



**UNFCCC TECHNICAL EXPERT MEETING ON JOINT IMPLEMENTATION  
Bonn 15 October 2007**

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The UNFCCC Technical Workshop on Joint Implementation (JI) was held in Bonn 15 October together with a meeting of the JI Supervisory Committee (JISC). Since the last JI expert meeting in February 2007 the JISC has been operational for almost one year and the market is expecting JI projects to be approved.

Joint Implementation is getting started as 85 Project Design Documents (PDDs) by 12 host parties amounting to potential 147 Mt CO<sub>2</sub>e emission reductions have been submitted to date, and more submissions are expected. JISC has invited companies to register as Accredited Independent Entities (AIEs) and received 15 applications of which 13 were from the Designated Operational Entities already registered under the Clean Development Mechanism (CDM). The JISC emphasizes that in addition to a PDD, a written agreement by the host government is required for the JISC to approve a JI project. At the moment such letters have not been provided by all JI host countries.

JISC is only expected to become financially self-sufficient in 2010 based on the JI fees, and until then further contributions to cover the costs of its work will be required. At the moment the 2006-2007 budget is short of funding.

*The first project approved by JISC*

Only one project has gained the final determination by the JISC so far, however, the second project is expected to be approved 25 October should no review process be initiated by the JISC. The first approved project was introduced by the representatives of the investor CRH

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Finance Limited, the project developer Global Carbon, the Ukrainian JI office and the validator TUV SUD.

The approved project, switch of the Ukrainian Podilsky cement plant from wet to dry cement process, is expected to generate an emission reduction of 3 Mt during 2009-2012. The investment required for the project is €150 million. Without the sale of the Emission Reduction Units (ERUs), the project would not have reached the internal rate of return required by the corporation that owns it, and is therefore regarded as additional. The sale of 3 Mt of ERUs at €15 covers 30% of the financial resources needed and justifies the investment in changing the production technology. Additional local benefits from the project include the reduction of dust emissions, reduction of fuel consumption as well as continuation of production at the site that provides longer-term job security to the employees.

The Ukrainian JI focal point confirmed that the project was easy to approve as it was submitted in the required format. The validator also reported that the PDD was of high quality and had only few gaps. Regardless of this, the validation took some 6-7 months. The project developed a new methodology as none of the CDM methodologies were directly applicable. The lead time of the project was 5 years, and the implementation will now begin as the project was approved by the JISC. The potential for replicating this project in Ukraine and Russia is regarded as high; however, the long lead time makes these projects less attractive due to the uncertainty of the post-2012 market.

#### *The updates by actors in the JI markets*

*Ukraine* has issued 64 Letters of Endorsement (LoE); however, many of these projects may not reach implementation level. Ukrainian JI administration was considered as a good partner in JI project development with willingness to make the projects work by the other parties of the first JISC approved project, however, the lack of resources to hire adequate amount of staff was considered as a problem. A National Agency for Environmental Investment is to be launched still this year under the Ministry of Environment to take over climate tasks from the current unit of the Ministry. Ukraine is working to establish a Track 1 procedure as the government regards the choice between the Tracks to be up to the companies implementing the projects, and a Green Investment Scheme (GIS) is also under development. According to an unofficial report, the Ukrainian greenhouse gas inventory has been accepted by the international review team, and as a result the country is one step closer to Kyoto eligibility.

Regardless of JI legislation being passed in May 2007, the situation in *Russia* has remained unchanged since the last JI technical workshop as no JI projects have been approved. According to the representative of the Russian government, a facility for the first JI project submissions will be opened mid-November 2007, and the first Letters of Approval (LoAs) will be issued in January 2008. The current delays are technical, and partly caused by the change in the government in September 2007. The Russian government is expecting 40-50 more projects to be submitted to the JISC in 2008, but is concerned about the lack of certainty of the JI mechanism beyond 2010. Switch to Track 1 by project developers is expected towards the end of the first commitment period in order to gain more flexibility. The limit of ERUs Russia will issue during the first commitment period has been established to be 300 Mt; however, this cap can be increased. Russia establishing a GIS is regarded as unlikely by the government due to legal complexities, however, the World Bank funded study on GIS in Russia is expected to provide further evidence on the seriousness of these barriers. Russia has not formed a post-2012 negotiation position as yet.

The representative of the government of *Romania* reported that the country has been careful with issuing LoEs, and as a result projects with the document are likely to be approved in the future. 15 projects have been supported. Many of the Romanian projects are early movers which were developed before JISC was launched, and as a result, Romania is developing a Track 1 procedure in order to avoid revalidating these projects. Romania is emphasizing social benefits from JI projects that extend beyond carbon cuts such as improved quality of air, lower heating costs and solving environmental problems such as dumping saw dust. GIS is a possibility in the future and work on the legal and institutional issues has been carried out, however, the initiative to formulate GIS in Romania should be on the governments that are parties to the transaction. EU Emissions Trading Scheme (ETS) limits JI projects in Romania; however, not all sectors are covered by it.

Also *Germany* was reporting JI activities on its territory as 70 projects are being developed on the non-EU ETS sectors. However, due to the feeding tariffs for renewable energy a significant share of the projects will have to be rejected. The representative of the *EU* reported that the EU is reviewing its directive on EU ETS in order to establish how the scheme will look post-2012 and on the subsequent commitment periods. The EU is hoping that this can create quantifiable long-term demand for ERUs and CERs that could partly solve the problem caused by the lack of an international agreement.

### *Development of JI market*

PointCarbon outlined the trends on the global carbon market. The majority of JI reductions originate from the fugitive gas sectors and, in addition, a significant potential to implement coal mine methane projects remains in Russia and Ukraine. Not all projected emission reductions materialize, for instance in the case of the CDM the total rate of issuance is only about 70%. Some sectors have much lower rate as demonstrated by the waste sector where the rate of issuance has been as low as 25%. The most realistic estimate of the size of the JI market during the first commitment period is 370 Mt. Under-supply of allowances is expected in 2008-2009 which is likely to turn into over-supply around 2010-2011.

The potential for implementing JI is large but only a small proportion of it is being realized. Natsource explained that many factors influence the risk that defines the price of ERUs including host government approval, the track record of the methodology, project documentation developed, seller credit, terms of delivery, terms of payment and schedule. The main challenges at the moment include the lack of capacity of host governments to administer the projects and host companies to understand JI projects, country risks, ownership issues and perceived risks related to the ERU issuance and delivery compared to the CDM.

The remaining 'window' for JI projects is short and fast progress is therefore essential. However, many project developers with projects ready to be submitted to the JISC may be waiting for the momentum, for instance receiving a LoA, before submission as the fees will be payable immediately even though the projects will only start generating revenue during the first commitment period.

The EU double counting rules were argued to limit the development of renewable energy in Eastern Europe. The EU does not regard this as such a significant problem as due to the high EU target for renewables further policies will have to be adopted in any case.

### *Post-2012*

The Chair of the meeting provided an overview of the situation of the post-2012 negotiations. There is a mandate to negotiate on further schemes and commitments under the Kyoto Protocol. The Ad Hoc working group that finished its work in Vienna earlier this

year was an informal process to discuss the options, and helped the governments to gain useful understanding of the issue.

At Bali it is necessary to take a decision to negotiate a comprehensive post-2012 agreement, to establish a negotiation process with clear tasks and to set a timetable. He sees the main building blocks of a future agreement to consist of mitigation, adaptation, technology and finance.

*Main messages from the workshop*

The beginning of JI approval has been slower than expected. This is mainly due to the lack of LoAs, however, the resources of the validators seem to be stretched too. Many JI projects developing their own methodologies rather than following the approved JI methodologies have led to more work for validators. At this point project developers may also be holding back before submitting their projects to the JISC due to fees or other reasons. In addition, many barriers related to the host countries continue to hamper JI project development.

The value of ERUs constitutes an uncertainty to JI project finance. The first issuance of ERUs is soon becoming relevant as the first emission reductions can be generated from the beginning of next year. Issuance of ERUs is expected to reduce some of the market uncertainty. For instance Russia has no legislation on the ownership of ERUs which will be required for transferring them. However, host countries emphasize that the transfer of ERUs itself would be a simple procedure.

Post-2012 certainty was called by many project developers and investors. Without certainty in the market concerning the usefulness of ERUs, the window of opportunity for many projects is closing soon. Such certainty could be provided either by an international agreement on what will follow the Kyoto period, or by the EU confirming the access of ERUs to the EU ETS beyond the first commitment period of the Kyoto Protocol. It was also suggested that national governments would recognize post-2012 emission reductions as voluntary emission reductions.