



SUBMISSION ON JOINT IMPLEMENTATION PROJECTS

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INTRODUCTION

According to Decision 11/CMP.7 paragraph 14 admitted UNFCCC observer organizations are invited to submit views, on the revision of the joint implementation guidelines, taking into account, as appropriate, their experience of implementing the mechanisms under the Kyoto Protocol. The above mentioned NGOs welcome the opportunity to submit their views.

First we must put the future of the Joint Implementation mechanism (JI) in context. The window of opportunity to prevent catastrophic climate change is rapidly closing. Several studies show that current pledges are not only woefully insufficient to keep warming below 2°C; loopholes, such as the surplus allowances (AAUs) from the first Kyoto commitment period (commonly referred to as 'hot air') could negate all current pledges and enable developed countries to meet mitigation targets while continuing with business-as-usual.^{1,2} We are now on an emissions path that could lead to warming of 4°C or more.³ In addition, impacts associated with 2°C have been revised upwards and are now considered 'dangerous' and 'extremely dangerous'.⁴

Maintaining a reasonable likelihood of limiting temperature increases to within 2°C will require commitments in the next few years to considerably higher levels of ambition by all nations.

ENSURING A ROBUST GOVERNANCE STRUCTURE

JI is currently divided into two "tracks". Under Track 2 an international board (Joint Implementation Supervisory Committee – JISC) approves JI projects and issuance of credits. Under Track 1, it is the host Parties that approve projects and the verification of emission reduction and issuance of credits (ERUs).

The JISC in its recommendations to the COP (FCCC/KP/CMP/2011/9)⁵ suggests that the JI process should be unified into a hybrid version of Track 1 & 2. JI would become a decentralized mechanism *which host Parties implement at the national level*

¹UNEP (2011). Bridging the Emissions Gap. A UNEP Synthesis Report.

Kartha, S. and Erickson, P. (2011). Comparison of Annex 1 and non-Annex 1 pledges under the Cancun Agreements. *SEI Policy Brief*. Available at: <http://sei-us.org/publications/id/424>

Rogelj, Joeri, Julia Nabel, Claudine Chen, William Hare, Kathleen Markmann, Malte Meinshausen, Michiel Schaeffer, Kirsten Macey, and Niklas Höhne (2010). "Copenhagen Accord pledges are paltry." *Nature* 464, 1126-28.

Meinshausen, Malte, Nicolai Meinshausen, William Hare, Sarah C. B. Raper, Katja Frieler, Reto Knutti, David J. Frame, and Myles R. Allen (2009). "Greenhouse-gas emission targets for limiting global warming to 2°C." *Nature* 458, 1158-63. Available at: <http://dx.doi.org/10.1038/nature08017>.

² Environmental Defense Fund does not endorse this statement.

³ Betts R., Collins M., Hemming D., Jones C., Lowe J., Sanderson M., (2011). When could global warming reach 4°C? *Phil. Trans. R. Soc. A* 2011 vol. 369, 1934 p.67-84 doi: 10.1098/rsta.2010.0290

⁴ Anderson K., Bows A. (2011). Beyond 'dangerous' climate change: emission scenarios for a new world. *Phil. Trans. R. Soc. A* 2011 vol. 369, 1934 p.20-44, doi: 10.1098/rsta.2010.0290

⁵ Recommendations on options for building on the approach embodied in joint implementation, October 2011 <http://unfccc.int/resource/docs/2011/cmp7/eng/09.pdf>

under the international guidance and oversight of a new governing body and under the authority of, and with the accountability to, the CMP.

Specifically, JISC recommends that *approval and registration of the JI activity by the host Party; and Issuance of credits in a JI registry administered by the governing body; furthermore the registration of JI activities by the host Party and issuance of offset credits by the governing body should be carried out immediately upon the submission of appropriate validation and verification reports by accredited verifiers.*

The experience with Track 1 has provided ample evidence that having little or no international oversight and quality control over projects that then can generate credits for international compliance is dangerous⁶. Track 1 projects have been notorious for their lack of transparency, accountability and environmental integrity. These shortcomings are outlined in the JISC recommendations and also in a recent report commissioned by the European Commission.⁷ Nevertheless, eight times more ERUs have been issued under Track 1 than under Track 2 (107 mio versus 13 mio).

CAN-I recommends that the approval and registration of projects is not determined by a host country but instead by an international body comprised of members that have no conflict-of-interest⁸ and is subject to rigorous, transparent accounting.

The lack of environmental integrity is not limited to Track 1 projects. There is little scrutiny of Track 2 projects and the quality of offsets from Track 2 projects has been quite uneven. The quality of credits of JI projects must therefore be improved through the following reforms which should be elaborated on in the new JI modalities and procedures:

ENSURING ROBUST ENVIRONMENTAL INTEGRITY

ADDITIONALITY

The JISC recommends that the demonstration of additionality for activities be regulated by host Parties as part of their registration processes and stresses that *host Parties could define preferences for specific activity types or the stringency of additionality requirements*. The JISC recommends limiting international oversight on additionality and baseline determination to voluntary best practice guidance and to have mandatory standards and only *for issues concerning the measurement, reporting and verification (MRV) of emission reductions and removals*.

Although JI projects are implemented in countries with mitigation pledges, stringent additionality rules in the JI are key to ensure the environmental integrity of the mechanism. A country with weak mitigation ambition and AAU surplus has an incentive to also have weak additionality and baseline criteria for JI because it offers an opportunity to sell some of the surplus AAUs as ERUs. A country with ambitious targets on the other hand has an incentive to have stringent additionality and baseline setting criteria⁹. This is because such a country increases its economic burden of achieving its reduction targets when issuing ERUs as it has to make up for the AAU deficit through other policies and measures.¹⁰

JI projects mainly take place in countries that have surplus AAUs. It lies in the interest of these host country to have weak additionality and baseline requirements that enable as many JI projects as possible to be registered. Non-mandatory “best practice” guidelines, as suggested by JISC, will not suffice to ensure the environmental integrity of JI.

⁶ Environmental Defense Fund does not endorse this statement.

⁷ Alessi M. and Fujiwara N., Centre for European Policy Studies (CEPS): [Briefing paper “JI Track 1 preliminary assessment”](#)

⁸ Environmental Defense Fund does not endorse this position.

⁹ Cf. **Clean Development Mechanism Rules of Procedure: Standards for the Executive Board and Operational Entities (Environmental Defense Fund 2000)**, http://apps.edf.org/documents/606_CDM_ethics.PDF

¹⁰ [Joint Implementation: A Frontier Mechanism Within The Borders Of An Emissions Cap](#). CDC Climate, 2012

CAN-I recommends that countries with large AAU surplus carry over from the first Kyoto commitment period should not be allowed to host JI projects in the second commitment period¹¹.

CAN-I recommends that mandatory criteria on additionality be developed to ensure that projects are additional to existing policies and circumstances and that JI revenues are directed to projects where they are necessary to make the project feasible¹².

PRIOR CONSIDERATION

Prior consideration, evidence that JI was taken into account at the planning stage of the project, can serve as one indicator that JI was instrumental in the implementation of an emission reduction activity. Proof of prior consideration should therefore be a mandatory requirement for the demonstration of additionality. The concept of prior consideration was discussed by the JISC in 2011 but no consensus was possible as some members held that the concept of prior consideration would amount to introducing new requirements. This argument is not valid. Art. 6 of the Kyoto Protocol stipulates that reductions need to be additional to any that would occur in the absence of JI. The concept of prior consideration is hence not a new requirement, it is a clarification of the already existing requirements. The introduction of the requirement of prior consideration of JI should not hamper the development of new emission reduction activities under JI but prevent non-additional projects from taking advantage of retroactive crediting in JI where JI played no role in implementation.

CAN-I recommends that JI prior consideration requirements should be made mandatory. These can be modelled on the procedures currently used in the CDM¹³.

BASELINES SETTING

JI does not lead to additional emission reductions beyond the caps that have been set. Systems such as the JI may motivate Parties to take on more ambitious emission reduction targets but to what extent such market mechanisms really push parties to commit to deeper cuts that would help close the emission gap is far from clear. What is clear though is that such systems can significantly undermine emissions caps if they are not implemented in a robust manner that preserves a high degree of environmental integrity.

There are currently no approved JI methodologies. Instead project developers can either use CDM methodologies or they can use project-specific approaches.

CAN-I recommends the following:

- **Methodologies should be harmonized and applied to all projects of a defined type irrespective of the country the project is implemented in.**
- **New methodologies should be reviewed and approved by an international body, similar to the current procedures under the CDM.**
- **Minimum standards for baseline setting need to be defined under the new modalities and procedures to ensure that baselines are set stringently.**
- **Autonomous (business-as-usual) improvements in efficiencies have to be taken into account when setting the baselines, in other words, baselines have to become more stringent over time.**
- **Project monitoring rules should be in line with GHG accounting on the country level.**
- **Baselines should be set so that they enable JI project to deliver ‘atmospheric benefits.’**

Ambitious benchmarks have already shown to be successful in the current JI, for example for adipic acid and nitric acid projects in some countries. Setting crediting baselines more stringently than business-as-usual may help host countries in meeting their national emissions targets, as the JISC notes: *Host Parties may wish to require within their registration processes the application of measures that result in the credits issued numbering less than the actual emissions reductions or removals that occur. This would offer host Parties additional benefits and increased flexibility in meeting their emission*

¹¹ Environmental Defense Fund does not endorse this position.

¹² Environmental Defense Fund does not endorse this position.

¹³ Environmental Defense Fund does not endorse this position.

targets and could be implemented through measures such as conservative baselines or discounting. If a country chooses not to count the non-credited emissions reductions towards its own targets, JI projects can potentially deliver so called 'atmospheric benefits.' The non-credited emissions reductions would de-facto be reductions beyond the cap.

TRANSPARENCY

The experience with Track 1 has provided ample evidence that there is little or no international oversight and quality control over projects that then can generate credits for international compliance. Also the JISC acknowledged that *the national processes under Track 1 vary in the transparency of their procedures and decision-making and are frequently subject to calls for more transparency;*

CAN-I recommends that new modalities and procedure have to include clear guidance on how transparency is ensured.

RENEWAL OF CREDITING PERIOD

The crediting period has not been expressly defined for JI projects. Under current rules, the crediting period can be extended beyond 2012 subject to the approval by the host Party.

CAN-I recommends that:

- **Crediting periods have to be limited and have to be set according to the project type. Project types that are revenue generating (such as renewable energy projects) should have shorter crediting periods than project types that rely exclusively on JI revenues (e.g. certain methane destruction facilities).**
- **The total crediting period should be limited to a maximum of 10 year.**
- **All projects that wish to earn credits post 2012 must go through a process to renew their crediting period. A procedure should be established for review of baseline and additionality claims of such. Renewal of crediting period reviews should be conducted by an independent international panel and not by host countries.**
- **Currently, Track 1 projects can get so called 'early credits' for emissions reductions achieved pre-2008. The new rules should clarify that no such early crediting will be allowed post 2012¹⁴.**

TREATMENT OF JI PROJECTS DURING THE GAP PERIOD

For each ERU sold, the host country has to retire one of its AAUs to avoid double counting. Since AAUs are tied to the Kyoto commitment period, it is not clear what will happen to the JI in the absence of a second commitment period, or what types of AAUs be used to "shadow" ERUs during the so called gap period, after the end of the first Kyoto commitment period and before a second commitment period will enter into force¹⁵. The JISC recommends that either AAUs from the first commitment period can be used or that future AAUs from the second commitment period be deducted from future emission reduction targets adopted by Parties hosting JI project.

Under current rules, using AAUs from the first commitment period is highly problematic, as current experience under Track 1 shows: Countries with large amounts of AAU surplus have started to use JI Track 1 to convert a significant number of AAUs to JI credits. Ukraine for example issued about 33 mio of ERUs between August and October of 2011 (before they were suspended from AAUs trading for non-compliance). In other words, the Ukraine issued more ERUs in those three months than since the start of JI. It is very unlikely that such sudden and large quantities of JI credits are real and additional. In other words, countries with large AAU surplus can use the JI for "hot-air laundering." This not only undermines environmental integrity but also threatens the viability of carbon markets.

The second option is also problematic in terms of preserving environmental integrity: Given the uncertainty of future pledged and QELROS, it does not seem prudent to shadow ERUs during the gap period with future AAUs.

¹⁴ Environmental Defense Fund does not endorse this position.

¹⁵ Environmental Defense Fund does not endorse this statement.

The cleanest solution would be to only allow issuance of CP2 ERUs once CP2 AAUs have been issued. Otherwise one would need provisions for cancelling ERUs if it turns out that the host country does not ratify CP2 after all.

However, the issue of how to treat JI credit issuance during the gap period is less problematic if the recommendations to strengthening the environmental integrity of the JI as elaborated in this document are implemented.

CAN-I furthermore recommends that Track 1 ERUs from countries with large amounts of surplus AAUs should not be bankable or should be heavily discounted¹⁶.

REVIEW PROCESS FOR ACCREDITED INDEPENDENT ENTITIES

As it is a case for CDM, there are potential conflicts of interest since Accredited Independent Entities (AIEs) are paid by project participants. Other parameters worsen the problem, such as the competition between AIEs and the absence of punishment in case of misconduct.

CAN-I recommends establishing a mechanism that includes regular surveillance and spot-checking of AIE performance and that includes rules on the suspension of AIE which have been found to be in non-compliance. Such rules could be modelled after the framework currently used in the CDM for assessing Designated Operational Entities (DOE) compliance.

APPEALS PROCEDURE

There is currently no mechanism for recourse once a project has been registered under CDM or JI. Stakeholders therefore have no possibility to appeal against a project once it has been registered. This is an important measure currently missing from both mechanisms.

CAN-I recommends establishing an appeals procedure that enables stakeholders, including locally affected populations to appeal against negative or positive decisions of the governing body with regards to the registration of a project and issuance of credits.

SHARE OF PROCEEDS (SOP) FOR JOINT IMPLEMENTATION PROJECTS

CAN-I recommends that a Share of Proceeds (SoP) for the Adaptation Fund should be implemented in JI projects as is currently the case in the CDM. Such a funding mechanism was proposed as one of the sources for the Green Climate Fund (GCF) by the Report of the Secretary-General's High-level Advisory Group on Climate Change financing¹⁷.

¹⁶ Environmental Defense Fund do not endorse this position.

¹⁷ Report Of The Secretary-General's High-Level Advisory Group On Climate Change Financing
<http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300>