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**Conference of the Parties serving as the meeting
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**Synthesis report on the views from Parties,
intergovernmental organizations and admitted
observer organizations on the revision of the
joint implementation guidelines**

Note by the secretariat

Summary

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its seventh session, invited Parties, intergovernmental organizations and admitted observer organizations to submit to the secretariat, by 16 April 2012, their views on the revision of the joint implementation (JI) guidelines. This report synthesizes the information provided by Parties and relevant organizations on the revision of the JI guidelines, taking into consideration their experience of implementing the flexible mechanisms under the Kyoto Protocol and the recommendations on options for building on the approach embodied in JI given in document FCCC/KP/CMP/2011/9. It includes experiences gained and lessons learned in the operation of JI, as well as challenges, barriers and areas for improving the JI guidelines. In total, five submissions were received from Parties, one was received from an intergovernmental organization and two were received from admitted observer organizations.

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I. Introduction

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its seventh session, took note of the recommendations on options for building on the approach embodied in joint implementation (JI) provided by the Joint Implementation Supervisory Committee (JISC)¹ and invited Parties, intergovernmental organizations and admitted observer organizations to submit to the secretariat, by 16 April 2012, their views on the revision of the JI guidelines, taking into account, as appropriate, their experience of implementing the mechanisms under the Kyoto Protocol, including national guidelines and the recommendations of the JISC. At the same session, the CMP requested the secretariat to compile the submissions into a synthesis report for consideration by the CMP at its eighth session, and to make the report publicly available by 31 July 2012.²

B. Scope of the note

2. This report synthesizes views on the revision of the JI guidelines contained in five submissions received from Parties and groups of Parties (Denmark on behalf of the European Union and its member States, Ukraine, Nauru on behalf of the Alliance of Small Island States, the Gambia on behalf of the least developed countries, and New Zealand), one submission from an intergovernmental organization (the World Bank) and two submissions from admitted observer organizations (the International Emissions Trading Association and the Project Developer Forum, and Climate Action Network International).

C. Possible action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

3. The CMP may wish to take the information contained in this report into account in its review of the JI guidelines.

II. Synthesis of information provided by Parties, intergovernmental organizations and admitted observer organizations on the revision of the joint implementation guidelines

A. Introduction

4. In most of their submissions, Parties, intergovernmental organizations and admitted observer organizations welcomed and expressed their support in general for the recommendations of the JISC regarding the options for building on the approach embodied

¹ FCCC/KP/CMP/2011/9.

² Decision 11/CMP.7, paragraphs 14 and 15.

in JI,³ as well as decision 11/CMP.7, concerning guidance on the implementation of Article 6 of the Kyoto Protocol. Some Parties and relevant organizations commended the JISC for the comprehensive work and the active stakeholder consultation process.

5. In addition, most of the Parties and relevant organizations reiterated the importance of the continuation of the Kyoto Protocol flexible mechanisms beyond 2012 following the important decisions taken at CMP 7 and highlighted the possible implications of the review of the JI guidelines for the existing negotiations on different areas, such as the following: the carry-over of assigned amount units (AAUs) in the second commitment period; the eligibility to participate in the flexible mechanisms; the role of the commitment period reserve; and the new market-based mechanism. Several Parties expressed their positive expectations for adopting the revised JI guidelines at CMP 9.

6. Several Parties and relevant organizations focused their submissions on the importance of preparing the new JI mechanism for the post-2012 regime, where it could:

- (a) Become a mechanism implemented by Parties at the national level under international guidance;
- (b) Be used as a domestic compliance offset scheme or as a testing ground for new approaches for the use of offset schemes;
- (c) Be expanded for existing Parties and utilized as a transition mechanism for new countries with mandatory greenhouse gas (GHG) emissions targets;
- (d) Be used to enhance mitigation in sectors that may be less suitable for cap-and-trade schemes, and even to link different national and regional markets.

7. The following chapters of this report contain a summary of the information provided by Parties and relevant organizations on different aspects to be reviewed and revised in the JI guidelines, based on their experience in the operation of the JI mechanism. This report organizes the inputs and views according to key functions of the JI mechanism.

B. Project cycle

8. The proposal to have a single unified project cycle was positively received by some Parties, which advanced the idea further by proposing that this process be unified and implemented by the host Party at the national level based on mandatory international standards and procedures and under the supervision of the new governing body replacing the JISC.

9. In one of the submissions it was suggested that the new unified track should maintain the best of both tracks, differ from the current JI Track 2 and maintain the current JI Track 1 flexibility of the host Parties to use the JI mechanism as a policy instrument.

10. Two Parties and an admitted observer organization recommended revising the project cycle in order to include the following steps:

- (a) Development of a design document by the participants in the JI activity;
- (b) Approval of the JI activity only by the host Party;
- (c) Determination of the JI activity by an accredited verifier in order to ensure that the JI activity is consistent with the relevant guidelines;
- (d) Registration of the JI activity by the host Party;
- (e) Recording of the JI activity with the governing body;

³ FCCC/KP/CMP/2011/9.

(f) Monitoring of emission reductions/removals by the participants in the JI activity;

(g) Verification of emission reductions/removals by an accredited verifier;

(h) Issuance of units based on verified emission reductions/removals in a JI registry administered either by the governing body or directly by the host Party, and distribution of units to the project participants in the JI activity.

11. The importance of environmental integrity was highlighted by one Party, which proposed considering it in the process of consolidating the JI tracks, or making improvements in the operation of the separate JI tracks.

12. Another Party suggested having a minimum period of time for a host Party to assess and approve a project at the national level, with the project starting immediately thereafter if approved in the registration process. This approach could be similarly applied for the issuance of units, for which a minimum period of time should be allowed for triggering a possible special review. The revised guidelines should allow for and explain the steps to trigger a special review before units are issued, including the conditions and criteria for initiating the process.

13. Only one admitted observer organization considered that the approval and registration of projects should not be determined by the host Party but instead by an international body comprising members that have no conflict of interest and being subject to rigorous, transparent accounting.

C. Additionality, baseline setting and methodology

14. Almost all submissions received contained inputs and proposals regarding additionality, baseline setting and methodological issues, which vary from requesting more flexibility to enforcing more stringent rules.

1. Additionality

15. With regard to flexibility, one relevant organization suggested that Parties need to reconsider the complex and high-cost concept of project-by-project demonstration of additionality. In addition, some Parties proposed having the additionality demonstration as part of the approval/registration process by the host Party, considering the operation of JI within a capped environment.

16. The same relevant organization recommended applying the additionality demonstration only in situations in which emission caps are not in place. Another possibility could be establishing a positive list of technologies defined by the host Party, which could support a simple demonstration of additionality allowing also for crediting of mitigation activities not on the positive list.

17. Some Parties proposed enforcing minimum mandatory criteria on the demonstration of additionality (to existing policies and measures) and considering the potential benefits in the decision to undertake the project under the JI mechanism.

18. One Party and a relevant organization highlighted the need for a more centralized approach to additionality, baselines and monitoring approaches applied in host Parties, with the enforcement of a strict additionality demonstration, similar to the present approach under JI Track 2, in order to ensure environmental integrity.

19. The existing JISC proposal of having non-mandatory best practice guidelines was considered by the same relevant organization to be unsatisfactory for ensuring environmental integrity.

20. In addition, the respective relevant organization advocated introducing the prior consideration concept (evidence that JI was taken into account in the planning stage) as a mandatory requirement in order to prevent non-additional projects from taking advantage of retroactive crediting. The application of this concept in the JI mechanism could be modelled on the procedures currently used under the clean development mechanism (CDM).

2. Baseline setting and methodology

21. A submission from an intergovernmental organization highlighted the need for JI guidelines to continue providing flexibility in terms of methodological approaches. In addition, the revised guidelines should define better the key principles for establishing simplified/standardized approaches for baselines, for ensuring that offset projects contribute to compliance and for crediting the mitigation activities beyond a project-by-project approach.

22. One proposal in this area from a relevant organization provides for the continuation of using standardized baselines under JI (which is currently possible) together with further development of them at the JISC (or the new governing body) level.

23. Several Parties and relevant organizations considered that the revised guidelines should provide for the following:

(a) A minimum standard for baseline setting, similar to the provisions contained in the Marrakesh Accords for JI Track 2;

(b) A way of harmonizing and centralizing methodologies being applied to all projects of a defined type irrespective of the country;

(c) A regulator of the methodologies for reviewing and approving new methodologies, similar to the current procedures under the CDM;

(d) Clear guidance on using existing CDM methodologies;

(e) A way of setting crediting baselines more stringently than ‘business as usual’;

(f) The possibility of using conservative baselines, discounting and benchmarks and for enabling ‘atmospheric benefits’ (reductions beyond the cap).

D. Accreditation

24. Several Parties were interested about accreditation and made different proposals, for example that the accreditation requirements requested from the verifiers should be based on the function performed (determination/verification), methodologies determined and sectoral scopes of the JI activities.

25. The views were divided regarding the proposal for having a unified accreditation process for JI and the CDM. In this case the JI accreditation requirements would be a subset of the requirements for the unified process, and the CDM accreditation would include additional requirements for ensuring additionality. One relevant organization suggested that even if the proposal above could increase the efficiency and decrease the costs of accreditation, the CDM and JI are separate mechanisms and the accreditation system should also remain separate.

26. Another proposal highlighted the need for having clearly defined roles and responsibilities for the accredited independent entities (AIEs) and for developing a mechanism aimed at regular surveillance and spot-checking of AIE performance, including rules on the suspension of and possible sanctions for AIEs found in non-compliance with the rules.

27. One relevant organization also considered the role of the new governing body that should perform the accreditation functions on behalf of all Parties participating in JI and suggested that direct communication with project participants and AIEs be allowed in order to resolve differences in interpretation.

E. Governance

28. All submissions presented wide-ranging views on the JI mechanism future governance. Similar to other areas, the submissions presented two opposing views regarding governance. Most of the Parties and relevant organizations supported a new governing body established for the single project cycle and operating under the authority of the CMP, but one Party suggested the continuation of the JISC as established.

29. The Parties and relevant organizations supporting the creation of a new body consider that it should perform the following functions (some of which were recommended in the initial JISC proposal):

- (a) Setting mandatory international standards, procedures and best practice guidelines;
- (b) Authorizing the conversion of AAUs into emission reduction units (ERUs), and issuing offset credits, on the basis of verification by accredited verifiers;
- (c) Accrediting verifiers and supervision of their performance;
- (d) Overseeing the conformity of the implementation of JI with the mandatory standards and procedures and requiring the rectification of any cases of non-conformity;
- (e) Reporting to the CMP on the implementation of JI and on the conformity of JI activities with guidance provided by the CMP and the governing body;
- (f) Fostering the robustness of the JI mechanism, ensuring its transparency, including with regard to its processes and decision-making, and actively promoting awareness on the JI mechanism.

30. In addition, the new body should perform the following functions:

- (a) Establish (together with host Parties) non-mandatory guidelines to support a consistent determination, verification and approval of JI activities at the national level, including binding elements to improve efficiency, transparency and environmental integrity, and non-binding elements (best practice guidance), such as guidance on the national approval procedures;
- (b) Avoid involvement in the consideration of individual projects;
- (c) Manage the JI registry;
- (d) Directly communicate with project participants and AIEs;
- (e) Play a high-level advisory role, facilitate dialogue and share knowledge on innovative methodological approaches;
- (f) Conduct its work in an effective and transparent manner.

31. It was suggested in one of the submissions that the new governing body could establish subordinated bodies for the technical work of setting and enforcing standards, or could be separated into two committees, one to set standards and the other to provide oversight on conformity.

32. Regarding its structure and composition, several Parties and relevant organizations presented contradictory views. Some mentioned that the new governing body should be kept to a manageable size, with members being drawn only from Parties involved in JI activities, and other stressed the need to continue having a balanced representation of Parties, with members coming either from both developed and developing Parties or from Parties included in Annex I to the Convention and from Parties not included in Annex I to the Convention, including dedicated seats for the least developed country Parties and the small island developing States.

33. Many submissions highlighted also the idea that members should act in their individual capacity and that Parties should ensure that the nominated members have experience and competence in policy and strategic issues. One relevant organization proposed that Parties nominate representatives of the business community as members of the new governing body.

F. Transitional aspects, issuance and eligibility

1. Transitional aspects

34. Most of the submissions from both Parties and relevant organizations include inputs on transitional issues, issuance of units and eligibility.

35. Some Parties argued that the emissions trading and project-based mechanisms introduced by the Kyoto Protocol, including JI, will continue only for Parties with a GHG emission reduction commitment under the second commitment period of the Kyoto Protocol, as a means of increasing the cost-effectiveness of mitigation and allowing for deeper cuts in emissions.

36. In addition, a Party proposed that Parties to the Convention that are also Parties to the Kyoto Protocol with commitments inscribed in Annex B to the Kyoto Protocol without GHG emission reduction commitments under the second commitment period should not be allowed to present new project activities for the post-2012 period or to issue units for post-2012 reductions resulting from existing project activities. However, host Parties that have adopted GHG emission reduction commitments under the second commitment period should be allowed to continue issuing units for JI projects registered before the beginning of the second commitment period, until the end of the operational lifetime of the project or the end of the second commitment period, whichever is sooner.

37. One relevant organization proposed several stricter measures in respect of the continuation of JI, such as the following:

(a) Countries with a large AAU surplus carried over from the first commitment period should not be allowed to host JI projects in the second commitment period, and the ERUs from JI Track 1 projects in these countries should not be bankable or should be heavily discounted;

(b) The existing feature used under JI Track 1 for generating early credits for emission reductions achieved pre-2008 should not be continued in the post-2012 period;

(c) The crediting period of registered projects, which could be extended beyond 2012, should be limited to a maximum of 10 years and set according to the project type;

(d) There should be a process to renew the crediting period of all projects continuing beyond 2012, to be conducted by an independent international panel.

38. Concerning the approval of the revised JI guidelines, one relevant organization suggested ensuring that the JI projects registered before the new JI guidelines come into effect will not be affected by the changes.

2. Issuance

39. Several Parties proposed continuing applying without changes the existing rules governing the issuance, transfer and acquisition of ERUs, considering the anticipated establishment and entry into force of commitments and assigned amounts under the second commitment period.

40. One Party and one relevant organization explicitly agreed with the JISC proposal to allow the issuance of ERUs under the JI Track 2 procedure by converting AAUs from the first commitment period for emission reductions/removals achieved by existing and new JI projects between 1 January 2013 and either the end of the true-up period or the establishment of the assigned amount in the second commitment period for a host Party, whichever is sooner, with the understanding that the measure will trigger a subsequent and equivalent deduction from the emission targets adopted by the respective host Party.

41. Other Parties considered that the JISC proposal above was presented before the second commitment period was agreed upon and that there is no need to address the issuance of ERUs, as there would be no gap between the commitment periods. In this way, the conversion of first commitment period AAUs to ERUs valid for the second commitment period should not be allowed before the second commitment period AAUs have been issued.

3. Eligibility

42. Some of the Parties providing views on this subject considered that eligibility requirements to participate in the flexible mechanisms should be fulfilled by Parties before they are able to participate as host Parties in JI or as recipients of ERUs. In addition, some considered that the requirements should not be weaker than those existing for JI Track 1 and should be formulated in the context of the international regime of the second commitment period.

43. Other Parties suggested that the existing eligibility criteria should be kept as adopted and that the transfer of units from JI activities should not be allowed for countries that are not Party to the Kyoto Protocol and are not participating in the second commitment period. In addition, one Party proposed having eligibility requirements fulfilled only after the respective Party has adopted a GHG emission reduction target under the second commitment period and had its assigned amount calculated.

44. One Party recommended removing the existing rule that prohibits the issuance of ERUs and their further distribution to project participants during the period when the eligibility of the respective host Party to participate in flexible mechanisms is suspended.

G. Other issues

1. Financial resources

45. A mixture of fees on accreditation and issuance cases was proposed by a Party in order to ensure adequate funding for the work of the governing body, its committees and support structure in a sustainable and predictable manner.

46. One relevant organization suggested having an annual fee for Parties involved in JI (based on emission reductions generated) in a system with a domestic registration process, possibly in addition to a project-based fee, depending on the design of the new JI mechanism.

2. Terms used

47. In respect of the terms used, two options were recommended by a Party and a relevant organization: either to align the JI terms with the CDM terms in order to ensure a wide ‘understandability’ of the terminology; or to keep the current JI vocabulary, preserving the uniqueness of the mechanism.

3. Appeals

48. Some Parties and relevant organizations considered it important to allow project participants, AIEs, host Parties and locally affected populations to appeal against the JISC or governing body rulings, including on the registration of JI activities and the issuance of credits.

49. In this respect, a Party proposed establishing a special body to consider appeals (the committee of appeals) under the authority of the CMP, taking into consideration the distribution of decision-making power for the new JI mechanism among the governing body, host Party and AIE.

50. The same appeals mechanism as for the CDM could be initiated, as proposed by a relevant organization, but further consideration should be given to this issue.

4. Share of proceeds

51. One Party and a relevant organization proposed the introduction of a share of proceeds from the JI project activities to be directed to the Adaptation Fund, similar to the current application in the CDM.

5. Transparency

52. The idea that the revised JI guidelines should contain clear guidance on how transparency is ensured was proposed by a relevant organization.
