

JISC MEETING REPORT

JISC 37
29 – 30 September 2015



Wuppertal Institute
for Climate, Environment
and Energy

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Report

Joint Implementation Supervisory Committee 37th Meeting

29 – 30 September 2015

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Workplan

Accreditation of Independent Entities (IEs)

In a closed session, the JISC took note of the request from AIE JI-E-0012 TÜV Rheinland (China) Ltd. regarding voluntary withdrawal of its accreditation.

Future development of the JI accreditation system

This agenda item was addressed as part of the discussion on recommendations to the CMP and an associated decision was made. See that section.

Matters relating to determination and verification reports

Status of JI projects

The Secretariat informed the JISC on the current status of JI projects.¹

There had been an increase in the number of JISC projects since the 36th meeting of the JISC in March. There are currently 548 projects under Track 1 and an unchanged 51 projects under Track 2. The largest share of projects in both tracks (210 and 27, respectively) is still being implemented in Ukraine. With 48 per cent each of the overall number, energy projects still make up the largest share by project type. Transport and LULUCF projects play hardly any role in either track.

¹ http://customers.meta-fusion.com/wcm/150929_5082_UNFCCC_JISC_37_Bonn/download/3-2-5-JISC-37-Status-of-projects.pdf

Only 255,952 ERUs were issued under Track 1 in 2015. This is the lowest annual total so far.

Planning

JI Workplan 2015

The JISC was given a brief update on the status of this year's workplan. The revised plan can be accessed on the UNFCCC website.² Changes largely involved the management plan, which is outlined in the following section. The Secretariat was able to report that all planned JISC activities were completed in the course of the year.

JI Business Plan and Management Plan 2016 - 2017

The Secretariat presented its proposal for the Business Plan and the Management Plan for 2016 and 2017.³

Demand for ERUs is declining and questions are arising concerning the future of the JI system. Uncertainty thus remains as to the role the market mechanisms will play in the Paris agreement and under what conditions their use will be allowed beyond 2020.

On the assumption that Joint Implementation will continue to play an important role in efforts to combat climate change, the aim of the JISC is still to retain JI as a useful and effective tool for international cooperation between industrial-

² <http://ji.unfccc.int/UserManagement/FileStorage/F5L81JIM7B2HWQDSPU3A4ZT0Y9XKGN>

³ http://customers.meta-fusion.com/wcm/150929_5082_UNFCCC_JISC_37_Bonn/download/3.3-7-JISC37-BP-MAP.pdf

ised countries and the private sector in efforts to reduce greenhouse gases.

As in previous years, the JISC plans to achieve this in the coming two years with three sub-targets:

1. E Make an effective contribution to the future of JI

The JISC will continue to observe negotiations and use opportunities to provide input and information. Looking ahead, the JISC can already start to think about establishing the revised guidelines, which have still to be decided by the CMP.

2. Promoting the mechanism

The JISC is striving to promote an understanding for the value of JI among market players, stakeholders and policymakers.

3. Keeping JI operational

The JISC will continue to maintain the JI processes and will search for ways to improve specific aspects of the JI project cycle.

The Joint Implementation Management Plan (JI-MAP) for 2016 – 2017 sets out these goals in the form of concrete work activities, capacities and anticipated resources.

It is not expected that any notable project submissions will be received under Track 2, be it PDDs, determinations, monitoring reports or verifications. Only minimal resources will be needed to maintain the Track 2 process as a result. The JI-MAP continues to reflect cost savings which are to be achieved by cross-mechanism work performed by the Secretariat. Where necessary, the Secretariat can deploy staff at short notice to deal with unexpected events.

The cost savings result in a lower than expected budget of USD 826,998 for 2016 and 2017 – al-

most USD 150,000 less than the budget for 2015. Adhering to the anticipated budget would result in a surplus of almost USD 5 million in 2017.

The JISC adopted the Business Plan and the Management Plan for 2016 – 2017.

Guidance by the CMP

Annual JISC report to the CMP

The Secretariat presented a draft of the annual report to CMP 11.⁴ The report contains an overview of JISC activities in the current year along with JISC recommendations for JI-related decisions to be made by the CMP.

The report stresses that JI still has an important role in international efforts to combat climate change. However, the actual contribution made by JI has steadily reduced in recent years. For the most part, this can be attributed to the policy arena in which JI operates. Unless the Doha Amendment is ratified, this situation will not change because the mechanism cannot continue to function without CP2 AAUs.

The JISC decided to review the draft report section by section.

With regard to Section 3 (The Future Role of Joint Implementation), a JISC member asked if the report should stress the message that market mechanisms working in a capped environment are what the Paris agreement is going to bring with INDCs. If Paris produced this kind of outcome, the JISC could offer valuable input from lessons learned in working with JI. But then again, a mechanism like JI can only work if there is an equivalent form of assigned amount units that can be converted into certificates. Also, JI cannot function in the absence of AAUs, as can be seen in the current second Kyoto period. Added to this comes the fact that an AAU system can only be effective if the INDCs are cumulatively ambitious enough to result in actual reductions in global emissions. There is also the

matter of the ongoing 'hot air' problem. This gives rise to the question of whether the JISC report should propose some form of assigned amounts at global level.

It was decided to bring out Joint Implementation in the report as a promising option with which to achieve cost-effective emission reductions in the future.

Under Section 4 (Quantitative Data on Joint Implementation), it was proposed to separate the figures for Track 1 and Track 2 in order to better illustrate the differences between the two approaches. Other comments addressed editorial changes.

The JISC asked the Secretariat, working in coordination with the Chair, to integrate the outcomes of the current session and the various comments and to finalise the report.

Options for the JI accreditation system

The Secretariat presented a concept note outlining the potential impacts and measures to minimise risk, and setting out a plan to implement the decision to use the CDM accreditation system, as decided in the previous JISC meeting.⁵

This concept note served the purposes of simplifying the JISC's final decision regarding future accreditation rules.

Because there are now only two accredited AIEs, there is no longer any competition. At the same time, there is hardly any work left for either the AIEs or the JI Accreditation Panel. Re-

⁴ http://ji.unfccc.int/UserManagement/FileStorage/DV5RSP_NEZ98JQAY7M1HO4F2X6IBLK0

⁵ http://customers.metafusion.com/wcm/150929_5082_UNFCCC_JISC_37_Bonn/download/4.1-9-JISC37-JI-accreditation-system.pdf

tention of the JI-specific accreditation system incurs costs which, due to the low level of effort involved, are not necessarily justified.

Given the situation, the Secretariat sees three possible options:

1. Maintain the status quo
2. Adopt the CDM accreditation system in full
3. Temporarily suspend JI accreditation

Maintaining the status quo (Option 1) would serve stability and secure the expertise acquired by the AIEs, the JI-AP, the JISC and the Secretariat. However, this would also lead to increased costs for project developers and bring uncertainty regarding the availability of services provided by AIEs.

Adopting the CDM accreditation system in full and implementing it permanently (Option 2) would have the positive effect of reducing costs for both AIEs and project developers, as well as securing the availability of AIE functions.

On the downside, this option could lead to regulatory instability, the expertise and capacities for JI accreditation would be lost, it would make the JISC reliant on the CDM and DOEs would perhaps not possess enough JI-related expertise. In addition, independent supervision of the AIEs by the JISC would no longer be possible.

Temporary suspension of JI accreditation (Option 3) would mean retaining the existing system in principle. However, all further policy-related developments would be frozen and the overhead costs would largely be minimised. Fees would be cancelled and accreditation of the two remaining AIEs would be automatically extended.

On the one hand, this would increase the likelihood of the AIE functions being secured for the longer term. The overhead costs would also be reduced. But on the other, a step of this kind would mean an increase in costs for the JISC along with the loss of income from fees. It could

also mean that the JISC's supervisory function would be weakened by the lack of new accreditations, which could well affect its reputation.

In the subsequent debate, one JISC member commented that the JI-AP had not really been active for some time and thus questioned the capacities that would be secured by retaining the existing system (Option 1). With regard to the loss of independent supervision, he said that this function would still exist, but it would be performed by the CDM EB and not by the JISC.

One outstanding issue is whether the questions raised by the Stockholm Environment Institute report regarding the integrity of Track 1 certificates in relation to lesser international supervision would not arise in this case as well – the JISC would at minimum relinquish supervision and it is possible that the CDM EB is unable to guarantee the same level of supervision of DOEs acting as AIEs for procedural reasons.

Another member took this up and reminded the JISC that previous talks with the CDM EB on this subject had not always been fruitful. He suggested approaching the Chair of the AIE/DOE Forum on this issue (see below) and then continue the debate on the basis of his comments. The other members of the JISC supported this proposal.

Another JISC member called for supervision of the AIEs to remain with the JISC, including if accreditation becomes the responsibility of the CDM EB. He said this was important in order to give the EB the feeling that it was not being restricted in performing its own work. The member also suggested leaving the complaints function for AIEs with the JISC.

The Secretariat emphasised that despite the strong decline in direct interactions within the JI-AP, there had nonetheless been regular exchange via online channels and that a number of decisions had been reached. These activities had contributed to maintaining both the JI-AP's

capacities and its membership in regard to the current model. Both the expertise gained in this way and the supporting infrastructure would be lost.

It is correct that the supervisory function for accreditation under Option 2 would be transferred entirely to the CDM EB. This is a real risk, because poor performance in JI cannot be detected by the CDM system. The idea of establishing a complaints mechanism for the JISC is thus worth considering.

The JISC decided to postpone discussing this topic until the next morning to allow time to consider the opinion of the DOE/AIE Forum Chair.

In a closed session, the JISC discussed the details of the decision regarding a new accreditation system and reached the following decision:

In future, DOEs accredited under the CDM may also assume AIE functions under JI. However, the JISC must ensure that the environmental integrity of these activities is given. All CDM EB decisions concerning DOEs must also apply *mutatis mutandis* to DOEs acting as AIEs.

Accreditation of DOEs acting as AIEs is generally valid for the same sectoral scopes. One exception being CCS, as there is no corresponding sector under JI.

The Secretariat will draft a *pro forma* declaration for DOEs in which they can provide proof of their expertise with regard to JI activities. DOEs must make this declaration if they wish to assume AIE responsibilities on a voluntary basis.

The transition period for the introduction of these new rules will begin on 2 August 2016. No new accreditation requests will be accepted as of 30 September 2015. The two AIEs that are still accredited remain accredited as AIEs through to the end of their accreditation period.

As in the past, the JISC retains the right to suspend AIE accreditation.

The Secretariat will be responsible for monitoring implementation of the use of the CDM accreditation system on an annual basis and will inform the JISC of the outcome of its monitoring activities at its first meeting in 2017. The JISC will use these findings to make periodic checks to assess whether it make sense to return to a separate JI-specific system.

The Secretariat will be responsible for notifying the AIEs of this decision. It will give DOEs acting as AIEs access to the JI interface and after receiving their declarations, send them confirmation that they are authorised to act as AIEs. The information contained on the JI website will be updated to reflect the JISC decision. The experts listed in the JI Accreditation Roster of Experts and also the members of the JI-AP will be released from their responsibilities.

At the next JISC meeting, the Secretariat will present a concept note concerning the risks arising from this decision given the potential lack of a supervisory function along with options for the potential continuation of the complaints mechanism under JI.

The JISC decision was included in the JISC report to the CMP.

Interaction with Forums and Process Participants

DOE/AIE Coordination Forum

Werner Betzenbichler, Chair of the DOE/AIE Coordination Forum, commented on important issues brought up at this JISC meeting.⁶

He described the current market situation for AIEs, saying that the market continues to be at an all-time low. Only two AIEs remain, all others have withdrawn voluntarily.

The two remaining AIEs supported the idea of suspending the current JI accreditation system as a cost-saving measure in the hope that JI would become operational again in the future. They believed that adopting the CDM accreditation system would result in a decline in quality because the auditors' expertise could not be ensured. One option would be to further harmonise the two systems, but still perform accreditations separately.

Finally, Mr. Betzenbichler outlined some of the AIE responses to the Stockholm Environment Institute report. He complained that its criticism of Track 1 and the associated AIEs constituted criticism of the robustness of the JI accreditation system overall – and this despite the fact that trust is the most valuable capital these third parties possess. The JI accreditation system's established procedures for identifying and correcting unacceptable performance are an important part of the accreditation process.

⁶ http://customers.meta-fusion.com/wcm/150929_5082_UNFCCC_JISC_37_Bonn/download/4.2-10-JISC37-DOE-AIE-Forum.pdf

Against this backdrop, Mr. Betzenbichler said that Track 1 had provided complaint options for both Parties and stakeholders, but that the process had not been used. The DOE/AIE Coordination Forum would thus welcome the issuance of a JISC communication giving direct answers as to the impact on the JI accreditation process.

The JISC thanked Mr. Betzenbichler for his comments.

Project Developer Forum

Philipp Hauser, Co-Chair of the Project Developer Forum, gave a presentation on the role of the market mechanisms in supporting INDCs under a future climate change agreement.⁷

He said the long, capital-intensive process involved in bringing climate change technologies and infrastructures to market was the main barrier to global green growth and the main risk to the climate. This is a serious issue, Mr Hauser said, because every carbon-intensive investment made today leads to long-term carbon lock-in. It is thus necessary, to act as quickly as possible, he added. A transformative change is needed which promotes global cooperation and the use of existing mechanisms in efforts to overcome existing forms of market failure. The UN system is well placed to address these issues.

Joint Implementation and the Clean Development Mechanism must play a leading role. They

⁷ http://customers.meta-fusion.com/wcm/150929_5082_UNFCCC_JISC_37_Bonn/download/4.2-11-JISC37-PD-Forum.pdf

offer comparable standards, robust MRV, flexibility in supporting national policies like NAMAs, as well as existing forms of carbon financing (such as results based finance).

The Paris agreement according to Mr Hauser should thus take account of the Kyoto mechanisms and the successes they have achieved. Access to the mechanisms should be given to all Parties, and also to the IMO and the ICAO, to enable rapid reductions. A robust carbon accounting system must also be established. Issuance of certificates and carbon accounting could be performed by means of countries' national inventories.

The JISC thanked Mr. Hauser for his presentation.

Other Business

Update on recent UNFCCC sessions

The Secretariat gave the JISC an update regarding the most recent negotiations (SB42 and ADP 2.09 and 210).⁸

No agreement had been reached at SB42 regarding the modalities for accelerated issuance of ERUs in the second Kyoto period. The decision was postponed under a draft decision made on the basis of the JISC recommendations to the 43rd SB session in Paris. The decision could become redundant if it is not adopted prior to the Doha Amendment entering into force.

No final decision was reached on revising the JI Guidelines. All recommendations made by the JISC on improving the negotiation text concerning modalities and procedures had been integrated and the text prepared for further negotiations during SB43. During the SB42 negotiations there had been substantial debate on net atmospheric benefit in Joint Implementation. This had been prompted by the publication of the Stockholm Environment Institute report.

The Doha Amendment has still not entered into force. By 2 September 2015, it had been ratified by 43 countries, but 190 ratifications are needed for it to enter into force.

During the debate on the review of the CDM modalities and procedures, constructive talks ensued on various technical aspects, especially regarding PoAs. No agreement was reached, however, as to the progress to be made in Paris.

⁸ http://customers.meta-fusion.com/wcm/150929_5082_UNFCCC_JISC_37_Bonn/download/4.3-13-JISC37-Negotiations-Update.pdf

The discussions on the new market mechanisms and other future mechanisms were largely concluded without result. The members had very different views on how to proceed with this matter because the carbon markets were also to be addressed at the ADP. Further steps will be discussed at the next SB sessions.

Carbon market discussions during the 9th meeting of the ADP took place under Workstream 1 and Workstream 2. Market-based ideas began to take greater shape under Workstream 1. However, it was clear that the Parties have very different views about how the accounting process should look and what it should entail. Integrated approaches for adaptation and reduction were identified as a promising option for future markets.

Views regarding the current market mechanisms were collected under Workstream 2. There were calls to finalise the CDM review, to enable and to simplify financing for emission reduction activities, and to promote voluntary cancellation of certificates. Early action is also to be given greater focus.

During ADP 2.10, many countries made it clear that their right to use the carbon market must be reflected in the Paris agreement. However, some states categorically reject the inclusion of markets in the agreement. Many industrialised states are of the opinion that they do not need approval for cooperative market use, but also said there is a need for rules on the environmental integrity of emission reduction activities. For this reason, many states support the development of accounting rules to prevent double counting, secure environmental integrity and make it clear that internationally traded reduction results must be actual, permanent, additional and verified. Some states, especially

developing countries, called for a centralised mechanism. No agreement was reached, however, on the form that this should take. Many Parties demanded that at minimum, the underlying principles of one or more such mechanisms should be determined in Paris.

Finally, the Stockholm Environment Institute study on Joint Implementation was discussed. The Secretariat complained that the news that the additionality of 73 percent of ERUs was in doubt cast shadows on JI in its entirety even though the findings refer exclusively to Track 1 activities. The results of the study were broadly echoed in the media, which tend not to emphasise the difference between Track 1 and Track 2. This gives a very negative impression of emission reduction certificates and of the carbon market as a whole.

The study had been discussed in detail during the negotiations. Some negotiators used it as an argument against carbon markets. Others found that the study was important because it highlighted the need for future carbon markets to be well designed.

The Secretariat then pointed out that the SB42 negotiations had placed particular focus on the CDM. The JISC's recommendations and discussion pointers had only been taken up to a very limited extent and no JI-type mechanisms had been taken into account.

In the subsequent discussion, it was stressed that net mitigation will in all likelihood continue to be the subject of heated debate, because the Parties' standpoints differ to such an extent that they are almost incompatible. It was asked whether the Secretariat could compile a technical paper on options to support the negotiations.

There were also calls for a stronger stance to be taken to counter the negative press as this had an extremely negative impact on carbon market negotiations.

The Secretariat made it clear that it could only work on an option paper for net mitigation if requested to do so by the Parties. It was also mentioned that a range of options and other research results were available from independent research institutes. Rather than being of a purely technical nature, the decision was primarily one of policy.

Ways of dealing with negative press were subsequently discussed in a closed session.

Update on the status of the carbon market

The Secretariat gave the JISC its regular update on developments in the carbon market.⁹

Mechanisms to put a price on carbon were becoming more popular around the world and were attracting support from high-ranking policymakers. Such mechanisms are thus a priority of the G7 presidency and also an important pillar of France's Paris Alliance. The current market remains fragmented, however.

Interest in use of the current international mechanisms prior to 2020 is extremely limited. There is, however, great interest in their use beyond 2020. This harbours opportunities to integrate the carbon markets into climate financing.

An analysis of the 33 INDCs submitted up to 14 September 2015 showed that 20 of them explicitly wanted to use various forms of carbon markets or at least mentioned the option of doing so. Some 17 INDCs called for an international carbon market mechanism, while 13 contained demands for rules governing the market, such as no double counting, rules on environmental integrity, actual emission reductions and verification of results.

⁹ http://customers.meta-fusion.com/wcm/150929_5082_UNFCCC_JISC_37_Bonn/download/4-3-15-JISC37-carbon-market.pdf

There was a brief overview of the current carbon markets in Japan (JCM), Australia (Emission Reduction Fund), China (national emissions trading scheme), South Korea (CERs for the national climate target), the EU (expiry of options for the use of international units beyond 2020, agreement on a stability reserve) and North America (Ontario's entry into emissions trading with Quebec and California, California's 2030 target of a 40 percent reduction compared with the base year 1990).

The Secretariat also presented two examples of CER acquisition programmes. To support its reduction target of 30 to 40 percent in 2020 compared with the base year 1990, Norway had announced its intention to buy between 60 and 100 million CERs as part of its Carbon Credit Procurement Programme. Also, the Norwegian NEFCO is buying 30 million CERs from vulnerable CDM projects conducted in the second Kyoto period. The average purchase price per CER lies at USD 2.28.

The JISC discussed one possible role for the flexible mechanisms in future climate financing. The World Bank's Pilot Auction Facility had recently held its first reverse auction, resulting in price guarantees of USD 2.40/t for some 8.7 million CERs. It is possible that other types of emissions certificates could be auctioned in this way in the future.

Other

The JISC side event is expected to be held in Paris on 1 December 2015.

The next JISC meeting is scheduled to take place on 27 – 28 May 2016. At this meeting, the JISC will discuss whether a second meeting is necessary in 2016. The planned agenda is already available online.¹⁰

¹⁰ http://ji.unfccc.int/UserManagement/FileStorage/EMAZW_LIXHJ06N5FSQ7PC48RDGOY2VU