



This newsletter is published as part of the project JIKO – Development phase 2002-2004 at the Wuppertal Institute for Climate, Environment, Energy – Energy, Transport and Climate Policy Research Group

Dear Reader,

Things are moving on the climate protection front. The EU Council of Ministers has approved the Linking Directive which governs integration of the project-based mechanisms into EU Emissions Trading (see leading article). This closes an important chapter in the development of the European emissions trading scheme.

Another key event was the announcement by Russia's President Putin to officially forward the Kyoto Protocol to the Duma, Russia's parliament, for ratification. While it might be too early to hail the Protocol's entry into force, observers see Russia's signing as only a matter of time. Ratification by Russia would reward the German-Russian cooperation on Joint Implementation, on whose progress JIKO Info has reported in the past. Read on for news on this and other topical issues. Thank you for your interest.

The Editor

JIKO News

- Kyoto Protocol On the Home Straight
- Linking Directive Approved: National Implementation Underway
- Regional Climate Protection and Development Cooperation Networks
- JI Call for Tenders Seeks Climate Protection Projects in Baltic Sea Region
- Russia and Germany Develop Portfolio of Potential JI Projects

JIKO Test

- Additionality Test Under Debate

JIKO News

Kyoto Protocol On the Home Straight

The Russian cabinet approved the act to ratify the Kyoto Protocol on 30.09.2004. Before it can be signed by President Putin and thus enter into force, the act must first be approved by both the Duma and the Federation Council, meaning the lower and upper houses of the Russian parliament. The Kyoto Protocol would then have cleared the final hurdle and would enter into force 90 days from the date the Russian Federation presents its ratification document to the United Nations in New York.

To be continued on page 2.

JIKO News

Linking Directive Approved: National Implementation Underway

On 13.09.04, the EU Council of Ministers approved the amendment directive to link CDM and JI to EU Emissions Trading. Once the text of the directive is published in the Official Journal – expected some time in October – the so-called Linking Directive will officially enter into force. Member States will then have 12 months in which to transpose the directive into national law.

The German Environment Ministry has announced that it intends to transpose the directive into national law without delay. In a speech before the German Bundestag on 24.09.04, Environment Minister Jürgen Trittin made it clear that there are no plans to fully exploit the 12-month deadline. Mr. Trittin placed particular emphasis on the importance of the KfW Carbon Fund. With its investment in the Fund, the German government will promote renewable energy over the coming years by purchasing emissions certificates worth EUR 8 million.

The Federal Environment Ministry is expected to have the first draft act to implement the directive at national level ready as early as October.

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JIKO News

Kyoto Protocol On the Home Straight

Continued from page 1.

Germany's Environment Minister Jürgen Trittin is confident that the Russian parliament will ratify the Protocol within the normal consultation period and deadline: 'Approval of the draft act to ratify the Kyoto Protocol shows that Russia is serious about assuming responsibility in the fight against global climate change. Russia has opened the door to greater multilateral cooperation under the United Nations banner.'

The decision of the Russian cabinet signals the long-awaited breakthrough in global climate protection efforts. The Kyoto Protocol, which constitutes the start of globally binding reduction targets, is to become reality. This is a good omen as regards the introduction of the EU Emissions Trading scheme on 1 January 2005 – it increases confidence in the stability and development opportunities provided by the emissions trading scheme.

For the Russians, ratification of the Kyoto Protocol is not just the final act in a long and drawn-out decisionmaking process. It also constitutes the kick-off for implementation of the Protocol at national level. But in reforming Russia's energy industry, all expectations of emissions trading and the benefits to be had from JI projects will be in vain if Russia fails to quickly set up an adequate monitoring and reporting system for greenhouse gases and to create the institutional conditions to allow development of JI projects. Russia's Economics Minister German Gref has made it clear that Russia still has much work to do in creating a link between finding investors and developing a national emissions trading system.

Russia has until 2006 to draw up its greenhouse gas inventory. Failure to meet this deadline will make Russia's participation in the Kyoto mechanisms much more difficult. JI projects would still be possible, but they would have to be conducted in the so-called JI Second Track which, in contrast to the relatively uncomplicated First Track, involves an international process in analogy to the CDM. This is bound to be an additional hurdle, albeit one at which JI projects need not necessarily fail. Consultation services

and capacity-building activities such as those promised to transition states in the Climate Framework Convention would certainly not go amiss.

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JIKO News

Regional Climate Protection and Development Cooperation Networks

The kick-off event for the multi-stakeholder dialogue entitled "CDM Projects: New Approaches for the Work of Local Development Initiatives in Germany?" took place in Wuppertal on 16 September. The meeting focused on establishing regional climate protection and development cooperation networks, and the availability of relevant information. A follow-up meeting with stakeholders from North Rhine-Westphalia is planned.

The discussion on regional networks focused on the concept of an agency for renewables in development cooperation and climate justice [*Agentur Erneuerbare Energien in der Entwicklungszusammenarbeit und Klimagerechtigkeit*] as proposed by Jan Christensen of the *Nordelbische Missionszentrum*. The agency would perform mainly educational work on climate change and the role of renewable energy in development cooperation. It would also network interested stakeholders in Northern Germany.

Given the number of groups already in operation, the potential exists to establish similar networks in Southern Germany and in North Rhine-Westphalia. During the discussions, it became clear that the North German model was not easily transferable and would need to be adapted to regional conditions. Thus, a model specific to North Rhine-Westphalia was proposed that places far more focus on developing and promoting new projects. Further details will be discussed at a follow-up meeting which will deal solely with the situation in North Rhine-Westphalia. While the German Environment Ministry could support these networks during their start-up phase, they should be

developed by means of a bottom-up process so as to take account of local conditions and needs.

A further point of discussion was the amount of information available on JI and CDM. Most participants believed that enough, in fact more than enough, material was already available to project developers. What is lacking are simplified introductions aimed at a broader audience and specific target groups like policymakers, businesses and interest groups. The planned regional networks and those under discussion could partially fill this gap, but action is also needed from the German Environment Ministry.

The general consensus was that, initially, projects started by local initiatives would probably not be carried out under the CDM due to the prohibitively high transaction costs. Less costly alternatives are foreseen at intermediate levels in the form, for example, of voluntary compensation of greenhouse gas emissions. This would require the development of a reliable project standard and an effective monitoring system. But considering the ongoing efforts to further simplify the CDM, these two development paths may yet converge over time.

For further information on the discussion process and the meeting held on 16 September, please see: <http://www.wupperinst.org/Sites/Projects/rg2/1078.html>

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JIKO Test

Additionality Test Under Debate

One of the key requirements in achieving acceptance for a CDM project is what is known as *additionality*. This means demonstrating that the project could not be conducted without the CDM. Up to now, additionality has for the most part been demonstrated by project developers in accordance with self-set standards. The CDM Executive Board now plans to standardise the additionality test and has drawn up a proposal which was available for reading and comment on the Executive

Board web site. The Dutch Environment Ministry (VROM), SenterNovem and the World Bank have also come up with a joint proposal for a simplified and standardised test. The Executive Board will decide on the final version at its next meeting. JIKO Info has compared and analysed the two proposals.

The proposal put forward by VROM/SenterNovem and the World Bank was submitted as an agenda item in spring of this year (as reported by JIKO Info). While the two proposals differ as to the various steps of the test, there are many similarities in their content.

Both tests start with the question of when a specific project activity will begin. This establishes whether activities that began before the CDM actually commenced would also have been conducted if there was no CDM. If the project started after 01.01.2000 but before 31.12.2005, then according to the Executive Board proposal, it must be demonstrated that the incentive provided by the CDM played a key role in the decision to go ahead with the project. Evidence must be in the form of documentation of an official nature whose authenticity can be verified.

The second step in the VROM et al. proposal checks whether a project activity is based on legal obligations of a direct or indirect nature. If this is the case, the project activity is declared non-additional. Conversely, the Executive Board proposal requires information on alternatives to the proposed project activity, including continuation of the current situation or carrying out the project as a non-CDM project. The identified alternatives are then assessed as to whether they comply with applicable law and statutory requirements. Account is also taken of the extent to which the requirements are actually put into practice. If the proposed project activity is the only alternative that matches the existing statutory requirements that have actually been implemented, it is declared non-additional.

The third step in both the VROM et al. proposal and that of the Executive Board allows a choice between analysis of investment barriers and analysis of other barriers.

Table 1: Steps in the Proposals for a Consolidated Additionality Test

VROM/Senter/World Bank	CDM Executive Board¹
1. Has the project activity already begun?	1. Did the project activity start after 1 January 2000 but before 31 December 2005?
2. Is the implementation of the project activity based on legal obligations?	2. Are any alternatives available which comply with applicable law and statutory requirements?
3. a) Is the project activity affected by any economic or financial barriers? b) Is the project activity affected by any other barriers?	3. a) Is the project activity affected by any economic or financial barriers? b) Is the project activity affected by any other barriers?
4. Is the project activity common practice?	4. Is the project activity common practice?
	5. What impact does registration as a CDM project have on the project itself?
<small>1) Numbering has been changed to allow better comparison</small>	

In both cases, the investment analysis follows the same pattern (Step 3.a): it distinguishes between projects

1. which produce no revenue apart from the sale of certified emissions reductions (CERs),
2. for which plausible and measurably comparable alternatives exist,
3. for which no comparable alternative exists.

In the first case, both proposals require a simple cost analysis. In the second case, both proposals require a comparison of the alternatives using a financial indicator such as the internal rate of return and evidence that the proposed project activity is not the most attractive alternative. In the third case, both proposals require comparison of the project activity (again using an indicator like the internal rate of return) against a relevant benchmark value. This comparison must lead to the conclusion that without the CDM the project would be unattractive. The Executive Board proposal also requires a sensitivity analysis in which the key parameters are varied. In all these variations, the analysis must support the conclusion that the proposed project activity is financially unattractive without the CDM.

As an alternative to the investment analysis, both proposals allow consideration of other barriers such as a lack of skilled and/or properly trained staff (Step 3.b). The existence of such barriers must be proven and verifiable. It must be demonstrated that they would hinder implementation of the project were it not registered as a CDM project. The Executive Board proposal also requires proof that at least one alternative to the proposed project activity would not be hindered by these barriers.

Step four in both proposals involves what is known as the Common Practice Test. It must be demonstrated that the planned project activity is not already common practice in the region in question. Should

that be the case, the project could be conducted without the CDM and would not pass the additionality test. What exactly is meant by common practice remains rather vague, however.

The last step in the Executive Board proposal questions the impact of CDM registration on the project and requires an explanation as to how the CDM will alleviate the identified barriers.

Overall, it is clear that, as it stands, the text of the Executive Board proposal is significantly more detailed and more stringent than that of VROM et al. It has received a very mixed response. Some commentators, like the NGOs and the Hamburg Institute of International Economics welcomed the stringency of the Executive Board's test and in some cases wanted to tighten it even further. The VROM, the World Bank and the International Emissions Trading Association (IETA) had doubts about the usefulness of some elements, fearing that project developers might be overwhelmed. What effect this toing-and-froing will have on the final text remains to be seen.

The text does require better definition on a number of points. For example, it is unclear what is meant by 'official and verifiable documents'. It is also unclear as to whether the test will apply to all CDM projects seeing that CDM Small Scale projects are subject to a simplified process for which additionality criteria have already been agreed.

The VROM proposal is available at:

<http://www.senter.nl/asp/page.asp?id=i000008&alias=erupt>

The text of the Executive Board proposal, including comments submitted, is available at: <http://cdm.unfccc.int/methodologies/inputadditionality/index.html>

MB/WS:

JIKO News

JI Call for Tenders Seeks Climate Protection Projects in Baltic Sea Region

On 16.9.2004, an alliance of Baltic Sea Region countries invited proposals for JI projects in the Baltic Sea Region. A specially established fund – the Testing Ground Facility – currently has some EUR 10 million at its disposal. The alliance is especially interested in projects from Poland, the three Baltic states and Russia.

The Testing Ground Facility (TGF) is funded by the Scandinavian states and Germany. Cooperation is based on a multilateral agreement at government level aimed at developing a test area for JI projects in the Baltic Sea Region. The goal is to make implementation of JI projects possible before 2008 (the year in which the first JI emissions certificates will be generated).



Wind energy projects are among those eligible for consideration by the Testing Ground Facility.

The TGF is managed by the Nordic Environment Finance Cooperation (NEFCO). No further details on the project proposal process were available at the time of going to press. NEFCO can be contacted via their web site at www.nefco.fi. Background information, documents and the JI Testing Ground Handbook are available at www.cbss.st/basrec/documents/climatechange.

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JIKO News

Russia and Germany Develop Portfolio of Potential JI Projects

The German Environment Ministry has launched a cooperation project to promote Russia's JI potential. The aim is to identify potential JI projects and promote development of JI structures in Russia. Germany is represented by dena (the German energy agency) who will manage the project in conjunction with Russia's JI Committee.

Despite the delayed ratification of the Kyoto Protocol, many businesses and municipal administrations in Russia have indicated their interest in carrying out JI projects. To improve conditions for potential joint climate protection projects, the German Federal Environment Ministry (BMU) and the Russian JI Committee entered into a cooperation agreement in May this year (as reported by JIKO Info). The project, which is already underway, aims to help create a market for JI projects. This should make it easier for German businesses to acquire emissions certificates that they can then use in the EU emissions trading scheme.

The project comprises four working phases, some of which run in parallel:

1. Evaluation of experience gathered by project owners and developers in Russia to allow development of suitable project management strategies.
2. Development of an evaluation matrix for German-Russian JI projects. This involves researching and

identifying the approval criteria to be applied by the Russian authorities, and comparing them with the criteria used by the German Environment Ministry.

3. Development of a project portfolio. Russian businesses will be invited to submit project descriptions (short presentation of the German JI Handbook), which will be pre-screened for plausibility according to a standardised, internationally recognised catalogue of criteria before actual processing. The pre-screened projects will then be forwarded to the German Environment Ministry and the respective Russian ministries and agencies for approval.
4. Development of a table of contents for a Russian JI Handbook.

An informational event will be held for potential Russian project developers and the competent authorities in Moscow. The aim is to inform businesses of the options available within the framework of the project and to integrate all project partners from the outset.

A list of at least 10 pre-screened potential German-Russian JI projects will then be drawn up for submission to German investors. A catalogue of approval criteria for JI projects in Russia is also planned and will be compiled in conjunction with the competent German and Russian authorities.

The contacts for this project are: at dena (German Energy Agency) – Petra Optiz (E-mail: opitz@deutsche-energie-agentur.de) and at the Germany Environment Ministry (BMU) – Thomas Forth (E-Mail: Thomas.Forth@bmu.bund.de).

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JIKO News in Brief

JI & CDM Workshop Brings Northern German Market Players Together

Innovationsstiftung Schleswig-Holstein, the environment ministries and industry representatives from Germany's northern *Länder* (federal states) have issued a joint invitation to market players affected by emissions trading to attend a full-day event in Hamburg on 1 November 2004. The aim of the workshop is to inform businesses involved in emissions trading, developers, consulting firms and banks about the project-based mechanisms and to bring together the various stakeholders in the northern *Länder*.

Requests for informational material should be sent to: emissionshandel@essh.de.

CDM Centres of Excellence

Consultants Ecofys and EcoSecurities are currently building a Centres of Excellence network for the CDM. The centres will primarily promote the development and implementation of small scale CDM projects. The first centres will be established in India and South Africa, and further projects are planned in other developing countries. The initiative is funded by the British Foreign and Commonwealth Office.

For further information, please visit: www.kyotoexperts.com/cdm.

Researchers to Debate Climate Policy Beyond 2012

The Wuppertal Institute has issued an invitation to a debate on 16 November 2004 on International Climate Policy Beyond 2012: Challenges for Policy Consultation and Research. During the workshop, experts from government and administration, research and civil society will discuss the further development of the climate regime. The aim of the event is to develop goals and objectives for policy consultation and research in the future.

Further information can be requested by sending an e-mail to: jiko@wupperinst.org.

JIKO Info

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