



The various tracks of JI...

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Introduction

Differences Track 1 and 2



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	Track 1	Track 2
Requirements	Like Track 2 but also: National System, Annual inventory, Supplementary Information on AA	Establish DNA, Develop National Guidelines and procedure for LoAs, Assigned Amount, National Registry
Baseline and monitoring	National Guidelines	JISC, inspired by the work of the EB
Determination of PDD and monitoring reports	National Guidelines	AIE
Transfer	CPR restricted	No CPR restriction
Comparing	Similarities with IET	Similarities with CDM



National Guidelines on Track 1/2

National Guidelines (1)



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Annex 1 (likely sellers)	
Bulgaria	The LoA contains an option to use T1 if the country complies. No details on the procedure, reference only to 16/CP7 Nr. 23 of Marrakech.
Czech Rep.	No explicit reference to JI Track 1.
Romania	
Ukraine	
Annex 1 (likely buyers)	
Austria	Law silent about T1 and T2. Will have to be regulated on the basis of Ministerial guidelines.
Sweden	Approves project under T1 if there is either a determination statement from a AIE or from the host country.

National Guidelines (2)



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Annex 1 (likely buyers)	
Sweden	Approves project under T1 if there is either a determination statement from a AIE or from the host country.
Denmark	For approvals Denmark requires different documents for JI T1 projects than for track 2 projects.
UK	Requires appropriate guidance and procedures in the host country. The project developer should submit a declaration of compliance with host country guidelines. The UK may request additional information or their verification.
NL	The project developer should submit a declaration of compliance with host country guidelines.
Ireland	No reference to JI Track 1.
Germany	No reference to JI Track 1. Understanding that decisions of German authorities overrule intl. approvals.



Different perspectives on JI and its tracks



Environmental Integrity

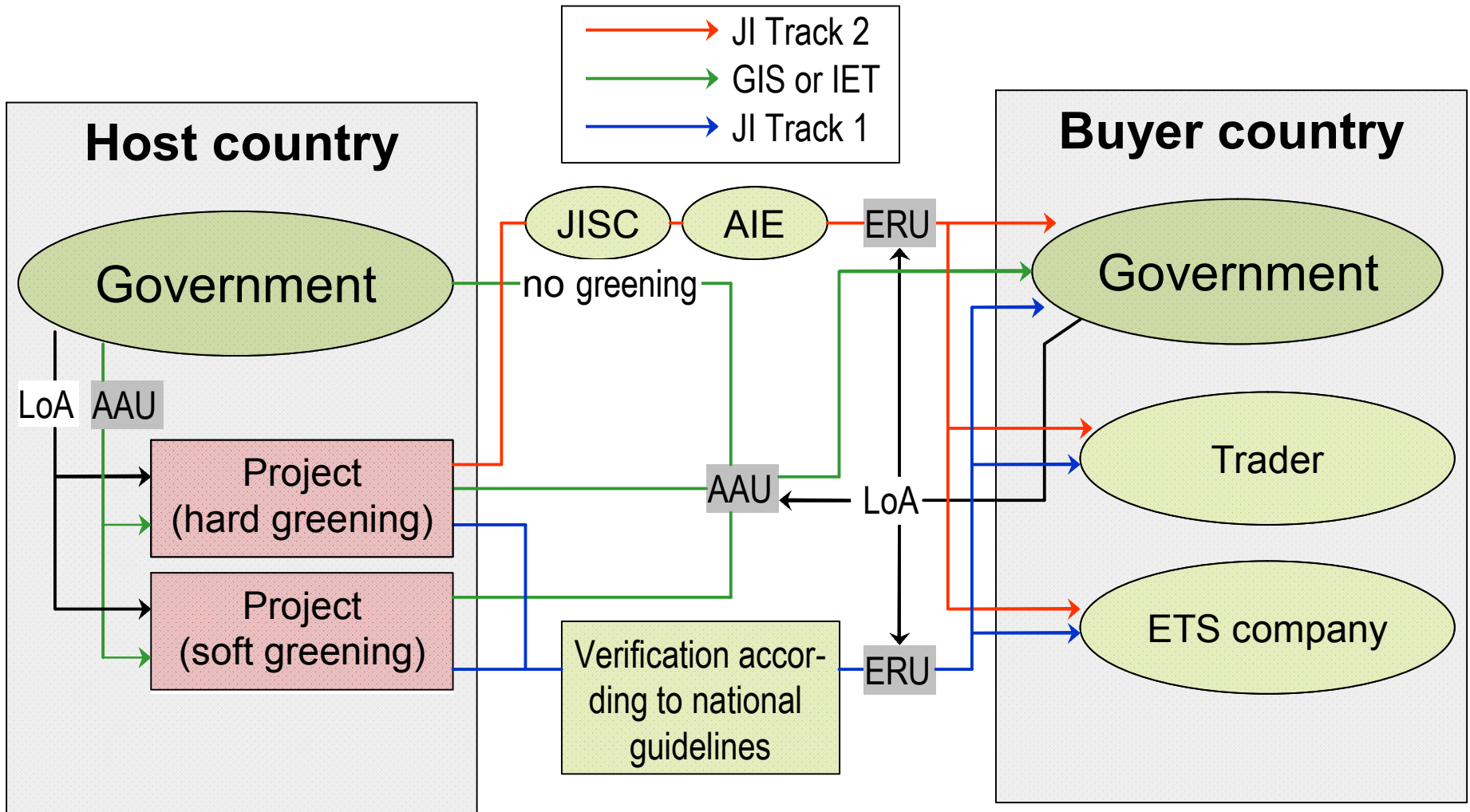
- o The environmental integrity and effectiveness of the Kyoto Protocol are threatened by the vast amounts of surplus AAU (not by JI of any Track).
- o JI Track 1 relies on the host country's motivation to be conservative in its GHG estimations (because the country is liable for any overestimation)
- o Surplus AAUs distorts this motivation and may tip the balance in favor of Track 2.
- o Track 1 allows the conversion of AAU headroom into ERUs:
 - o Track 1 opens a new channel for countries with a large headroom to commercialize (and “greenwash”) their AAUs
 - o Access to the ETS: NAPs for 2008-2009 allow 3.5 Gt emissions. Headroom of Russia and Ukraine together may exceed this value.
 - o This could effect the integrity of the EU ETS market and of the Kyoto Protocol in general.



Trading options



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Host Country Perspective

- o Compared to Track 2: Host country governments can exert more control over Track 1 projects than over Track 2 projects
 - o Government decides on the projects that qualify for Track 1, including government programs
 - o Governments can direct revenues to specific sectors
- o Compared to GIS: Track 1 allows to a certain extent commercializing the AAU headroom in the EU ETS market (and offer them as ERUs)
 - o ERUs have potential higher value than AAUs
 - o Private entities may not require greening or insight in how their money is invested

But:

- o Host country needs to develop Guidelines for Track 1 and bears responsibility for determination
- o Host country needs to maintain full eligibility



Investor Country Perspective

- o Track 1:
 - o Potentially lower delivery risk:
 - o No risk that the project fails to pass JISC procedure
 - o Potentially higher delivery risk
 - o Enhanced exposure to host country risk
- o Track 1: Potential access for private buyers (ETS installations, brokers) to host country AAU headroom, issued as ERUs
- o Credits from early projects could be delivered as ERUs

But:

- o Track 1 ERUs could flood the EU ETS
- o Governmental buyers may face increased private competition for AAU headroom
- o Track 1 procedures may become very heterogeneous (unless seller countries coordinate)



Private Participant's Perspective

Will prefer the process that promises:

- o Reduced transaction costs
- o Reliability and predictability
- o Lower risks delivery risk

Depending on the credibility and effectiveness of the Track 1 procedure, the host country procedure for determination could or could not be more robust than the one for JI Track 2.

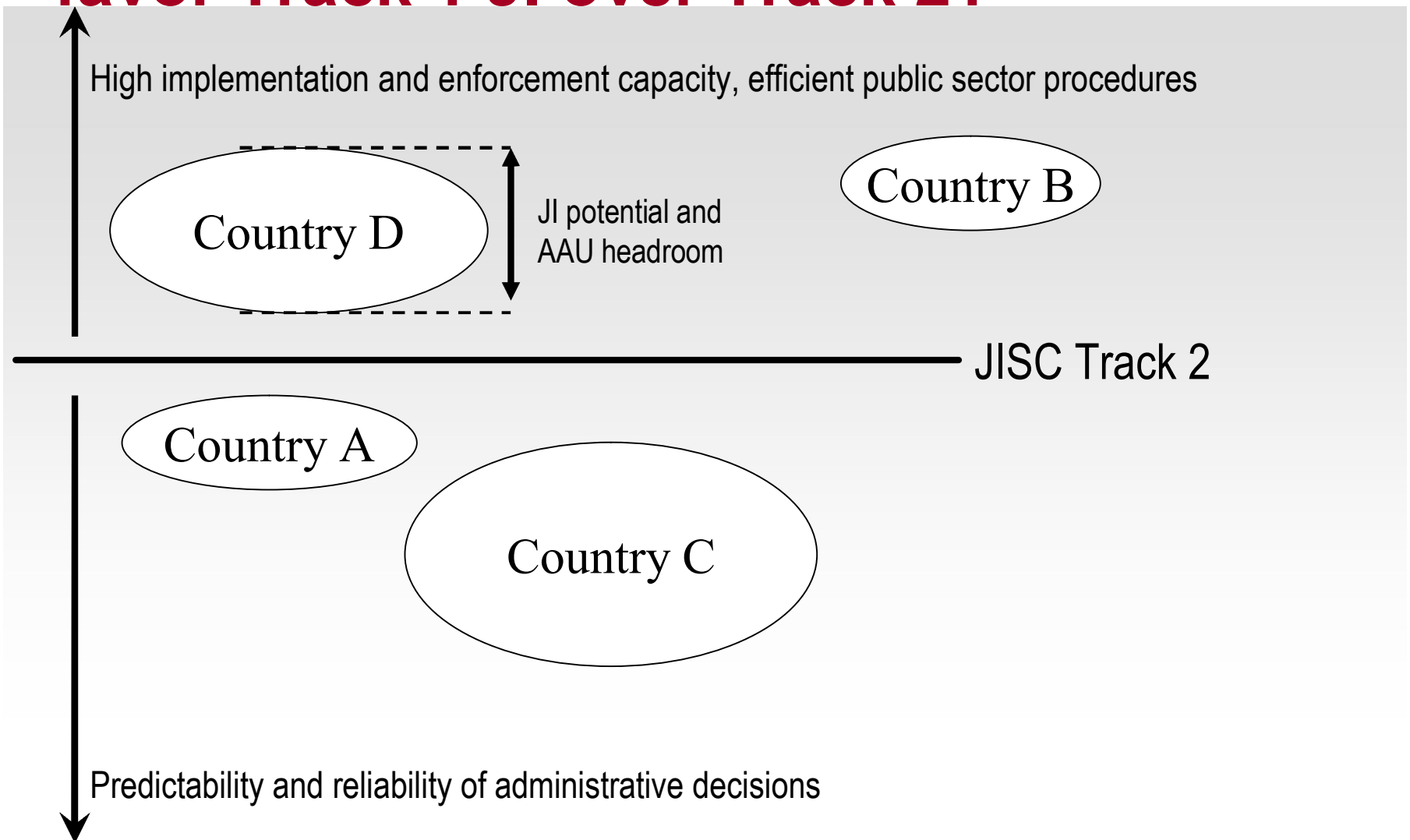
But:

- o Buyers may calculate a discount for the following risks associated with Track 1:
 - CPR restrictions apply
 - Host countries need to maintain full eligibility
 - Potentially greater delivery risk

When does the private sector favor Track 1 JI over Track 2?



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Conclusions



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- Large AAU headroom constitutes a risk for the environmental integrity of the KP and Track 1 JI
- Track 1 could potentially flood carbon markets with AAUs greened as ERUs
- Attractiveness of Track 1 JI depends on perception of host country risk
- With Track 2 the JISC offers a service to the JI community
- The quality of the service depends on the funding, support etc of the JISC and compares to the Track 1 services of host countries
- It requires effort from the host country and is mainly interesting for countries
 - with large headroom or JI potential
 - whose administrations are willing and able to propose and enforce Track 1 procedures

More info



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The famous phrase

“ Where it is considered to meet the eligibility requirements set out in paragraph 21 above, a 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 -/CMP.1 (Modalities for the accounting of assigned amounts).”

→ Article 6, §1(b) refers to additionality.