



This newsletter is published as part of the project JIKO – Development phase 2005-2007 at the Wuppertal Institute for Climate, Environment, Energy – Energy, Transport and Climate Policy Research Group

Dear Readers,

We had announced that this issue would contain a report on the review of the Linking Directive, the EU Directive governing integration of the CDM and JI mechanisms into the European Emissions Trading Scheme. The EU Commission has, however, yet to publish its review; observers now expect it to be available in mid-September. So, rather than this being a special edition, we have decided to keep to our regular format and bring you up to date on the latest trends in the use of Kyoto mechanisms. This includes an informative evaluation of the current emissions inventories and projection reports (see the adjacent article). Due to time constraints, our series on carbon funds will be continued in the next edition of JIKO which is due to be published in early October. We will also report on the review of the Linking Directive, assuming it has been published by then. At the end of October, we will be issuing a special edition of JIKO Info on the occasion of the Climate Change Conference in Nairobi.

We wish you an interesting and informative read.

The Editor

JIKO News

EU-15 Missing Kyoto Targets? Emissions Trends on the Upswing

The European Union is all set to miss its climate change mitigation target: without additional measures, by 2010 the EU will only be able to reduce its greenhouse gas emissions by 1.6 percent compared with the base year (1990). Yet under the Kyoto Protocol, EU Member States agreed to an 8 percent reduction by 2012. Planned use of the CDM and JI mechanisms will not be enough to plug the existing gaps. These are the findings of the latest statistics issued by the European Environment Agency (EEA). JIKO Info has analysed the data.

When signing the Kyoto Protocol in 1997, the then 15 EU Member States agreed to reduce their greenhouse gas emissions by a total of 8 percent compared with the base year. They have since redistributed the burden of meeting this target among themselves under the EU burden sharing arrangement. To assess whether the EU-15 are set to meet the target, JIKO Info looked at the available emissions inventories (from 2004) for the various states along with the latest projection reports covering emissions trends up to 2010.

To be continued on page 2.

JIKO News

Jl Supervisory Committee Working Apace

The Joint Implementation Supervisory Committee will hold its fourth meeting from 13-15 September 2006. Since its appointment in late 2005, the JI Supervisory Committee has made tremendous progress on the instrument's design. JIKO Info reviews the results of the Committee's work to date.

In contrast to the Clean Development Mechanism, implementation of the Joint Implementation mechanism depended on the entry into force of the Kyoto Protocol. This is why the second of the Kyoto project-based mechanisms was only able to get off to a formal start at the climate change conference in Montreal late last year.

To be continued on page 3.

JIKO News

- EU-15 Missing Kyoto Targets? Emissions Trends on the Upswing
- JI Supervisory Committee Working Apace
- CDM Initiative – Federal Environment Ministry Launches New Activities

JIKO News in Brief

JIKO News

EU-15 Missing Kyoto Targets? Emissions Trends on the Upswing

Continued from page 1.

The figures show that in 2004, emissions in the EU-15 were only 0.9 percent below the base year level; compared with

2003, emissions in 2004 were up slightly by 0.3 percent. In Spain and Italy in particular, emissions were higher in 2004 than in 2003 (up 4.8 percent and 0.9 percent respectively). Germany, Denmark and Finland all reduced their emissions in the same period. Table 1 shows EU-15 emissions by country in 2004 (Column 2).

Current projections for the period 2008-2012 give little cause for complacency. The EEA has produced two scenarios for 2010: one is based on existing climate change

State	Emissions 2004	Kyoto Target	Deviation between Target and Projected Emissions 2008-2012*	Deviation between Target and Projected Emissions 2008-2012*	Carbon Acquisitions National CDM/JI Programmes 2008-2012	Shortfall/Surplus After Purchase 2008-2012	Shortfall/Surplus After Purchase 2008-2012
			Existing National Measures	Additional National Measures**		Existing National Measures	Additional National Measures
	Mt CO ₂ e	Mt CO ₂ e	Mt CO ₂ e	Mt CO ₂ e	Mt CO ₂ e	Mt CO ₂ e	Mt CO ₂ e
Austria	91.3	67.5	-84.5	-15	35	-49.5	20
Belgium	147.9	133.2	-76	-38.5	42	-34	3.5
Denmark	68.1	55.0	-87.5	(-87.5)	22.5	-65	-65
Finland	81.4	70.5	-46.5	-3	12.5	-34	9.5
France	562.6	545.0	-246.5	45	-	-246.5	45
Germany	1015.3	986.2	-73.5	-1	-	-73.5	-1
Great Britain	659.3	657.7	294.5	(294.5)	-	294.5	294.5
Greece	137.6	139.6	-54	0.5	-	-54	0.5
Ireland	68.5	60.4	-54.5	(-54.5)	18.5	-36	-36
Italy	582.5	476.3	-520.5	-269	198	-322.5	-71
Luxembourg	12.7	9.2	-3.5	(-3.5)	15	11.5	11.5
Netherlands	217.8	200.1	-101	-73	100	-1	27
Portugal	84.5	75.5	-74.5	-45	25.5	-49	-19.5
Spain	427.9	238.1	-345	-135	100	-245	-35
Sweden	69.9	75.1	18	(18)	5	23	23
Total EU-15	4227.3	3813.8	-1455	-367	574	-881	207
EU-15 Deviation from Base Year 1990 in %	-0.9	-8.0	-1.6	-6.8	2.5	-4.1	-9.3

Source: Own Presentation. Data taken from EEA Report No. 8/2005 and EEA Technical Report No. 6/2006

* Over-achievement (+) or compliance gap (-)

** The figures in brackets indicate a lack of available data on the scenario with additional measures; calculations are based on data for the scenario with existing measures

Table 1: EU-15 Greenhouse Gas Emissions, Projections for 2008-2012 and National CDM/JI Carbon Acquisition Plans

State	Acquisition Targets National CDM/JI Programmes 2008-2012	Costs at €7.40/t	Previously budgeted
	Mt CO ₂ e	€ Million	€ Million
Austria	35	259	288
Belgium	42	210	60
Denmark	22.5	166.5	177
Finland	12.5	92.5	Previous 30 Planned 100
Ireland	18.5	136.9	–
Italy	198	1465.2	Previous 169.5 Planned 1150
Luxembourg	15	111	45
Netherlands	100	740	606
Portugal	25.5	188.7	–
Spain	100	740	200
Sweden	5	39	30

Source: Own presentation. Data taken from EEA Report No. 8/2005

Table 2: EU-15 Acquisition Plans and Budgets

mitigation measures, while the other includes ‘additional policies and measures’ whose implementation is currently under debate. In the scenario with existing policies and measures, EU-15 emissions in 2010 will only be about 1.6 percent below those of the base year. Only Sweden and Great Britain will be in a position to meet their respective national targets with their existing policies. Considerable problems in target attainment are projected for Italy and Spain, the very states who were unable to reverse the trend back in 2004.

The scenario with additional policies and measures likewise projects that reductions will be inadequate, at only 6.8 percent. According to plans published to date, the EU-15 states intend to use the Kyoto mechanisms in a scope matching some 2.5 percent of the EU-15 base year emissions. In total, this would mean EU reductions in the region of 9.3 percent. However, the 6.8 percent reduction already mentioned includes the in some cases significant

over-achievement by France, Great Britain and Sweden, which cannot be taken for granted. Consideration must also be given to the possibility that the additional policies and measures on which the scenario is based might not be implemented after all or will not have the projected effect. Hence, even based on the scenario with additional policies and measures, it remains uncertain whether the EU-15 will meet its Kyoto target.

A look at the individual states reveals significant gaps when it comes to complying with emissions targets. Apart from Great Britain and Sweden, the projections indicate that only Germany, France and Greece can expect to meet their targets with their (additional) national policies and measures (see Table 1, columns 4 and 5). The remaining EU-15 states must rely (in some cases heavily) on using the Kyoto mechanisms and to a large extent have already initiated measures in this regard.

The two right-hand columns in Table 1 show the expected emissions shortfalls for 2010 compared with the plans published so far concerning use of CDM and JI projects. It is evident that only Luxembourg can expect to meet its target by combining its existing policies and measures with using the Kyoto mechanisms. Belgium, Finland, the Netherlands and Austria expect to meet their targets using additional policies and measures and the Kyoto mechanisms. Denmark, Ireland, Italy, Portugal and Spain project that they will miss their targets even using the scenario with additional policies and measures and use of JI and the CDM. Either they need to initiate yet further policy measures to reduce their emissions or they must significantly increase their use of the Kyoto mechanisms.

Further deficits become evident when looking at individual states’ budgets for planned carbon credit acquisitions. The European Commission based its evaluation of the national allocation plans for 2005-2007 on a CDM/JI certificate price of EUR 7.40. Using this price to calculate the expected costs of the planned acquisitions, it is clear that Belgium, Ireland, Italy, Luxembourg, Portugal and Spain need significantly higher budgets than planned if they are to purchase the intended quantity of allowances and meet their targets under EU burden-sharing.

In sum, this means there are only a few EU-15 states who are relatively certain of achieving their assigned

emissions reduction targets. A full third are clearly set to miss their targets and so jeopardise achievement of the EU-15 target overall.

Sources:

European Environment Agency (2005), *Greenhouse gas emission trends and projections 2005*. EEA Report No. 8/2005. Available at: http://reports.eea.europa.eu/eea_report_2005_8/en/GHG2005.pdf

European Environment Agency (2006), *Annual European Community Greenhouse Gas Inventory 1990-2004 and Inventory Report 2006. Submission to the UNFCCC Secretariat*. EEA Technical Report No 6/2006. Available at: http://reports.eea.europa.eu/technical_report_2006_6/en/EC-GHG-Inventory-2006.pdf

European Environment Agency (2006), *EU Greenhouse Gas Emissions Increase for Second Year in a Row*. Press release. Available at: <http://org.eea.europa.eu/documents/newsreleases/GHG2006-en>

DK/WSt

JIKO News

JI Supervisory Committee Working Apace

Continued from page 1.

Seeing as the first Kyoto commitment period is due to begin in 2008, the JI Supervisory Committee (JISC) elected in Montreal is working under considerable pressure. With project lead times of two to three years, the JISC faces the difficult task of getting Second Track JI (see box) up and running in a very short space of time. Also, the acquisition programmes initiated by western European states have sparked a number of early movers: market observers say that around 100 JI projects are so far advanced that they are ready to be submitted for approval.

To get Second Track JI up and running, the JISC needs to draw up the necessary documents and develop the accompanying procedures as follows:

- Format for the JI Project Design Document and a set of guidelines for users
- A system for accreditation of Independent Entities (IEs), the agencies who verify that a project meets the JI criteria
- Guidance on baseline setting and project monitoring
- Procedures for making PDDs and IE verification reports available to the public
- Fees and procedures for their collection

The JISC has addressed these issues in its three meetings so far. The Committee members have borrowed significantly from the components of and experience gathered with the CDM: at its first meeting (JISC1), the JISC adopted a draft PDD format whose design was based on the CDM format. Following JISC2, the Committee published the format and draft guidelines for users, and called for public input. It approved the final version at JISC3 in May this year. The procedure for publishing PDDs and IE verification reports had already been finalised at JISC2. However, as projects can be submitted for approval once this document has been formally adopted, the JISC will hold off on granting its final approval until the procedures for appraising projects are in place.

One problem regarding the PDD format was how to deal with early movers. Should project developers who have already drawn up PDDs be made to adopt the new format and should they be required to update the content? This issue was further complicated by the decision made at the conference of the parties in Montreal, allowing project developers to use the CDM format on a temporary basis until such time as the JI PDD format had been approved.

At JISC3, it was decided that the JI PDD format is applicable from 15 June and must be used for all JI projects from then on. All project developers in receipt of approval letters from all states involved by that date are considered early movers as defined by the JISC. In line with the Montreal decision, they have the option of using either the new JI PDD format or the CDM PDD format. In the latter case, the IE must confirm that the PDD submitted contains all the

information required by the JI PDD and by the PDD guidelines for users. The IEs will decide on a case-by-case basis regarding the need to update the contents of the PDD.

Outstanding Issues

All outstanding issues will be taken up at JISC4. One important item is the procedure for appraising and reviewing IE determination reports, which is still under debate. The JISC must appraise the reports it receives in order to decide whether they are acceptable as they are or should be passed on for a formal review. The UNFCCC Secretariat has devised an appraisal procedure based on that used by the CDM Executive Board. This provides for two external experts to evaluate the determination reports and so support the JISC in the review process. The CDM EB had introduced its procedure because it was overwhelmed with report evaluations and felt that the work done by the verifi-

cation agencies was inadequate in many instances. The need for such a procedure has however been questioned by several JISC members. The UNFCCC Secretariat will thus present JISC4 with a number of options on the structure of the appraisal procedure.

The guidance on baseline setting and monitoring must be completed without delay. Following JISC3, the JISC issued a working paper and a call for public input. The final guidance is to be approved at JISC4.

Another issue still to be decided is the need for a separate PDD format for land use, land-use change and forestry (LULUCF) projects. The UNFCCC Secretariat and selected members of the JISC will thus present a draft to JISC4 in September. The need for a separate PDD format for small-scale projects will be discussed at the

First Track JI versus Second Track JI

The implementation of JI projects depends on the extent to which the host country meets the eligibility requirements for participation in the Kyoto mechanisms. Under the criteria set out in the Marrakesh Accords, host countries must be in compliance with the following requirements:

- a) Be a party to the Kyoto Protocol
- b) Their Assigned Amount Units (AAUs) must have been calculated and recorded
- c) Have in place a national system to estimate greenhouse gas emissions by sources and removals by sinks
- d) Have in place a national greenhouse gas registry

- e) Have submitted their most recent required annual greenhouse gas inventory
- f) Submit supplementary information on their AAUs

To qualify as a host country for JI projects, industrialised countries must meet at least criteria a, b and c. If a host country meets all of the criteria, it is entitled to verify reductions of greenhouse gases by sources and removals by sinks and issue the respective JI Emission Reduction Units (ERUs) in its own right. Hence setting out the requirements for JI projects and the respective project cycle is largely left to the host countries. This is known as First Track JI and will

probably become the norm for JI projects.

If a host country only meets criteria a, b and d, an international procedure for the issuance of JI ERUs applies. The process, known as Second Track JI, is supervised by the JI Supervisory Committee. States that meet First Track JI eligibility requirements may also opt to go for Second Track JI.

same meeting. Finally, selected JISC members and the UNFCCC Secretariat will present a draft proposal concerning fees and their collection.

Work on the IE accreditation system is still in progress. At JISC2, a decision was made to form a dedicated panel to develop the accreditation system. Panel members were elected at JISC3. The accreditation process should be in place by the end of the year; the panel plans to meet as many as three times this year to make certain it is.

On the whole, the JISC has worked at a tremendous pace in designing Second Track JI and has met each and every milestone it set out at its first meeting (see the interview with JISC Member Franzjosef Schafhausen in JIKO Info 2/2006). The PDD format, the guidelines for users and the procedure for making project documents available to the public have already been approved. The guidance on baseline setting and monitoring, the procedures for evaluation and review of IE determination reports, and the fee regulations will probably all be approved at JISC4. This should ensure that the mechanism is up and running by the end of the year as planned.

Refinement of JI still depends on whether the signatory parties make the necessary funding available to the JISC as pledged in Montreal. Up to now they have dragged their feet when it comes to actually delivering on their pledges (as seen with the CDM) and every JISC meeting has been shrouded in uncertainty as to whether there will be a next one. If the payment situation is not improved for the longer term, there may yet be delays.

For more on the work of the JISC, please visit: <http://ji.unfccc.int>.

WSI

JIKO News

CDM Initiative – Federal Environment Ministry Launches New Activities

At the beginning of the year, the Federal Environment Ministry (BMU) announced plans to launch a CDM initiative in response to the relatively low German uptake in the world's growing emissions allowances markets. It plans to push the initiative up the policy agenda, particularly at international meetings and in negotiations on bilateral agreements. Apart from improving information and exchange opportunities, the ministry aims to have project portfolios developed and will promote project matching. Three activities were launched in July and August.

Latin America Platform

At the end of August, the Federal Environment Ministry commissioned the design and development of a web-based CDM platform for Latin America. The joint product of Perspectives (a climate policy think tank), *Bild und Ernte* (an advertising agency) and *TÜV Süddeutschland* (a technical services organisation), the platform is designed to be more than just an information service: it will link up Latin American businesses with project developers, forming a CDM network into which German enterprises and organisations based in Latin America and interested parties in Germany will be firmly integrated. The information and exchange opportunities offered via the platform will prepare the way for project matching activities. The web site will make the Latin American CDM market more transparent and address specific project barriers, some of which may only exist in individual countries. One of the key barriers will be development and use of the CDM methodologies by project developers. All activities will be incorporated into (environment-related) bilateral cooperation between Germany's Environment Ministry and the ministries and government agencies in host countries in Latin America.

Interested businesses, project developers and organisations can direct their enquires to Matthias Krey (info@perspectives.cc) or to Thomas Forth at the Federal Environment Ministry (thomas.forth@bmu.bund.de).

China – German Chamber of Commerce in Beijing Promotes Project Matching for German and Chinese Businesses

At the second German-Chinese Environment Forum in Qingdao in January 2006, the German Federal Environment Ministry, the Chinese State Environment Protection Administration (SEPA) and other Chinese partners agreed to turn their existing environment cooperation into a fully fledged strategic partnership. As part of the Qingdao Initiative, the two countries plan to centre their environment policy cooperation on securing a sustainable energy supply. Given China's growing energy needs, the question arises as to which strategic approaches should be taken and how they might be implemented over time.

The CDM is one such strategic approach, one that can provide incentives for investment in the energy industry far beyond the Kyoto Protocol's first commitment period (2008-2012). A look at the current CDM pipeline shows that next to India, China is the strongest player in the CDM market. Project developers in Germany have shown interest in Chinese CDM projects in various categories, although to date the companies involved have worked independently and there is no coordination. Small and medium-sized businesses with suitable technologies are faced with a complicated market involving high transaction costs and the need for highly qualified staff. Even the bigger German companies have yet to conduct CDM projects in the Chinese market.

Given the situation, the Federal Environment Ministry commissioned the German Chamber of Commerce in Beijing to systematically identify project opportunities for German business. The Chamber's first step was to call for proposals. The aim is to identify at least 40 projects and to evaluate them regarding their economic viability and suitability for CDM. The Chamber works closely with DEG (KfW Bank Group) and Kyoto Coaching Cologne (*TÜV Rheinland*) in this regard. Interested businesses are to be integrated into the process at the earliest possible stage and may bring in their existing projects if desired. As a second step, the Beijing Chamber will hold a project-matching workshop in Beijing at the beginning of December. The workshop will bring together potential German and Chinese project partners and is also open to businesses without an

identified project who want to find out more about China's CDM market. Work is currently underway to provide appropriate information and discussion opportunities. The German Chamber of Commerce in Beijing is working closely with the Chinese government on all related activities.

Interested businesses may direct their enquiries to Georgina Badelt at the German Chamber of Commerce in Beijing (badelt.georgia@bj.china.ahk.de) or to Thomas Forth at the Federal Environment Ministry (thomas.forth@bmu.bund.de).

Improved Information Service

The Wuppertal Institute has been requested to produce two additional issues of JIKO Info and to develop a web-based portal for Kyoto mechanisms. Work is now in progress to update the Federal Environment Ministry's introductory booklet, which has gone out of print. The new booklet will be available by the end of 2006.

TF

JIKO News in Brief

Germany a Popular JI Project Location

The German Emissions Trading Authority (DEHSt) currently has around 60 proposals for JI projects in Germany. These include methane, biogas, biofuels and heating system modernisation. The project partners are largely domestic investors who would also be in a position to conduct the projects as domestic offset projects by themselves. However, the conditions to allow domestic offset projects to go ahead have yet to be created at policy level in the framework of the pending review of the CDM/JI Linking Directive. Along with France, Germany is one of the strongest proponents of this approach. The review of the Directive will be featured in the next issue of JIKO Info.

Congress on Escaping the Climate Trap

The international congress, “Kyoto Plus: Escaping the Climate Trap”, will be held in Berlin from 28 – 29 September 2006. With Professor Klaus Töpfer as its official patron, the congress looks at new goals, new technologies and new policies for future climate change mitigation. Among the participants are Rajendra Pachauri, Chair of the IPCC, and Professor Stefan Rahmstorf of the Potsdam Institute for Climate Impact Research. Plenary meetings focus among other things on options for a follow-up agreement to the Kyoto Protocol. A separate event looks at carbon capture and storage. The congress is jointly hosted by the Heinrich Böll Foundation, the European Climate Forum, WWF Germany and the Wuppertal Institute. Further details are available at www.kyotoplus.org.

Methane Emissions from Disused Mines a Thing of the Past?

A climate change success story is in the making thanks to some 47 JI proposals for methane projects in disused mines. In 2000, the state of North-Rhine Westphalia launched an initiative for energy-saving use of methane from disused mines. The incentive to use JI projects for the initiative and to generate revenue from the resulting emissions reductions units (ERUs) has stepped up the pace of these projects. The German Emissions Trading Authority (DEHSt) is currently assessing to what extent the proposed investments comply with the UN’s ‘additionality’ criteria. The DEHSt expects to decide on project approvals by the end of the year.

Guest Articles Welcome

JIKO Info welcomes your suggestions for guest articles and JIKO News items on CDM and JI-related issues. Please submit your comments by e-mail to jiko@wupperinst.org.

JIKO Info

Edited by: Wuppertal Institute for Climate, Environment, Energy, Döppersberg 19, 42103 Wuppertal

Responsible for the contents: Wolfgang Sterk, Energy, Transport and Climate Policy Research Group, Wuppertal Institute for Climate, Environment, Energy, Tel. 0049-202-2492-149

Editorial Staff: Wolfgang Sterk (WSt), Thomas Forth (TF), Maike Bunse (MB), Dagmar Koths (DK), Christof Arens (final editing), Renate Duckat (RD)

Translation: Words-Worth, Stocks & Stocks GbR, Bonn.

Subscription: JIKO Info is distributed as an electronic resource only. Entry into the subscription list is free of charge.

Internet Address for subscription: <http://www.wupperinst.org/Sites/Projects/rg2/jiko-info/index.html>

Layout: in_form, Wuppertal

JIKO Info covers current developments in the policy field project-based mechanisms in Germany. The newsletter is published as part of the project JIKO – Development phase 2005-2007 at the Wuppertal Institute for Climate, Environment, Energy (see <http://www.wupperinst.org/Sites/Projects/rg2/1078.html>). The editorial staff works independently from the JI-coordination unit at the German Ministry of the Environment.

JIKO Info is published quarterly and on special occasions.