

# Draft report on JI experience and possible improvements in future JI operation

**JISC 23**

Bonn, 21-23 October 2010



# Structure of the discussion

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**Thu pm Part 1: Introduction**

*Motoharu Yamazaki, Manager OIC, Process Management*

**Part 2: How far we have come and action areas for re-orientating the present work programme**

*Vlad Trusca, Programme Officer, Project and Entity Assessment*

General reactions and identification of issues

**Part 3: Building on the JI approach for beyond 2012**

*Andrew Howard, Manager OIC, Strategy and Policy Development*

General reactions and identification of issues

**Fri am** Consider specific issues identified

**Fri pm** Consider revised draft and adopt the JI experience report



# Part 1

## Introduction



## Purpose and mandates

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- JI at a crossroads, has reached an important stage in its development and could go one way or another
- Purpose: JISC assessment of experience with JI and possible steps to develop JI further in the short and long terms
- CMP 5 requested the JISC to report to CMP 6
  - Its experience with the JISC verification procedure, with a view to making improvements for the future operation of JI
  - Financial projection to 2012 (incl. timing of becoming self-financing)
- JISC 22 added focus areas
  - Revise long-term work programme to focus on needs of the JI system
  - Means for building on the approach embodied in JI beyond 2012
  - More secure and sustainable financial model for JISC activities



## Process followed

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- Content areas and report nature discussed at JISC 21/22
- 3 inputs received in response to JISC 21 call for inputs
  - Accreditation
  - Involvement of different actors and communication
  - Guidelines and guidance
  - Post-2012 framework
- Inputs drawn upon
  - Responses to public call
  - Issues raised in the work of the JISC
  - Broad range of external analyses
  - Feedback from JISC members nominated at JISC 22



# Structure of the draft report

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- I Executive summary
- II Purpose of the report
- III Governance issues
- IV JI status
- V Context to guide further work
- VI Re-orientating the present work programme
  - Guidance and outreach improvements
  - Enhanced collaboration with DFPs and stakeholders
- VII Building on the JI approach for beyond 2012
  - Addressing a potential gap in targets
  - Potential changes to the operational and financial models of JI



## Expectations for the report

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- Report to be annexed to JISC report to CMP 6
- Action areas for re-orientating the present work programme
  - Within existing JISC mandates, so decisions by CMP are not needed
  - CMP to note/endorse JISC plans and provide feedback if necessary
- Recommendations to Parties in relation to building on the JI approach for the period beyond 2012
  - Relate to Parties' post-2012 deliberations
  - Work of CMP 6 on post-2012 issues relates to the receipt and consideration of AWG-KP results, with discussions on post-2012 issues not expected under the JI item under CMP 6
  - Parties may wish to take account of the JISC recommendations in their submissions and interventions under the AWG-KP or AWG-LCA



## Part 2

How far we have come and action areas for re-orientating the present work programme



# Overview

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- Governance issues (chapter III)
  - CMP guidance
  - JISC activities
  - Financial resources (historical and projections)
- JI status (chapter IV)
  - Early action
  - Current status of projects
  - Current status of accreditation
- Re-orientating the present work programme (chapter VI)
  - Specific action areas



# Governance issues

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- CMP guidance
  - Offsets for an environment of “capped” emissions
  - Flexibility in type of emission reductions and removals
  - Two tracks established through eligibility requirements
  - Institutions and roles: JISC, PPs, AIEs, DFPs and the secretariat
- JISC activities
  - JI track 2 procedure operational since October 2006
  - JI PDD forms and guidelines; procedures for appraisals and reviews; guidance on criteria for baseline setting and monitoring
  - Nature of work has since evolved more to implementation activities
  - Outreach and communication: workshops, Q&A, side events, external events, UNFCCC JI website and news facility



## Historical income and expenditure (USD)

	<b>2009</b>	<b>2010*</b>	
Carry over	2,000,084	862,237	Biennial JI-MAP to plan activities and resources
Party contributions	278,385	2,018,063	Party contributions of \$1,854,910 since JISC 22
Accreditation Fees	-	-	
Verification Fees	750,256	362,619	Immediate financial situation is alleviated
<b>Total income</b>	<b>3,028,725</b>	<b>3,242,919</b>	
<b>Total expenditure</b>	<b>1,416,232</b>	<b>1,394,977</b>	More Parties contributions cannot be relied upon
<b>Set-aside (fee reserve)</b>	<b>750,256</b>	<b>362,619</b>	
<b>Balance at year end</b>	<b>862,237</b>	<b>1,485,323</b>	Accumulated fee reserve currently at \$1,592,471

\* As at 30 Sept 2010



## Financial projections until 2012 (USD million)

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<b>Scenarios</b>	<b>Total Det./Ver.</b>	<b>Mt CO2e 2010-2012</b>	<b>Ver. fees 2010-2012</b>	<b>Ver. fees av. annual</b>
Zero growth	27/11	18	3.0	1.0
Moderate growth	58/34	51	6.8	2.3
High growth	89/50	73	9.3	3.1

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Based on informal survey of AIEs and PPs (with 33% of Russian projects being conducted under Track 2 and 50% of projects expected to be determined by AIEs subsequently proceeding to verification stage before the end of 2012)

Verification fees for the first commitment period will also be submitted after 2012

Scenarios are very dependent on assumptions made: number and size of projects, timing of determination, timing of verification, certainty of reductions and removals, changes in JI eligibility, likelihood of projects transferring between the tracks

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## JI status

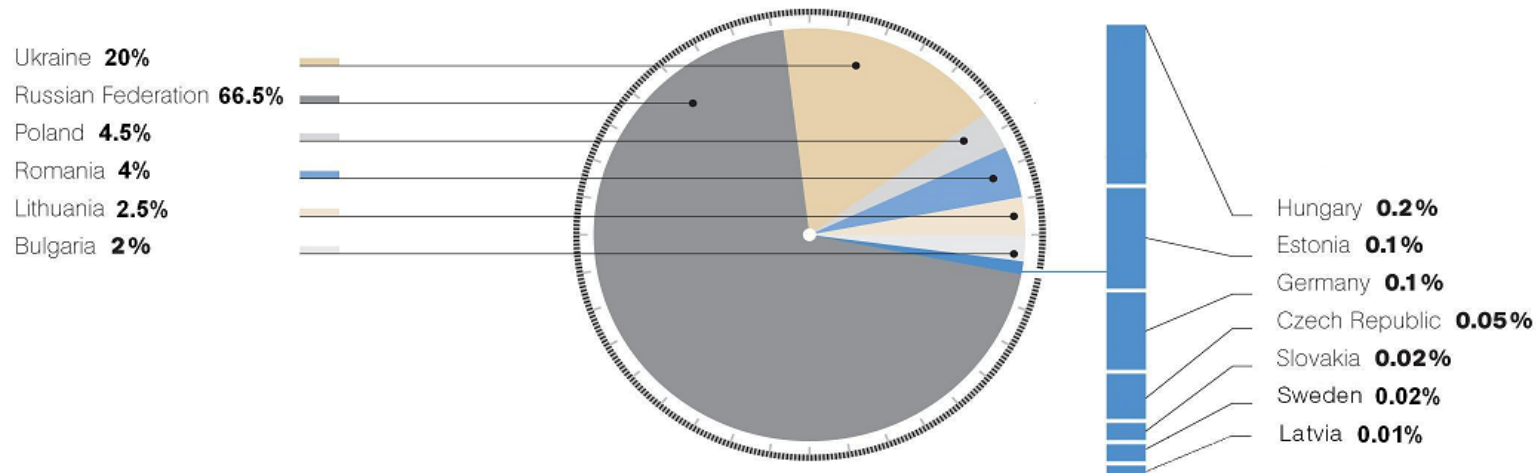
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- Early action
  - Start in 2001 on bilateral basis, building on AIJ experience
  - 130 “early mover” projects by Oct 2006 (mostly under Track 1)
- Current status of projects (30 Sep 2010)
  - PDDs: 234 (236) submitted, 195 active
  - Determinations: 27 published (5 Parties), 20 (22) final, 1 rejected
  - Verifications: 22 (23) published, 20 (22) final - 3.6 (4.2) Mt CO<sub>2</sub>e
  - Track 1 projects: 190 published (12 Parties)
  - 24.5 million ERUs issued to date for 80 project in 11 Parties
  - Primary JI market in 2009: USD 354m (12% of JI/CDM market)
- Current status of accreditation (30 Sep 2010)
  - 15 applications for accreditation received from IEs
  - 4 IEs accredited (one voluntarily withdrew in 2010)
  - 5 applicants under witnessing activity, 5 others may act provisionally



# JI status – distribution of Track 2 PDDs

JI Track 2 total emission reductions (proposals), 2008–12, by country



JI Track 2 industries (submitted project proposals by expected GHG reduction)



# Re-orientating the present work programme

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- Need for a change in the perception of JI
  - JI considered as a mechanism for CEE, Russia and Ukraine
  - JI associated with “hot air”
  - JI competition with GIS and emissions trading

## Action area

- JISC to specifically address perceptions in its outreach work



# Re-orientating the present work programme

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- Further improvements to the verification procedure
  - Concrete suggestions by stakeholders on revision of the guidelines
  - Focused on the guidance, guidelines, glossary and PDD forms
  - Clarification of issues between PPs and AIEs
  - Acceleration of process

## Action areas

- Increase document consistency (merge into a PDD manual)
- Explore time limits (PDD publication to determination stage)
- Use electronic decisions, in particular for reviews
- Revise guidance to support simple/innovative methodologies



# Re-orientating the present work programme

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- Increasing the number of accredited independent entities
  - JI may be hindered by small number of AIEs and delays in the preparation of determinations and verifications
  - Low number of AIEs caused by size of JI market, features of accreditation process, competition with CDM and with Track 1
  - JISC has already agreed changes for witnessing activities
    - Replace ex-post witnessing with performance assessments
    - Use Track 1 projects as witnessing for Track 2 accreditation
    - Temporary suspension of requiring additional ex post witnessing activities within 1.5 of initial accreditation

## Action area

- Revise accreditation standard to incorporate changes



# Re-orientating the present work programme

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- Enhanced cooperation with designated focal points
  - Enhance and clarify the engagement and collaboration of DFPs in JI
  - Benefits from harmonizing institutional and procedural frameworks
  - Delays in national approval process and transparency issues in Track 1

## Action area

- Consider establishing a DFP Forum as a platform for exchanging views, harmonizing national approval processes and providing a basis for capacity building



# Re-orientating the present work programme

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- Enhanced communication with other stakeholders
  - Effectiveness of JI depends on informed stakeholders
  - Delays due to insufficient quality of submissions, technical implementation of projects, and slow responsiveness in contract negotiations, decision-making and communication

## Action areas

- Enhance secretariat outreach activities
- Involve other stakeholders in activities to raise awareness
- JISC to engage more in outreach through external events



## Part 3

# Building on the JI approach for beyond 2012



# Overview

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- Context (chapter V)
  - Robust foundation for growth
  - Post-2012 international climate regime
  - Possible market directions
- Building on the JI approach for beyond 2012 (chapter VII)
  - Addressing a potential gap in emission commitments
  - Need for a new JI operational model
  - Need for a new JI financial model



## Context – foundation for growth

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- Strong growth potential for offsets in a capped environment
- JI track 2 is key offset standard for the capped environment
  - Comparability – a tonne is a tonne is a tonne
  - Universally accepted units for trading and compliance purposes
  - Integrity of reductions and value in the market
- Current procedures and experience give a good foundation



## Context – uncertainty around post-2012

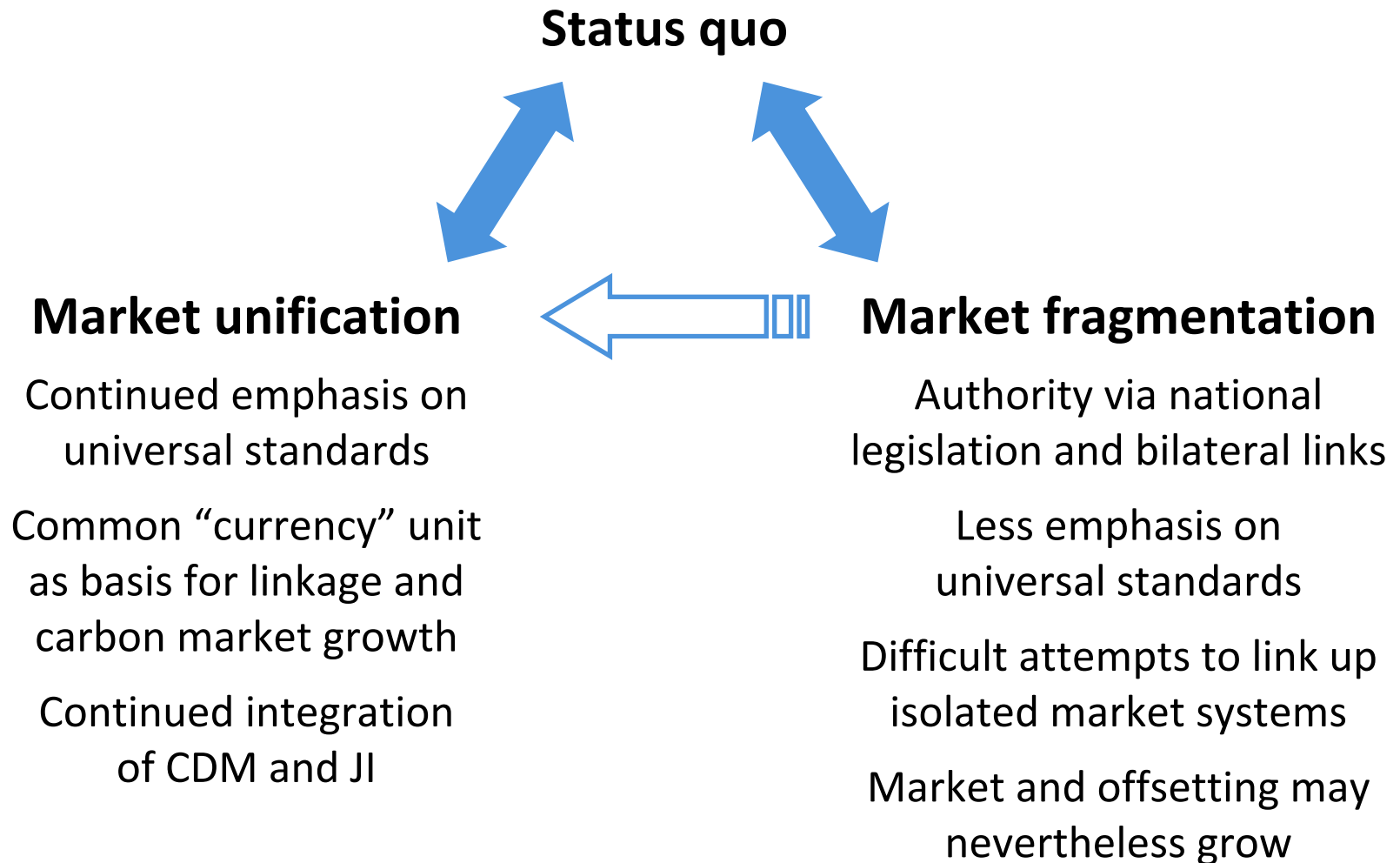
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- Kyoto and JI are ongoing, but CP2 targets still uncertain
- Appears that JI projects and verification may continue ...
  - JI eligibility rules don't restrict them
  - Questions may arise over JISC role with CP2 reductions
- ... but ERU issuance requires conversion of AAUs or RMUs
  - CP2 AAUs only issuable after entry into force of new commitments
  - CP2 RMUs dependent on CP2 accounting rules being completed
- Uncertainty on “close off” of CP1 JI can be put to rest
  - CP1 issuance for reductions achieved in the commitment period (this issuance will inevitably continue after 31 Dec 2012)
  - ERU carry over (from AAUs only) allowed to 2.5% of assigned amount



## Context – potential JI role under different market directions

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## Building on JI – addressing a post-2012 gap

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- Post-2012 uncertainty is a major hindrance to JI investment
- Bridge may be needed to span gap in emission commitments (though wouldn't remove all post-2012 uncertainty)

### Recommendations to Parties

- Clarify if new projects may be determined after 2012
- Clarify if ERU issuance for post-2012 reductions may occur on the basis of CP1 AAUs and RMUs
  - Limited to the end of the “true-up” period (approx mid-2015)
  - No inflation of overall Annex I allowable emissions for CP1 or CP2 (makes host Party compliance with CP1 targets more difficult while easing the compliance situation of the Party receiving the ERUs)



# Building on JI – elements of a new operational model

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## Action area

- Continue JISC consideration of how to build on JI approach

## Recommendations to Parties

- Consider major procedural revisions (para 122)
- Consider major governance revisions (para 124)
- Merge JI tracks OR maintain separate tracks (para 121)
- Take account of potential new financial model (para 134)



## Building on JI – potential procedural revisions

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- Streamlined demonstration of additionality
  - Positive technology lists (eg renewables, energy efficiency)
  - Greater use of standardized baselines and default values
- National approval only by the host Party
- Harmonized procedures for national approval of projects
- Merging of the CDM and JI accreditation processes
  - Joint CDM/JI committee responsible for process and decisions
  - CDM and JI specific requirements, as necessary
  - Entities accredited for CDM or JI, or preferably both
- Set-aside of AAUs or RMUs by host Parties, upon positive determination of PDDs, for subsequent issuance as ERUs
- Strengthen links with national emissions trading systems



## Building on JI – potential governance revisions

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- Standard-setting body, not a project assessment body
  - Established by, and accountable to, the CMP
  - Provide policy framework for implementation at national level (recognizing that targets are not inflated by offsets in capped system)
  - Monitor conformity of national implementation and report to CMP
- Improved collaboration with DFPs, AIEs and stakeholders
- Ensure membership reflects necessary skills and expertise
- Consider composition of members in light of any new operational model adopted



# Building on JI – getting the best of both worlds

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## Track 1

Pro: Flexibility of host-Party driven definition of procedures

Con: Burden of procedure definition lies with Parties

Con: Stakeholders confronted with many different procedures

Con: Less transparency

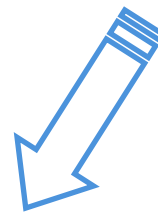
## Track 2

Pro: International oversight guarantees integrity and value

Pro: Stable and consistent procedures, with full transparency

Pro: Takes burden of procedure definition and implementation

Con: Less flexibility for host Parties in defining procedures



**Can we blend the pros while limiting the cons?**



## Building on JI – key questions to answer

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- What system changes can realize the growth potential?
  - Harmonizing standards and procedures
  - Ensuring process simplicity and efficiency
  - Building universal acceptance of standards and tradability of units
  - Concentrating limited number of projects in fewer variants of the mechanism (and sharing administrative costs across all activities)
  - Reducing dependence on development of national procedures
- How to balance harmonization with host Party definition?
  - Ensure host Party involvement in the harmonization process
  - Build institutions to support the harmonization process
  - Host Parties set own criteria for national project approval
  - Host Parties may formulate complementary programmes (eg GIS)



## Building on JI – merging tracks (option 1)

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- Formulate a new, single JI track
  - New standard-setting body, with mostly national representation, to harmonize and strengthen national procedures
  - Emphasize facilitation of offsets through simple, consistent and transparent procedures, while ensuring environmental integrity
- Harmonized national project approval process
- Harmonized determination and verification processes
- Consider merging CDM and JI accreditation processes
- Advance set-aside of units for issuance purposes
- Environmental integrity to ensure linkage to national ETS

In practice, a new single track would be positioned between current tracks 1 and 2 (not the continuation of one of them)



## Building on JI – maintaining separate tracks (option 2)

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- Track 1: CMP urges or mandates DFP collaboration to harmonize and strengthen national procedures
  - Harmonized national project approval process
  - Harmonized determination and verification processes
  - Consistent and transparent procedures, with environmental integrity
- Track 2: JISC simplifies its procedures, while ensuring both process efficiency and environmental integrity
  - Streamlined demonstration of additionality
  - Harmonized national project approval process
  - Merging of the CDM and JI accreditation processes

Improvements in each track, though no institutional support and limitations of two-track model may not be overcome



## Building on JI – options for a new financial model

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- Problem: JISC operational environment is vulnerable to unpredictable fluctuations in fees and Party contributions
- Potential solutions
  - Agreed sharing of costs through “mandatory” Party contributions
    - Fixed shares (equal or via an adjusted UNFCCC funding scale)
    - Variable amounts, based on level of ERU issuance
  - Scale up JI so that current accreditation/verification fees are enough
  - New fees to raise JISC funds from both tracks
    - Fee on ERU issuance
    - Charge for DFP use of JISC procedures and systems



## Building on JI – synergy of operational and financial models

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- Principles for a sustainable and acceptable solution
  - JI should have enough scale to provide sufficient fee-based income
  - Ensure JI costs are shared across all JI activities
- Merging tracks offers double solution
  - Best chances to substantially grow JI and bring economies of scale
  - Brings all JI activities under one framework and cost structure
- Maintaining separate tracks may bring less scale but JISC could receive fees and charges from track 1

### Recommendations to Parties

- Consider impacts on fee income of a potential merger
- If no merger, consider fees and charges from track 1



## Summary of issues for consideration

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- Clarify if new JI projects may be processed after 2012
- Allow ERU issuance for post-2012 reductions from CP1 units
  
- Consider major procedural revisions
- Consider major governance revisions
- Merge JI tracks OR maintain separate tracks
  
- Consider impacts on fee income of a potential merger
- If no merger, consider fees and charges from track 1



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