordance with procedures as determined by the host Party, and, if those impacts are considered significant by the project participants or the host Party, have undertaken an environmental impact assessment in accordance with procedures as required by the host Party.

34. The accredited independent entity shall make its determination publicly available through the secretariat, together with an explanation of its reasons, including a summary of comments received and a report of how due account was taken of these.

35. The determination regarding a project design document shall be deemed final 45 days after the date on which the determination is made public, unless a Party involved in the project or three of the members of the Article 6 Supervisory Committee request a review by the Article 6 Supervisory

Committee. If such a review is requested, the Article 6 Supervisory Committee shall finalize the review as soon as possible, but no later than six months or at the second meeting following the request for review. The Article 6 Supervisory Committee shall communicate its decision on the determination and the reasons for it to the project participants and the public. Its decision shall be final.

36. Project participants shall submit to an accredited independent entity a report in accordance with the monitoring plan on reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks that have already occurred. The report shall be made publicly available.

37. The accredited independent entity shall, upon receipt of a report referred to under paragraph 36 above, make a determination of the reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks reported by project participants in accordance with appendix B below, provided that they were monitored and calculated in accordance with paragraph 33 above.

38. The accredited independent entity shall make its determination under paragraph 37 above publicly available through the secretariat, together with an explanation of its reasons. FCCC/KP/CMP/2005/8/Add.2

39. The determination regarding reported reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks shall be deemed final 15 days after the date on which it is made public, unless a Party involved in the project or three of the members of the Article 6 Supervisory Committee request a review by the Article 6 Supervisory Committee. If such a review is requested, the Article 6 Supervisory Committee shall:

(a) At its next meeting or no later than 30 days after the formal request for the review decide on its course of action. If it decides that the request has merit, it shall perform a review;

(b) Complete its review within 30 days following its decision to perform the review;

(c) Inform the project participants of the outcome of the review, and make public its decision and the reasons for it.

40. Information obtained from project participants marked as proprietary or confidential shall not be disclosed without the written consent of the provider of the information, except as required by applicable national law of the host Party. Information used to determine whether reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks are additional, to describe the baseline methodology and its application, and to support an environmental impact assessment referred to in paragraph 33 (d) above, shall not be considered as proprietary or confidential.

41. Any provisions relating to the commitment period reserve or other limitations to transfers under Article 17 shall not apply to transfers by a Party of ERUs issued into its national registry that were verified in accordance with the verification procedure under the Article 6 Supervisory Committee.

42. The Article 6 Supervisory Committee shall suspend or withdraw the accreditation of an independent entity if it has carried out a review and found that the entity no longer meets the accreditation standards laid down in appendix A. The Article 6 Supervisory Committee may suspend or withdraw accreditation only after the accredited independent entity has had the opportunity of a hearing and depending on the outcome of the hearing. The suspension or withdrawal is with immediate effect.

The affected entity shall be notified, immediately and in writing, once the Article 6 Supervisory Committee has decided upon its suspension or withdrawal. The decision by the Article 6 Supervisory Committee on such a case shall be made public.

43. Verified projects shall not be affected by the suspension or withdrawal of the accreditation of an accredited independent entity unless significant deficiencies are identified in the determination referred to in paragraphs 33 or 37 above for which the entity was responsible. In this case, the Article 6 Supervisory Committee shall decide whether a different accredited independent entity shall be appointed

to assess and, where appropriate, correct such deficiencies. If such an assessment reveals that excess ERUs have been transferred as a result of the deficiencies identified in the determination referred to in paragraphs 33 or 37 above, the independent entity whose accreditation has been withdrawn or suspended shall acquire an equivalent amount of AAUs and ERUs and place them in the holding account of the Party hosting the project within 30 days from the assessment mentioned above.

44. Any suspension or withdrawal of an accredited independent entity that adversely affects verified projects shall be decided on by the Article 6 Supervisory Committee only after the affected project participants have had the opportunity of a hearing.

45. Any costs relating to the assessment referred to in paragraph 44 above shall be borne by the accredited independent entity whose accreditation has been withdrawn or suspended.

Source: <http://www.jirulebook.org>

11 Annex 3. Carry-over rules under the Marrakech Accords

The Marrakech Accords set out the following rules:

After expiration of the additional period for fulfilling commitments and where the final compilation and accounting report referred to in paragraph 62 below indicates that the quantity of ERUs, CERs, AAUs and/or RMUs retired by the Party in accordance with paragraph 13 above is at least equivalent to its anthropogenic carbon dioxide equivalent emissions of the greenhouse gases, and from the sources, listed in Annex A to the Kyoto Protocol for that commitment period, the Party may carry over to the subsequent commitment period:

(a) Any ERUs held in its national registry, which have not been converted from RMUs and have not been retired for that commitment period or cancelled, to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party

(b) Any CERs held in its national registry, which have not been retired for that commitment period or cancelled, to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party

(c) Any AAUs held in its national registry, which have not been retired for that commitment period or cancelled.

Source: Paragraph 15, F. Carry-Over, Annex to Decision 13/CMP1, the Marrakech Accords.

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