

JOINT IMPLEMENTATION

Joint Implementation (JI) is one of the three flexible mechanisms for emissions trading set out in the Kyoto Protocol. Like the Clean Development Mechanism (CDM), it is a mechanism for financing individual projects aimed at reducing GHG emissions. JI credits are created by reducing actual emissions in a project compared to a hypothetical baseline in the future, similar to the way the CDM operates. However, JI is different. It is only for Annex I countries with capped GHG emissions, unlike CDM which is solely in non-Annex I countries with no GHG reduction obligations. This is crucial because JI credits are not offsets, but emission reductions effectively indistinguishable from allowances under a cap-and-trade system. Under JI, the total mandatory emission reductions are unchanged; project-based reductions are simply shifted and credited toward another country.

Significance

JI will likely become the central project-based flexibility mechanism in future cap-and-trade schemes. More countries and sectors are expected to commit to GHG reductions, and the role of JI will be key in allowing countries to trade credits and create projects among themselves. Over time, it is likely that the role of CDM will diminish as JI moves into a more central role. This opens up the possibility for JI to create cost-efficient emission reductions in sectors and regions not covered by domestic emissions trading. It can also serve as a carbon price "safety-valve" by allowing the inflow of cheaper credits into the cap-and-trade scheme.

Other benefits include: - **Promotes innovation.** Project-based mechanisms encourage innovation to reduce emissions: new, innovative methodologies can be developed and tested in a private and voluntary environment.

Unrestricted in scope. JI is a valuable tool to explore the potential of areas not generally targeted by emission trading schemes. Whereas a trading scheme is by definition limited in scope, a JI-like mechanism is not.

Emphasises positive incentives rather than penalties. Trading schemes and standard-setting tend to be based on penalties in order to make non-compliance less rewarding. This creates a natural resistance and slows down implementation as traditional, conservative, industrial companies grapple with the new operating environment. In contrast, project-based mechanisms are a source of new funding attractive to businesses and entrepreneurs.

Joint Implementation, defined in Article 6 of the Kyoto Protocol, allows a country with an emission reduction or limitation commitment under the Kyoto Protocol (Annex B Party) to earn “**Emission Reduction Units**” (ERU’s) from an emission-reduction or emission removal project in another Annex B Party, each equivalent to one tonne of CO₂, which can be counted towards meeting its Kyoto target.

Joint implementation offers Countries with a flexible and cost-efficient means of fulfilling a part of their Kyoto Targets, while the host Party benefits from foreign investment and technology transfer.

Eligibility and Approval

A JI project must provide a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to what would otherwise have occurred. Projects must have approval of the Host Party (host country) and participants have to be authorized to participate by a Party involved in the project.

Projects starting as from the year 2000 may be eligible as JI projects if they meet the relevant requirements, but ERU’s may only be issued for a crediting period starting after the beginning of 2008.

If a host Party meets all of the **Eligibility Requirements** to transfer and/or acquire ERUs, it may verify emission reductions or enhancements of removals from a JI project as being additional to any that would otherwise occur. Upon such verification, the host Party may issue the appropriate quantity of ERUs. This procedure is commonly referred to as the “Track 1” procedure.”

If a host Party does not meet all, but only a limited set of eligibility requirements, verification of emission reductions or enhancements of removals as being additional has to be done through the verification procedure under the **Joint Implementation Supervisory Committee (JISC)**. Under this so-called “Track 2” procedure, an independent entity accredited by the JISC has to determine whether the relevant requirements have been met before the host Party can issue and transfer ERUs.

A host Party which meets all the eligibility requirements may at any time choose to use the verification procedure under the JISC (Track 2 procedure).

For up-to-date information on JI, see the **UNFCCC JI website** (www.unfccc.com).

((A Party included in Annex I with a commitment inscribed in Annex B is eligible to transfer and/or acquire ERUs issued in accordance with the relevant provisions, if it is in compliance with the following eligibility requirements:

(a) It is a Party to the Kyoto Protocol

(b) Its assigned amount pursuant to Article 3, paragraphs 7 and 8, has been calculated and recorded in accordance with decision 13/CMP.1.

(c) It has in place a national system for the estimation of anthropogenic emissions by sources and anthropogenic removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5, paragraph 1, and the requirements in the guidelines decided thereunder.

(d) It has in place a national registry in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder.

(e) It has submitted annually the most recent required inventory, in accordance with Article 5, paragraph 2, and Article 7, paragraph 1, and the requirements in the guidelines decided thereunder, including the national inventory report and the common reporting format. For the first commitment period, the quality assessment needed for the purpose of determining eligibility to use the mechanisms shall be limited to the parts of the inventory pertaining to emissions of greenhouse gases from sources/sector categories from Annex A to the Kyoto Protocol and the submission of the annual inventory on sinks.

(f) It submits the supplementary information on assigned amount in accordance with Article 7, paragraph 1, and the requirements in the guidelines decided thereunder and makes any additions to, and subtractions from, assigned amount pursuant to Article 3, paragraphs 7 and 8, including for the activities under Article 3, paragraphs 3 and 4, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder."

If a host Party is considered to fulfil all the eligibility requirements a "simplified" JI procedure ("Track 1") may be applied, i.e. the "host Party may verify reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks from an Article 6 project as being additional to any that would otherwise occur, in accordance with Article 6, paragraph 1 (b). Upon such verification, the host Party may issue the appropriate quantity of ERUs in accordance with the relevant provisions of decision 13/CMP.1" (paragraph 23 of the JI guidelines).

"Where a host Party does not meet the eligibility requirements ... , the verification of reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks from an Article 6 project as being additional to any that would otherwise occur, in accordance with Article 6, paragraph 1 (b), shall occur through the verification procedure under the Article 6 Supervisory Committee The host Party may, however, only issue and transfer ERUs upon meeting the requirements in

paragraphs 21 (a), (b) and (d) ... "(paragraph 24 of the JI guidelines). The verification procedure under the JI Supervisory Committee is also referred to as "Track 2" procedure.

Hence, where a host Party does not meet all of the eligibility requirements, "Track 2" has to be applied. Otherwise it has the choice between "Track 1" and "Track 2", i.e. it "may at any time elect to use the verification procedure under the Article 6 Supervisory Committee" (paragraph 25 of the JI guidelines).

"Any provisions relating to the commitment period reserve or other limitations to transfers under Article 17 shall not apply to transfers by a Party of ERUs issued into its national registry that were verified in accordance with the verification procedure under the Article 6 Supervisory Committee" (paragraph 41 of the JI guidelines).

According to paragraph 27 of the JI guidelines the "secretariat shall maintain a publicly accessible list of Parties that meet the eligibility requirements and that have been suspended in accordance with relevant provisions contained in decision 24/CP.7". In accordance with this provision the eligibility status of Parties is regularly updated.))

INTERNATIONAL EMISSIONS TRADING

The countries under the Kyoto Protocol (Annex B countries) have accepted targets for limiting or reducing emissions. These targets are expressed as levels of allowed emissions, or "assigned amounts," over the 2008-2012 commitment periods. The allowed emissions are divided into "**Assigned Amount Units**" (AAU's).

International Emissions Trading, as set out in Article 17 of the Kyoto Protocol, allows countries that have emission units to spare emissions permitted them but not "used" to sell this excess quantum of emissions to those countries which are well over their targets i.e. already achieved them.

As a result of this, a new entity was created in the form of emission reductions or removals. Since carbon dioxide is the principal greenhouse gas, trading can be simply expressed in terms of carbon. Carbon is now tracked and traded like any other commodity. This entire process can be defined as a brainchild of the "**Carbon Market**."



The objective and idea of Emissions Trading

Through emissions trading, an environmental (quantitative) target with a defined absolute upper load limit is to be achieved at minimum cost. Emitters will be assigned an emissions limit and receive permission to emit the specified emission quantity. The emitters receive certificates for the permitted amount of emissions. Emitters who want to emit amounts exceeding the assigned amount must obtain an additional certificate for each additional emissions unit. These can be purchased from other emitters who do not use up all the certificates assigned to them.

Through the trading mechanism, a market price for the emissions certificates is established which reflects the costs of emission reduction. Each emitter can decide whether it is cheaper to reduce emissions through reduction measures or to purchase certificates for the generated emissions.