

## Why Joint Implementation Matters

Joint Implementation (“JI”) forms an important part of the flexibility build into the compliance system of the Kyoto Protocol. While much of the public debate and international negotiations is absorbed by a discussion of the future of the Clean Development Mechanism (“CDM”), the supporting organizations consider the integration of an offset mechanism that rewards emission reductions in a *capped* environment (for example the Annex I countries, but potentially, capped sectors in Non-Annex I countries or non-signatories to the Kyoto Protocol) as an equally important element of a future post-Kyoto international legal framework.

As we can expect that the capped environment will increase after 2012 the Joint Implementation mechanism will become more than a mechanism relevant for Central and Eastern Europe. The reasons why a Joint Implementation mechanism matters include:

1. **Efficiency:** Joint Implementation defines an offset program within and among countries that operate under greenhouse gas (“GHG”) emission cap (currently: Annex I countries). Offset mechanisms, like JI, are crucial for the architecture of cap-and-trade programs as they broaden the scope and reduce costs of compliance. JI should support and encourage further countries and actors to engage in mitigation of climate change.
2. **Continuity:** Any post-Kyoto offset mechanism within a capped environment should build on the JI experience. This is essential to ensure the continuity of the mechanisms created by the Kyoto Protocol. A post-Kyoto regime should provide a framework that supports continued, broader and more extensive investments in long-term and measurable emission reductions in Annex I countries. Provision for carry-over and the recognition of existing JI projects will contribute to a durable investment framework, and provide the certainty that investors need today to finance JI projects that have a post-2012 lifetime.
3. **Scope:** It is expected that - with more countries assuming economy or sector wide GHG emission reduction targets - the GHG capped environment will increase over the years. A JI mechanism will also allow the rolling over of CDM project activities from an uncapped into a capped environment and will thus provide certainty to existing CDM projects that run beyond 2012 and are hosted by a country that will join a capped environment in a post-2012 agreement.

4. **Financing:** JI mobilizes financing for projects and programs that have little or no access to international financing sources. JI can also provide an efficient financing mechanism for related policy priorities such as renewable energy deployment, efficiency targets, or forestry policy. A viable and comprehensive JI mechanism can help channeling international financial flows into clean technology thus rewarding countries that assume emission reduction targets.
  
5. **Complementarity:** JI can complement domestic emission trading schemes by including offsets from sectors that do not fall under the emission trading scheme. JI acts as a price valve for emission trading schemes while carrying high environmental and social benefits.
  
6. **Maximize Linkage:** International mechanisms such as JI facilitate the linking among domestic emission trading schemes by referring to an internationally regulated offset class. If various schemes accept credits from the same international JI mechanisms, such acceptance creates an indirect link between domestic emission trading schemes.
  
7. **Co-Benefits:** JI projects deliver strong environmental and social benefits, such as reduction of air pollution, employment creation etc.

## **Framework for a JI under a post-2012 regime**

### **Expansion to sectoral approaches:**

In sectoral approaches a sector would get a specific emission reduction target, whether it is a specific or absolute target. A JI mechanism could complement a sectoral target by providing a further incentive to reduce emission reductions below the agreed sectoral target.

### **Expansion to domestic offset projects and programs:**

Domestic offset projects can complement cap-and-trade regimes to promote emission reductions outside of the cap-and-trade regime. Currently domestic JI projects are not allowed as two countries have to be involved. The expansion of JI projects to domestic offset project will provide a strong incentive to local investors to invest in reductions of greenhouse gases.

### **Conversion from CDM to JI:**

A post-Kyoto international framework should regulate the transfer of CDM to a JI mechanism for projects that have been approved as CDM project activities before 2012 but find themselves in a country or sector which operates under an international emission reduction target after 2012. Such a conversion provision should provide the necessary regulation that reductions can be claimed till the end of the project crediting period. Such provision will also encourage non-Annex I governments to take upon themselves reduction targets while keeping the benefits of off set projects. To simplify transfer the crediting period of JI and CDM projects should be harmonized.

### **Second vs First Track Implementation:**

A specific feature of Joint Implementation is the possibility to transfer reductions on a bilateral basis without an international regulatory agency (which is currently the JI Supervisory Committee). The advantage of this so-called JI Track 1 is less transaction costs for investors. In the coming years it will become clear whether JI Track 1 will become a preferred transfer mode by buyers/seller and host/investor countries for JI projects. If JI Track 1 will prove to be a mechanism that has sufficient checks and balances (in order words: JI Track 1 is sufficiently regulated by host countries and domestic validator/verifiers) this track provides a blue-print for a post-2012 mechanism.

Joint Implementation should continue leaving countries the choice to rely on an international infrastructure for the approval of projects or to implement national measures that regulate the eligibility and certification of carbon credits from a JI mechanism.

## **Concluding words**

This paper does not pretend to provide a fixed blue-print for a JI under a post-2012 regime. However, the authors see a lot of untapped potential, both in existing JI countries and those that might join a capped environment. We therefore strongly encourage negotiators to consider the expansion of the JI mechanism and take the mentioned suggestions into account when discussing a post-2012 regime or any other regime that aims at reducing emissions of greenhouse gasses.

As the year 2012 is on approach we also encourage regulators to provide certainty on off-set projects post-2012 in capped environments, pending the conclusion of a new post-2012 international agreement. For example by concluding a bilateral agreement as for example was suggested by the European Committee in the draft proposal for the EU ETS third phase.

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