



Climate Action Network International

Issues relating to Joint Implementation (JI) at SBI 40

June 2, 2014

Climate Action Network International (CAN-I) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 900 members in over 100 countries.

www.climatenetwork.org

The revision JI Guidelines: draft text of [Modalities and procedures for the implementation of Article 6 of the Kyoto Protocol Joint Implementation](#)

A decision to initiate the first review of the JI guidelines was taken by Decision 4/CMP.6. At CMP.8 in Doha, Parties agreed on key attributes that would characterize the future operation of JI and requested the SBI to draft revised JI Modalities and Procedures (M&P). These new M&P will replace the existing JI Guidelines which were adopted by Decision 9/CMP.1. At CMP 9 in Warsaw Parties discussed the draft but did not finalize it. Negotiations on the draft will continue at SBI 40. In our view, the draft text contains several critical points that need to be addressed before it should be adopted.

1. Draft Decision, Paragraphs 8 and 9, stipulate that all registered JI projects (both Track 1 and Track 2) will be able to continue operation without the need to be re-registered or reassessed in any way, and will be able to continue using the old JI Guidelines.

This implies that even if the new JI M&P improve the environmental integrity of JI, already registered projects will be able to continue ERU generation without any changes. The potential of ERU generation by existing projects is enormous and already exceeds the demand, while their quality is often dubious. This also creates legal inconsistency between the current and the new JI M&P, because they establish different procedures, and it will not be clear which of them will supersede in certain areas. For example, the issue of the extension of the crediting periods is not regulated in the current JI Guidelines. If the new Modalities are not applicable to already registered projects, it is not clear how long their crediting periods could be.

2. Annex to the Draft Decision, Paragraph 6 (b) (ii) a) proposes bracketed text that the baseline has to be lower than previous emission levels.

The crediting baselines should be set at below historic emissions of an installation to ensure conservativeness and also because JI takes place in countries that have absolute emission targets that are based on historical emissions (i.e. a base year). Some registered JI projects use a crediting baseline

with increasing emissions over time. This leads to an overestimate project emission reductions. The bracketed text should therefore be approved.

3. Annex to the Draft Decision, Paragraphs 6 (h) and 29 suggest in bracketed text that the JISC will have the authority over the compliance of the host parties with the mandatory rules.

The revised JI will have one single track, which combines some features of the current track and some from track 2. Host parties are tasked to implement the mechanism, while the JISC will only have a supervisory role. Experience with JI implementation under Track 1, which represents well over 90% of ERUs issued to date, shows that when host parties have little or no international supervision, they will prioritize credit maximization and not environmental integrity. It is therefore vital that the JISC provides strong oversight to ensure that countries comply with the rules set out by the M&P and the JISC. Thus it is important that the text of this paragraph remains in the final version.

4. Annex to the Draft Decision, Paragraph 6 (i) proposes in brackets that the JISC will have the right to withhold the process of ERU issuance. (See also paragraph 48 for the details of the proposed procedure.)

Like in the previous item, it is important that the JISC retains the power to stop the ERU issuance process for projects that do not comply with mandatory requirements.

5. Annex to the Draft Decision, Paragraph 36 proposes that that a crediting period could be up to 10 years, with the possibility of extension for another 10 years, subject to baseline validation.

The issuance of ERUs is tied to the availability of AAUs for the same commitment period when the emission reductions occurred. However, it is not yet clear whether there will be assigned amounts in the new agreement post 2020. Thus allowing project participants to establish crediting periods beyond 2020 prejudices the result of the negotiations of the future agreement and could attach intrinsic value to ERUs beyond the framework of the Kyoto Protocol.

For this reason we believe that the crediting periods shall not exceed the commitment period(s) of the KP.

It is also worth to note that the renewal of the crediting periods for another 10 years involves only baseline update (if needed) and verification, but does not reconsider project additionality (which may not be the case anymore at that time). Renewal of crediting period must assess additionality as well as the baseline scenario.

The same paragraph mentions that the crediting period shall not start earlier than the submission of the activity design documents to the Secretariat.

This provision will tackle the issue of retroactive crediting in JI, which allowed the projects to claim ERUs for periods well before actual project initiation (e.g. projects registered in 2013 claimed ERUs for 2008-2012). It could therefore be an important improvement. But this will only be the case if the new rules also stipulate that existing projects cannot continue functioning under the current M&P but instead have to follow the new rules.

Draft Modalities for expediting the continued issuance, transfer and acquisition of joint implementation emission reduction units

Under the current rules, ERUs can only be issued by countries that have a ratified reduction commitment under the Kyoto Protocol and were then able to issue their Assigned Amount – the number of allowances equivalent to allowed emissions over 2008-2012 for CP1 and 2013-2020 for CP2 (Decisions 9/CMP.1 and 13/CMP.1). In accordance with these decisions, emission reductions from JI projects that were achieved after 2012 need to be converted from CP2 AAUs. It is therefore currently not possible to issue ERUs for emissions reductions achieved after 2012 until Parties have received their CP2 AAUs – the so called interim period. CP2 Parties are unlikely to have their CP2 AAUs before 2016 because the initial report to calculate the AA need to be established and reviewed. Parties agreed in Doha to consider possible changes to the rules that would allow for the issuance of AAUs before countries have received their CP2 AAUs. Paragraph 16c of Doha guidance relating to JI requests that the Subsidiary Body for Implementation (SBI) addresses how ERUs are to be issued during the interim period (UNFCCC 2012b). Parties did not come to a decision at COP 19 in Warsaw and the discussion was postponed to SBI40 <http://unfccc.int/resource/docs/2013/sbi/eng/l12.pdf>.

The draft text prepared by the co-chairs of SBI suggests that after the ratification of the Doha Amendment the relevant Party will be allowed to undertake an advanced and limited issuance of CP2 AAUs [up to 1% of CP1 assigned amount] solely for the conversion to ERUs.

Given the current status of the carbon market, namely the oversupply of credits and low prices, the need to expedite the issuance of ERUs in the 2nd commitment period is limited. Currently available credits from CDM and JI CP1 are sufficient to satisfy the demand that is already low. The addition of the supply from JI projects before the establishment of host countries' assigned amounts would put further downwards pressure on the ERU prices. At the same time, the reform of JI is not yet completed and the environmental integrity of JI is not secured, so such a step would further diminish the trust in the mechanism and depreciate its offsets. It should be reminded that in the beginning of CP1 there were no provisions for expedited issuance of ERUs (while there were many uncertainties such as missing national JI procedures and certain rules were not in place yet); nonetheless, this did not prevent the initiation of numerous JI projects and the prices were sufficiently high to give incentives for emission reductions. Thus we believe that there is no need for the establishing special rules for expediting the continued issuance, transfer and acquisition of ERUs.