



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,

Climate policy debate is gaining pace in the US. In the last week of March, Time magazine ran a cover story on climate change. And also in March, seven Northwestern US states planning to introduce their own emissions trading scheme presented their final draft outlining how the system will work. The scheme provides for savings of 120 million t CO₂ by 2014. The EU Commission has already met with the US initiative to see how this system might be linked to the EU Emissions Trading Scheme.

Meanwhile, in the land of Kyoto mechanisms, Joint Implementation is starting to take shape. The following articles and interview take a closer look at the latest developments.

We wish you a stimulating read.

The Editor

JIKO News

Joint Implementation Off to a Brisk Start

The Joint Implementation Mechanism (JI) develops apace: The JI Supervisory Committee (JISC) is working intensively on the JI guidelines. The JISC met for the second time in March and its meeting was preceded by a UNFCCC technical workshop on Joint Implementation. JIKO Info reports on the two events and outlines the progress made by JI host countries in eastern Europe.

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JIKO News

”Second Track JI Structure In Place Pending Next Climate Summit“

Interview with Franz-Josef Schafhausen, Alternate Member of the JI Supervisory Committee (JISC)

JIKO Info:

Mr. Schafhausen, the JISC has already held its second meeting. How would you assess the progress made so far?

Franz-Josef Schafhausen:

Before I go on, I think it's important to emphasise that the CDM Executive Board (EB) and the JISC play two very different roles: the EB is an administrative body with enforcement powers, while the JISC plays a monitoring rather than an enforcement role. Another important point is that the JISC assumed its duties under far more favourable conditions than the EB. The Kyoto Protocol is now in force, large numbers of international climate change projects have been developed under the CDM, and some have even been registered. A number of JI projects are also in the pipeline. This is where the JISC can learn from the EB's experience. The importance of institutionally sound structures equipped with adequate resources was something often brought up in relation to the EB acting as a 'bottleneck', but it was only in Montreal that the matter was really tackled and solved.

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JIKO News

“Second Track JI Structure In Place Pending Next Climate Summit“

Interview with Franz-Josef Schafhausen, Alternate Member of the JI Supervisory Committee (JISC)

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Insufficient funding has been one of the greatest obstacles to the work of the CDM Executive Board. Does the JISC have adequate funding?

The JISC is not funded to the same extent as the EB. If the division of responsibilities I've just outlined is retained, it doesn't need to be. But it remains to be seen whether available funds are sufficient to allow the Committee to perform its monitoring function in an adequate manner. This will also depend on how many countries will be eligible for first track JI (that is, whether they meet the criteria for the simplified approval process – Ed.) and how many JI project developers will be forced to take the tougher route and opt for second track JI instead.

Another big obstacle with the CDM is that both host and investor countries often lack the structures and processes needed for project approval. What is the situation in countries interested in JI projects?

The picture is very different depending on where you look. Despite a lead-in of several years, most host countries have only managed to put basic structures into place. Aside from the long period of uncertainty regarding whether or not the Kyoto Protocol would enter into force, I think this is due to two main reasons: firstly, there is the question of whether there are actually any useful JI projects in the new EU Member States that will not come up against the problem of double counting in the EU Emissions Trading Scheme (ETS). Secondly, many countries that are predestined to host JI projects have surplus AAUs. These emission allowances not needed to achieve national emissions targets under the Kyoto Protocol could be made more readily available to project developers wishing to conduct JI

projects. However, ERUs from JI projects would still have the not insignificant advantage of being credited towards the EU ETS. For small-scale projects in particular, the level of effort involved in the JI process is rightly seen as too high. This is why over the next few months, host countries must give careful thought to which strategies and sectors they are going to earmark for JI and which for GIS projects (i.e. for transfer of national emission allowances, which is linked to implementation of climate change projects – Ed.). I very much hope that my colleagues in the various host countries will be given the necessary degree of political consideration and support.

The CDM Executive Board is often criticised as being too much of a micromanager and thus of slowing up the process. Do you share this view and can you give any indication as to how the JI Supervisory Committee might structure its own work?

Well, I've certainly heard the criticism, but I think it's unfounded. At the start of this interview, I outlined the different roles played by the EB and the JISC. If it is to perform its role of enforcer, then the EB has to operate as a micromanager. As with many other issues, it's a bit like walking a tight rope: while it is easy to criticise 'bureaucratic micromanagement', project developers value the fact that they can make use of readily available methodologies and tools to conduct their projects and prove that the additionality requirement has been fulfilled. The JISC is expected to develop both the framework and the tools for second track JI as quickly as possible. I think it can fulfil all its significant obligations by the time the climate change conference is held in Nairobi in eight months' time.

To what extent do you think the process for accreditation of independent entities ought to borrow from the CDM process for designated operational entities (DOE)?

The accreditation process for DOEs is highly complex. I believe it ensures that certifiers will take on board the general thrust of the Kyoto Protocol's project-based mechanisms rather than adopting the usual technological fix attitude to problem solving. Businesses that succeed in getting through this complex process should be approved for JI using a simplified procedure. Other certifiers must be

made subject to similar requirements, not only for reasons of reliability and environmental integrity but also on competitive grounds. Despite a number of additional requirements that have to be considered under the CDM, I don't think it will be very long before we see a uniform process for both mechanisms.

How will the JISC operationalise the additionality criterion? Will it adopt, for example, the additionality tool developed by the CDM EB?

As you know, the additionality tool is still under discussion. The question of additionality plays the same role in climate change mitigation whether we're dealing with CDM or JI projects. It will be interesting to see whether the additionality tool can be made more user friendly. If it can, then it would make sense to adopt it for Joint Implementation.

Have any other lessons been learned with the CDM that the JISC could draw on in its work?

There is no question that we should draw on the EB's experience. The very first meetings have shown that JISC members are keen to see what the Executive Board is doing. And I might add that, in terms of the amount of work involved, it would be a false economy if the JISC were to try to reinvent the wheel. The only thing we would learn is that the wheel is round! At JISC 1, the Committee saw the need for talks and consensus on a number of issues, one of which was the accreditation process for independent entities. And when it comes to methodologies, I also believe it is better to adopt the methods one on one rather than entering into month-long debate on marginal differences between the requirements of one particular methodology when applied to either CDM or JI.

Talks are currently under way on how to deal with early movers, meaning project developers who have already drawn up a PDD. How much additional work will it involve for them to adapt their documentation to JISC requirements?

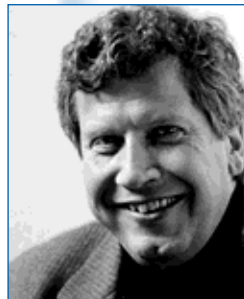
This calls for a pragmatic approach. The PDD is a tool that makes a relatively complex issue transparent, comparable and appraisable. Whether their earlier projects are appraisable will depend on whether they provide all the necessary

information. If they don't, then we will have no option but to go back and request the details we need.

How do you think the work of the JISC will impact on second track JI?

At the moment, there is still far too much uncertainty as to which countries will meet the eligibility requirements for first track JI. For this reason alone, track one will be restricted to safe candidates only. As you can probably appreciate, it makes more sense to swallow the costs of performing independent validations during project implementation than to have it all done after the fact. With first track JI, it is often forgotten that it is equally important for host countries without sufficient surplus AAUs to have an insight regarding the additionality aspect of emission reductions.

Mr. Schafhausen, thank you for talking to us.



Franz-Josef Schafhausen is head of the Working Group on the National Climate Change Programme, Environment and Energy at the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. He has been an alternate member of the JI Supervisory Committee since 2005. His term of office ends at the beginning of 2008.

Interviewers: Wolfgang Sterk and Christof Arens

JIKO News

Joint Implementation Off to a Brisk Start

Continued from page 1.

It was only four months ago that the Montreal climate summit gave the green light for Joint Implementation (as reported in an earlier issue of JIKO Info). The JI Supervisory Committee established at the summit has already held two meetings since then. During the week of 7 – 11 March, members of the JISC came together in what could be described as a mammoth gathering in which they combined JISC 2 with a UNFCCC technical workshop on Joint Implementation. The decision to hold the technical workshop was made at the Montreal summit. The aim was to bring together JI experts from potential host and investor countries to foster discussion and exchange prior to JISC 2. The workshop also served as a forum for experts to share their experience in implementing the Clean Development Mechanism (CDM) and explore how this experience might be transferred to JI.

The workshop gave more than 30 speakers from the over 80 experts in attendance the opportunity to present a detailed insight into the volatile issues surrounding Joint Implementation while still allowing time for subsequent

debate. The JISC outlined its work to date and presented the preliminary agenda for its next meeting. Other agenda items included accreditation of independent entities (IEs), criteria for baseline setting and monitoring, small-scale JI projects and the controversial land-use, land-use change and forestry (LULUCF) projects. Among the speakers were members of the Joint Implementation Supervisory Committee, representatives from designated national authorities and/or designated focal points, project developers, validators and research institutes. Workshop presentations are available on the UNFCCC website.

Workshop participants also discussed a number of other issues involving the JI process: can the experience gained and lessons learned in implementing the CDM be adopted in the rules and procedures for Joint Implementation? Do the JI, the CDM and the Green Investment Scheme (GIS) compete with or complement each other? How should early movers (project developers who have already begun work on JI projects) be dealt with? Should they be rewarded for their courageous pioneering role or should they be treated like everyone else because their experience places them at an advantage and affords them a certain degree of legitimacy? The lively debate provided the JISC with much food for thought and it will address a number of the issues that were raised in the near future. For more on this, see the interview with Franz-Josef Schafhausen, Member of the JISC (page 1).



Photo: Dr. Bettina Witneben

UNFCCC Technical Workshop on Joint Implementation

Further information on the technical workshop and all presentations given at the workshop are available at http://ji.unfccc.int/Workshop/March_2006/index.html

JISC 2 Makes Key Preliminary Decisions

Following the success of the first JISC meeting, JISC 2 made great inroads on the design of the Joint Implementation process. The following documents are now available for review and comment:

- The draft **JI PDD form** and the respective **guidelines for users** have now been published. These documents were open for comments until April 2006.
- A draft paper on the procedures for **public availability of documentation** has been published and will be adopted without change at a later date.
- The JISC will announce a **call for experts** to solicit candidates who wish to become members of the **JI Accreditation Panel (JIAP)**

The following issues will be carried over to future meetings:

- The **accreditation process for independent entities** is still in progress.
- The question of how to treat **early movers** remains unsolved.
- A preliminary **document on criteria for baseline setting and monitoring** has been drawn up and will be further developed at the next JISC meeting.
- The preliminary structure for a **JISC management plan** will be developed by the UNFCCC Secretariat and presented at JISC 3.

JISC 3 will be held on 28 and 29 May 2006, directly after the sessions of the subsidiary bodies (SB 24) who will meet in Bonn from 18 – 26 May 2006. The agenda includes a question and answers round on the JISC.

The official JISC 2 report is available at http://ji.unfccc.int/Sup_Committee/Meetings/002/Report.pdf/Report.pdf

Comments on the documents referred to may be submitted at <http://ji.unfccc.int/CallForInputs>

Developments in Russia and the Ukraine

National JI framework legislation in Eastern European countries is progressing apace. The government in the Ukraine has approved the criteria for JI project recognition and Russia has approved the schedule for adopting the JI

guidelines. Businesses can now take a targeted approach to both their existing and planned activities. Russia's authority in charge is the Ministry for Economic Development and Trade, while in the Ukraine the role falls to the Ministry of the Environment.

Dena Advises Project Developers

Businesses interested or involved in JI projects in Russia and the Ukraine can benefit from experience gathered by the German Energy Agency (dena). Commissioned by Germany's Federal Environment Ministry and Federal Ministry for the Economy/KfW, dena has developed project pipelines in close cooperation with both countries. Apart from the JI projects already identified, interest has also been expressed in attracting new initiatives to ensure that bilateral cooperation is maintained over time. Dena is currently developing a project pipeline for new initiatives in Romania. The first project phase, funded by the Federal Environment Ministry, will be completed in April 2006. Negotiations are now under way between Germany and Romania to draw up a memorandum of understanding on Joint Implementation projects, and Romania foresees no future difficulties with JI project approval. The point of contact at dena is Petra Opitz (opitz@dena.de).

BWi/TF

JIKO Info Series on Carbon Funds

DanishCarbon: Denmark's JI/CDM Programme

Denmark is one of Europe's pioneers in the use of flexible mechanisms. According to its fourth national communication to the UNFCCC, the Danish government has set aside some EUR 150 million for the purchase of carbon credits from JI and CDM projects during the period 2002 – 2008. Denmark has invested around EUR 17 million in JI project development since as long ago as May 2002. It poured a total of EUR 27 million into the CDM in 2004 and 2005 and plans to spend a further EUR 40 million in the period 2006 – 2008. Additional funds have also been allocated for capacity building activities in host countries.

As part of the burden sharing approach to meeting the Kyoto targets within the EU, Denmark is required to reduce its greenhouse gas emissions to 55 million tCO₂e by 2012 (a 21 percent reduction from its 1990 base year levels). However, with its 2003 emissions reaching 74.0 million tCO₂e, some 6.3 percent higher than in the base year, Denmark needs to achieve emission reductions amounting to 19 million tCO₂e by 2012.

Past carbon credit purchases are bearing fruit now that the first projects have been implemented. Four JI projects have been started and agreements have been signed for a further eight. Together, they provide for potential reductions of just under 5 million tCO₂e. Another 20 to 25 projects are currently in various developmental phases, with two CDM projects having reached the validation phase. Denmark has no registered CDM projects to date.

DanishCarbon has organised carbon credit acquisition for the Danish government since 2002. Apart from representing the state, DanishCarbon also serves industry in carbon credit purchase. It has three options for acquiring carbon credits:

- DanishCarbon has invested in three carbon funds: the EcoSecurities-Standard Bank Carbon Facility, the Carbon Fund of the Nordic Environment Finance Corporation (NEFCO, see JIKO Info 04/2005) and the World Bank Carbon Finance Initiatives.
- Project developers may submit project proposals at any time.
- DanishCarbon issues calls for tender to secure carbon credits.

Since 2002, DanishCarbon has issued four calls for tender, two of which are still open. Its fifth call ends on 1 August and the sixth on 1 November. In its current calls, the Danish programme waives the requirement for a pre-determined budget volume, although potential projects must achieve annual reductions of 50,000 tCO₂e.

Eligible projects include:

- Renewable energy, e.g. the introduction of wind energy, biomass, solar energy, geothermal energy and small hydro-power projects (up to 20 MW)
- Fuel switch, say from coal to gas or heating oil to biomass
- Energy efficiency, e.g. combined heat and power (CHP), process optimisation, lighting and (heat) insulation
- Methane capture, e.g. landfill gas extraction and biogas extraction

- Cutting industrial greenhouse gases and N₂O by reducing emissions of nitric acid, adipic acid and HCFCs

The host countries for the 2006 tenders have already been selected and comprise states in Central and Eastern Europe, including Central Asia and the Caucasus (see Table 1 below).

| JI | CDM |
|---|--|
| Slovakia, Romania, Ukraine, Latvia, Estonia, Bulgaria, Hungary, Lithuania, Poland, Russia, Belarus, the Czech Republic, Slovenia, Croatia | Moldova, Armenia, Albania, Kyrgyzstan, Georgia, Bosnia-Herzegovina, Serbia and Montenegro, Macedonia, Azerbaijan, Turkmenistan, Uzbekistan, Kazakhstan, Tajikistan, Malaysia, China, Thailand, South Africa, Nicaragua, Chile, Argentina |

Table 1: Potential Host Countries for JI/CDM Projects in the Danish Carbon Programme

Apart from the requirements for potential host countries, the proposal documentation listed in the 2006 calls for tender include a cover letter, the project idea note, a letter of endorsement (from the host country), background information on project participants, a project implementation plan and a financing plan. Project proposals will be subject to a preliminary assessment process whose criteria are weighted as follows:

- 25% Technical feasibility
- 20% Organisational feasibility
- 25% Financial feasibility
- 20% Greenhouse gas reductions
- 10% Price expectations

The preliminary evaluation is followed by a second, more detailed evaluation that focuses in particular on careful examination of the project design document (PDD). The exact criteria and weighting are contained in a DanishCarbon programme information brochure that can also be viewed online on the DanishCarbon website.

If the preliminary evaluation is successful, then project developers can receive up to EUR 33,000 to support project development. The money is only paid out if the

proposal documentation also meets the criteria applied in the second evaluation. DanishCarbon also offers comprehensive technical support and establishes local contacts. If a proposal passes both evaluations, then further negotiations ensue and a subsequent agreement is drawn up and signed.

If a proposal fails the evaluation, the project developer receives a reasoned rejection along with recommendations for improvement.

Further information on Denmark's JI/CDM programme is available at www.danishcarbon.dk.

DK

JIKO News

CDM takes off, EB charts further course

After a long and difficult start-up phase in which the CDM attracted wide criticism, the mechanism is gradually taking off. Some 150 projects have been registered and over 3 million CDM-generated carbon credits (certified emission reductions, or CERs) have been issued. The CDM Executive Board (EB) met for the twenty-third time last February. At the forefront of the meeting was the debate on the main methodologies. JIKO Info reports on the key points of the debate and the decisions that followed.

At its 20th meeting, the Executive Board had decided that positive changes in carbon reserves in non-forestation and reforestation projects could not generate CERs. This decision put numerous existing projects at risk of no longer being compatible with UNFCCC rules – these included biogas projects and renewables projects to replace non-renewable biomass. The EB Small-Scale Working Group has now presented proposals for two new methodologies which have sparked a highly controversial debate. In consequence, the EB has commissioned the Small-Scale Working Group to find a solution to the problem and also decided to call for public input. That public input has since been received and is available for viewing on the Executive Board's website.

The EB also revised the registration fees for CDM projects. Now calculated on the basis of average expected annual emission reductions over the crediting period, the fees are now USD 0.10 per CER for the first 15,000 CERs and USD 0.20 for every subsequent CER. The EB set a ceiling of USD 350,000. Projects expecting less than 15,000 CERs a year are exempt from paying the fee.

The Conference of the Parties had requested the EB to submit its recommendations for approving carbon capture and storage projects. In preparing these recommendations, the Methodology Panel will evaluate the three baseline and monitoring methodologies already submitted for approval. A workshop will be held in Bonn on 22 May 2006 to take up this issue in more detail. This dedicated workshop will follow a more general one on carbon capture and storage which is scheduled for 20 May 2006.

The EB also discussed a Methodology Panel proposal for a baseline selection tool. The proposal provides for up to three steps and is very similar to the additionality tool. Some EB members saw this as a deficiency and recommended synthesising the two tools. As a result, the EB decided to call for public input on the baseline selection tool as part of the public consultation process on additionality commissioned by the Conference of the Parties. This input has also been published on the CDM website.

The EB likewise discussed the question of how to deal with emissions from reservoirs in relation to dam building projects. Due to the uncertainty surrounding this issue, the methodology already approved for hydro-electric plants may only be used in run-of-river plants. The Methodology Panel recommended splitting projects into three categories according to their power density in watts of capacity per square metre of reservoir surface.

The official report of the 23rd meeting is available at <http://cdm.unfccc.int/EB/Meetings>

The recommendations and public input referred to in this article are available online at http://cdm.unfccc.int/public_inputs/calls_eb23.html

WSI

JIKO News in Brief

UNFCCC Enhances Information Service

The UNFCCC Secretariat has added some new features to the CDM section of its website. At <http://cdm.unfccc.int/Projects/MapApp>, users can access a world map to locate CDM projects and view related information such as project design documents, approval documents and validation reports. The Secretariat has also introduced a bimonthly e-mail newsletter. Interested parties can subscribe to the newsletter at <http://unfccc.int/3642>.

Workshop on Sectoral CDM

Can sectoral approaches to the CDM promote renewable energy technology? This question will be taken up at a side event jointly conducted by the Wuppertal Institute and Germanwatch at the 24th sessions of the UNFCCC subordinate bodies (SB 24) in Bonn. The event will take place on Monday, 22 May 2006.

For more information, please see the current agenda at http://regserver.unfccc.int/seors/reports/events_list.html.

Regional Renewable Energy Conference Looks at CDM projects

The Middle East/North African Renewable Energy Conference (MENAREC) is due to meet for the third time this year. The event to be held in Cairo from 12 – 14 June has been organised by Egypt's Energy Ministry with the support of the German Environment Ministry, UNEP and the Economy and Social Commission for West Africa. Apart from strengthening cooperation within the region and between the region and the EU, the agenda will also cover funding opportunities under the CDM. Further information is available at <http://www.nrea.gov.eg/MENAREC3.htm>.

JIKO Info

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

Responsible for the contents: Dr. Bettina Wittneben, Energy, Transport and Climate Policy Research Group, Wuppertal Institute for Climate, Environment, Energy, Tel. 0049-202-2492-284

Editorial Staff: Christof Arens (final editing), Thomas Forth (TF), Dagmar Koths (DK), Wolfgang Sterk (WSt), Dr. Bettina Wittneben (BWi)

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