



Climate Focus Briefing Note

Joint Implementation in Russia

Resolution No 843: Russia's new procedures for Joint Implementation

- The Russian Government adopted a Resolution to regulate the approval of Joint Implementation (JI) projects and the issuance of Emission Reduction Units (ERUs).
- Sberbank, one of Russia's larger commercial banks will play an active role in the issuance of Letters of Approval (LoA) and the transfer of ERUs.
- To date the Russian Government has not approved a single JI project.
- According to the UNEP Risø, Russia's has a JI pipeline of over 50 million ERUs per year, representing over 60% of the JI market potential. If issued, this amount would be enough to offset all emissions from an economy the size of Switzerland.

On 28 October 2009 the Government of the Russian Federation adopted Resolution No 843 on "Measures to Implement Article 6 of the Kyoto Protocol to the United Nations Framework Convention on Climate Change" (JI Rules). This legislative act on JI approval procedures replaces the previous set of Russian JI rules (Resolution No 332 of 28 May 2007) that has proven largely ineffective.

Several countries changed their JI approval procedures after obtaining track 1 eligibility. The new Russian Resolution focuses on Track 1 JI, i.e. at projects which are implemented and verified at the national level without participation of the international Joint Implementation Supervisory Committee (JISC).

Project Approval

The objective of the new JI Rules is to regulate the implementation and approval of Joint Implementation projects developed in Russia. Responsible authority (the "Focal Point") for the approval of JI projects and the decision on issuance of Emission Reduction Units (ERUs) is the Russian Ministry for Economic Development and Trade.

JI projects eligible for Russian approval are selected via public tender. The tender is organized by the Savings Bank of the Russian Federation (Sberbank) who defines its requirements and acts as appointed "Operator of Carbon

Units" (OCU) in charge of selecting JI projects and authorizing the transfer of ERUs.

The call for tender, open to Russian legal entities only, identifies eligible project sectors, ERU credit ceilings per project, other project requirements, application deadline, and tender selection criteria based on energy efficiency and ecological goals and the technical and financial potential of the project and the project owner, respectively.

In response to the call a tender applicant needs to present project documentation, define the energy and ecological efficiency goals to be achieved and submit a positive expert report prepared by an "independent entity" which is "authorized in accordance with decisions of the Conference of the Parties". The JI Rules make reference here to the Accredited Independent Entities (AIEs) as introduced by the Marrakesh Accords to procure verification for Track 2 JI. At the surface, this is a procedural allocation of tasks only, yet in practical terms it means a substantial harmonization between Track 1 and Track 2 verification. AIEs can be expected to apply the same rules under both Tracks.

Responsible for the examination and selection of the submitted projects is the OCU. The OCU needs to inform the applicant within 5 business days whether the submitted proposal meets the eligibility criteria. Compliance with the criteria depends on whether the application includes all the components listed and, among others, whether the



applicant has no outstanding debts and is the legal owner of the project facilities. Those applications that are found eligible will be placed on the official website of the OCU in order to give concerned individuals and entities the possibility to raise objections. Within 45 days the OCU completes its evaluation of the project and within a further 3 business days the results are to be transmitted to the Focal Point. The JI Rules are not explicit on when the 45 days start counting. This may cause confusion in practice.

The Focal Point has 10 business days to approve or reject a project. It may deny approval if the OCU violated the tender rules or the rules set out in the Russian JI Rules in a way that influenced the tender results. Once projects are approved they are registered and made public through the official website of the Focal Point. The Focal Point instructs the national registry to transfer to the OCU's account (within the national registry) an amount of Assigned Amount Units (AAUs) that is equal the amount under the project credit ceiling.

The Focal Point will maintain a registry of approved JI projects. Projects will be removed from the registry in case of a project owner's liquidation, i.e. the JI Rules do not allow the transfer of project approval and authorization to a different legal entity. Further reasons for removing projects from the national JI registry involve multiple delays in reporting on project monitoring and a negative verification

report. As a result, also a failure of the AIE to meet deadlines may create a risk for JI projects in Russia.

Project Implementation and ERU Issuance

During implementation of the project, the project owner should inform the OCU of deviations from the project description in the project document. Verification is done at least annually. The monitoring report together with the verification report needs to be submitted to both the Focal Point and the OCU by 30 September each year. Within 5 business days from the receipt of the verification report, the Focal Point will order the issuance of an amount of ERUs as specified in the verification report but no more than the amount specified in the project documents as approved.

Upon a positive decision from the Focal Point on the verification and monitoring reports, AAUs from the project contingent in the account of the OCU will be converted into ERUs. In order for the ERUs to be forwarded to a carbon account in the registry of third parties (foreign accounts), the project owner needs to submit, along with its request, an implementation report and an agreement with the third party concerned that is itself subject to the approval of the OCU.

Strengths and Weaknesses of the New JI Rules

The new JI Rules aim at providing a clear and reliable framework for project approvals, verification and ERU issuance. The tender architecture appears to be comprehensive and implementable. To have the responsibility shared between two different authorities/entities, the Focal Point and a bank, promises transparent and neutral proceedings, while the different roles of both actors are clearly defined. Duplication of tasks or confusion over responsibilities up to the point of tender selection does not seem likely. Furthermore, the reserve transfer of AAUs to Sberbank's account in the national carbon registry is a strong signal for project owners and investors that future credits are secured and includes an explicit commitment at Government level to reward emission reductions at the project level with ERUs.

In this context, the project credit cap plays an important role. Looking at the performance of JI and CDM projects in the past, some generate far more emission reductions than foreseen during project construction. Overproduction sometimes exceeds twice the amount estimated upfront, in particular by projects aiming at reducing methane emissions. Under the new Russian JI Rules any such surplus cannot be turned into tradable ERUs. This may be deplorable from the point of view of surplus producing project owners and investors. Yet from a general point of



view, the cap reassures the reliability and robustness of the process. The authorities are much more likely to complete approval procedures, to review verifications and to hand out credits when it is clear from the outset that no project will claim more credits than have previously been granted. However, the JI Rules contain pitfalls that will be a major challenge for process stakeholders to avoid in practice. First, the overall planning and tendering structure may prove to be slow and inflexible. JI is a project based mechanism and yet the tendering process will subject stakeholders to sectoral slots. When a tender is closed, it will be impossible to launch projects in the sector concerned until a next tender for the same sector is opened. When and if at all this will happen, investors and developers will probably not know. This is counterproductive for long-term project development, while the merits of creating sectoral tenders in the first place are modest at best.

Second, while it is welcomed that the JI Rules set deadlines for tender and verification proceedings, the stringency is not so clear. Especially the 45 days deadline for tender selection leaves it for interpretation when it starts.

Third, the issuance procedures in the JI Rules do not clarify whether ERUs from a project can also be issued in parts or as a whole to legal entities based in Russia. It remains to be seen what the practice of the Focal Point and OCU in this

respect will be. For the time being, project owners and domestic investors must hold out.

Fourth, the JI Rules fail to specifically address Track 2 JI and the relationship between both tracks. This is unfortunate given that Track 1 and Track 2 open up distinct options for project owners and investors and that the relevant rules to follow should be clear for both tracks.

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