

CARBON MARKET WATCH RECOMMENDATIONS FOR JI REFORMS UNDER UNFCCC SBSTA-39

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INTRODUCTION

At COP-19 in Warsaw, Parties will negotiate issues related to carbon markets under the Subsidiary Body for Implementation (SBI 39) and the Subsidiary Body for Scientific and Technological Advice (SBSTA 39). Countries will also meet to discuss a future climate agreement under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP).

Demand for carbon market units is at an all-time low. In 2012 the markets for both the Clean Development Mechanism (CDM) and Joint Implementation (JI) have collapsed and prices, currently at below Euro 0.4, may not recover any time soon. Prices are too low to finance low carbon technologies.

COP-19 gives Parties another opportunity to raise their mitigation pledges and to address the current oversupply of offset credits from both the CDM and JI. This oversupply is in no small part due to the lack of sufficient quality restriction which has led to hundreds of millions of offsets being issued that have limited or no environmental integrity.

JOINT IMPLEMENTATION REFORMS

The JI has a poor track record. Countries with large AAU surplus have issued hundreds of millions of JI credits with virtually no integrity or climate benefits (see [article](#) in our Newsletter). In Doha¹ Parties decided that the two JI tracks should be merged.² They also decided to establish common overarching guiding principles, including “*clear, transparent and objective requirements to ensure that projects are additional to what would otherwise occur.*”. All further decisions about JI were delegated to the Subsidiary Body for Implementation (SBI). Below we summarize the most important issues:

- No issuance of ERUs during the interim period
- Require review procedure at registration stage
- Strengthen criteria and review Procedures for Baseline Setting and Additionality
- Implement procedures to renew crediting period

¹ The decision text can be downloaded [here](#).

² 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).

TREATMENT OF JI PROJECTS DURING THE INTERIM PERIOD

For each JI offset (Emission Reduction Unit – ERU) issued, the host country has to retire one of its AAUs to avoid double counting. Under current rules, countries can only issue ERUs for emission reductions after 2012, once the country has issued their AAUs for the second commitment period (CP2). This is likely not going to happen until 2015. To enable the issuance of ERUs during that so called interim period, different recommendations have been made such as, allowing ERU issuance under the condition that the country retire the corresponding number of second commitment period AAUs once they have issued them.

However, issuance of ERUs before countries have their CP2 AAUs available is very risky given that it is unclear if countries will actually ratify the second Kyoto commitment period. So countries could issue ERUs and then not ratify the second commitment period.

→ **Carbon Market Watch recommends:** Current JI rules should stay in place. Issuance of ERUs for emissions reductions after 2012 should only be possible once new AAUs have been issued.

REQUIRE REVIEW PROCEDURE AT REGISTRATION STAGE

The Joint Implementation Supervisory Committee (JISC) has issued recommendations on the revisions of the JI guidelines ([JISC recommendations](#)). The proposed procedure for validation and registration suggests that project registration is exclusively in the hands of a host Party. A review procedure is only proposed at the stage of ERU issuance (**paragraph 48** of the [JISC recommendations](#)), where it can be triggered by three members of the governing body.

→ **Carbon Market Watch recommends** a review procedure by the governing body be included at the stage of project validation or registration.

STRENGTHEN CRITERIA AND REVIEW PROCEDURES FOR BASELINE SETTING AND ADDITIONALITY

JI has to have clear and conservative baseline setting and additionality rules to ensure the environmental integrity of the JI. The suggested rules and procedures are in many instances weak (see paragraphs 30, 32, 33 of the [JISC recommendations](#)). For example, prior consideration providing evidence that JI was taken into account at the planning stage of a project is currently not required of JI projects. Many JI projects registered in 2012 are claiming emission reductions from 2008 or even before.

→ **Carbon Market Watch recommends** to strengthen baseline and additionality rules and procedures, by, inter alia, including prior consideration requirements and requiring a review approval of baselines and positive lists by the international governing body.

IMPLEMENT PROCEDURES TO RENEW CREDITING PERIOD

Many JI projects that were registered during the first commitment period will want to generate ERUs during the second commitment period. But many existing JI projects are no longer additional, given ongoing changes in industry and policy. Such projects should not be able to renew their crediting period.

→ **Carbon Market Watch recommends** a procedure for the renewal of the crediting period for projects registered in the first commitment period that evaluates the baseline scenario and additionality claims of each project.