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**SUBJECT: Contribution to call for public input to the Joint Implementation Supervisory Committee (JISC) on criteria for baseline setting and monitoring.**

The World Bank Carbon Finance Unit would like to congratulate the Members of the JISC on their election and wish them all the best in fulfilling their important task.

We would like to express our appreciation for the opportunity to submit our views on the criteria for baseline setting and monitoring (below). We would be happy to provide clarifications, respond to questions and/or provide additional input if it is deemed useful to Members of the JISC.

## **Introduction**

This contribution is to serve as input to the JISC as it responds to its mandate for so-called 'Track 2' JI project activities.

As per the *Guidelines for the implementation of article 6 of the Kyoto Protocol*, the JISC is responsible, *inter alia*, for “the review and revision of reporting guidelines and criteria for baselines and monitoring in Appendix B [of the *Guidelines for the implementation of article 6 of the Kyoto Protocol* ]...”. According to these same Guidelines, it is the accredited independent entity (AIE) that “shall determine whether, *inter alia*,:

- a) The project would result in a reduction of anthropogenic emissions by sources or an enhancement of anthropogenic removals by sinks that is additional to any that would otherwise occur;
- b) The project has an appropriate baseline and monitoring plan in accordance with the criteria set out in Appendix B”.

## **1. Lessons learned from CDM**

The Marrakech Accords specify that the JISC is to “...(give) consideration to relevant work of the executive board of the CDM, as appropriate”. Under the CDM, has led to the development of guidance on baseline and monitoring methodologies have been developed and this experience



could form the foundations for JI criteria, whilst recognizing the particular context of JI projects being undertaken in Annex I countries. In particular, the ongoing work under the CDM Executive Board to develop guidance to broaden the applicability of approved baseline and monitoring methodologies (as per the CMP.1 decision on *Further guidance relating to the clean development mechanism*) could serve as important building blocks in the development of criteria for baseline setting and monitoring for JI projects.

## 2. JI Considerations

While there is no need to reinvent the wheel and it is desirable to learn from, and build on, the CDM baseline and monitoring methodologies guidance, the development of guidance on criteria for baseline setting and monitoring for projects implemented under JI track 2 should accommodate characteristics that are particular to JI, such as:

- JI projects are hosted in Annex I countries that have – unlike CDM host countries - an emission commitment under the Kyoto Protocol. This means:
  - Any emission reductions through JI projects occur within a “closed system”: ultimately, emission reduction units (ERU) transferred by the host country results in a corresponding reduction of the host country’s assigned amount units in order to maintain the environmental integrity of the Kyoto Protocol.
  - Given their assigned amount and legal obligations to meet their emission commitment under the Kyoto Protocol, Annex I countries hosting JI project activities have an interest in ensuring that the emission baselines are not artificially inflated, as this would lead to an over-reduction of the host country’s assigned amount units.
  - Under Article 2 of the Kyoto Protocol, each Annex I Party, in achieving its emission commitments, shall implement and/or further elaborate policies and measures in accordance with its national circumstance;
- Annex I countries have the possibility to undertake project activities under JI track 1 if they meet the eligibility requirements in paragraph 21 of the *Guidelines for the implementation of Article 6 of the Kyoto Protocol*. The greater efficiency and lower transaction costs offered by JI Track 1 suggest that Annex I Parties have an incentive to rapidly meet the eligibility requirements for JI Track 1 (Many EITs have indeed expressed that preference).
- The Marrakesh Accords allows baselines for JI project activities to be established, *inter alia*, “on a project specific basis and/or using a multi-project emission factor”.
- Many JI project activities are expected to be hosted in countries with economies in transition (EITs). The particular national and/or sectoral situations and trends due to their transition to a market-based economy should be taken into account.

It is also important to recognize – and not penalize – early start JI projects. These are projects that in anticipation of the operationalisation of JI Track 2 have been pre-validated, and approved by the relevant Parties. For these early start projects, it would be desirable that:

- There would be no need to re-format JI documents such as project design documents and baseline studies (as such reformatting would increase the JI-related transaction costs without any corresponding environmental benefit), as long as:
  - The PDD has been made publicly available for stakeholder comments for a period of 30 days



- The accredited independent entity (AIE) would re-issue its Determination Report, reconfirming determination findings and make it public through the UNFCCC Secretariat.

### 3. Implications for the development of criteria for baseline and additionality under JI

- The particular JI host country context likely affects baseline and additionality assessments.
- JI context offers opportunity to simplify baseline guidance (as it guarantees less environmental risks than CDM due to the ultimately zero-sum game nature of ERU transfers under JI) and to move towards more standardization (see Annex 1).
- Given the emission commitments and obligation to implement policies and measures of Annex I countries under the Kyoto Protocol, JI projects can be part of Annex I host countries' strategy to meet their climate change objectives.
- JI project activities can be used to provide an incentive and effective means of implementing climate-related policies. In this context, the JISC may seek to simplify the CDM Executive Board's guidance on the Consideration of national and/or sectoral policies and circumstances in baseline scenarios (EB 22).
- The criteria developed by the JISC for JI track 2 should be pragmatic and facilitate a transition to JI track 1.
- A JI host country's national guidelines and procedures for approving Article 6 projects and for monitoring and verification should be taken into account by the AIE when performing the determinations of a project.

#### 3.1 Criteria for baseline setting

The criteria developed by the JISC may:

- Take into account host country policies to meet Kyoto emission commitments and the ability to use JI as one incentive mechanism for implementing such policies
- Take into account national guidelines and procedures for JI for approving Article 6 projects and for monitoring and verification
- Take into account the baselines and monitoring methodologies guidance developed under the CDM Executive Board with a view to simplifying it.
- Facilitate/encourage the development of standardized equations and procedures (see Annex 1).

It is important to recognize the inter-dependency between (a) the determination of the baseline scenario, and (b) the determination of additionality. This means that a project developer could either:

- (i) First, identify and list all plausible future *scenarios*. Then, select and justify the most likely baseline scenario (using, for example, criteria/test outlined in the additionality discussion in section 3.2 below).

A project activity that is not the selected baseline scenario and has emissions lower than the selected baseline is by definition deemed additional; or



- (ii) Use an approved multi-project emission factor for the baseline and show that the project emissions are lower. Then, demonstrate the additionality as outlined in section 3.2 below.

The baseline *emissions* could be calculated using:

1. Approved CDM methodologies (including small-scale and consolidated methodologies), or elements thereof, or combinations of approved CDM methodologies;
- Or,
2. Baselines and/or or multi-project emission factors approved by relevant national authorities of the host country, taking into account the criteria set out in Appendix B of the *Guidelines for the implementation of Article 6 of the Kyoto Protocol*;
- Or;
3. Any baseline and monitoring methodology, provided that it meets the criteria set out in Appendix B of the *Guidelines for the implementation of Article 6 of the Kyoto Protocol*, as determined by the AIE.

### 3.2 Additionality

- The responsibilities of the JISC are outlined in paragraph 3 of the *Guidelines for the implementation of Article 6 of the Kyoto Protocol*. Paragraph 32 of the same Guidelines specify that the AIE shall determine whether, *inter alia*, “the project would result in a reduction of anthropogenic emissions by sources or an enhancement by sinks that is additional to any that would otherwise occur”.
- JI host countries have an obligation to implement policies and measures to reduce GHG emissions (Article 2 of the Kyoto Protocol). Conditions and risks to the environmental integrity of the Kyoto Protocol of any error and/or leakage are different in the case of JI than for CDM; these should be taken into account. This can justify a simpler assessment of additionality.
- Additionality can be demonstrated, for example, by either:
  - a) Simplification of CDM additionality tool. For example:
    - Providing the option to use a single criteria/test which could be based on: (i) a barrier analysis; (ii) an investment analysis; or (iii) a common practice test.
    - Making the tool less subjective, e.g.: no arbitrary preference for a particular financial indicators, the integration of “macro-criteria” such as country risk indicators (possibly as a further alternative to the criteria specified above)
    - Elaborating the possibility of developing a “case law approach”: once a JI project from a certain category/country is determined by an AIE, all similar projects are considered additional for the first commitment period
  - b) A JI project is additional if anthropogenic emissions of GHGs by sources are reduced below those that would have occurred in the absence of the JI project activity (i.e. if a project’s emissions are below the baseline emissions, then it is additional); or



c) A JI project is additional if it consists of one of the technologies/types of projects declared additional *per se*<sup>1</sup>, such as:

- Energy from renewable sources, e.g.: biomass (bagasse for electricity generation; digesters/biogas generation; other), wind energy, small hydro, geothermal, photovoltaic, solar-thermal, etc.
- Energy efficiency, e.g. energy efficiency improvements in non-industrial installations (such as heating systems, boilers, buildings etc.) under certain conditions. For industrial installations, energy efficiency improvements with savings of up to a pre-determined threshold.
- Waste management: project activities in waste handling installations which install end-of-pipe technologies to eliminate or avoid CH<sub>4</sub> emissions (e.g. landfills, sludge and wastewater management) as well as activities in non-industrial facilities that reduce emissions through composting and recycling.
- Transportation: public transportation projects under certain conditions.
- Afforestation and reforestation: small-scale afforestation and reforestation project activities under certain conditions.

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<sup>1</sup> The development of a list of such potential technologies declared additional *per se* would merit further input and elaboration. The World Bank Carbon Finance Unit would be happy to assist in providing further thoughts on the development – and justification – of such a list.



### Annex I - Moving towards standardization of baseline (or its elements) setting for JI projects

It is appropriate to seek to develop standardized building blocks for baseline development, and even multi-project emission factors, possibly by sector. For example, project participant could refer to a standard library of components. The development of baseline methodologies from standardized building blocks would: streamline the review process, increase consistency across different projects and simplify efforts to compare methodologies. Standard blocks and/or multi-project emission factors might be periodically reviewed and revised as appropriate (but any changes should not be effective retroactively).

- Examples where criteria for such blocks could be developed: Justification of assumptions, Conservativeness and uncertainty, Applicability conditions, Identification and enumeration of baseline candidates, Justification of baseline situation, Demonstration of additionality, and Leakage.

- **Standard Nomenclature and Equations** – The JISC could define from the start standard nomenclature and equations. Possible examples of nomenclature are presented in the following table:

Variable	Symbol	Units	Comment
Energy efficiency	Hx	%	Useful energy output/total energy input e.g. $\eta_{BL}$ = energy efficiency of piece of equipment in the baseline)
Project Elec. Production	EGy	MWh	
Electricity Consumption	ECy	MWh	
Project Heat Production	HGy	GH	
Net Calorific Value	NCVxx	GH/t	Xx is fuel or oxidized substance.
Fuel quantity consumed	Qxx	t or m3	e.g. QB = quantity biomass fuel, QFF = quantity fossil fuel.

Source: Randall Spalding Fletcher, ECON (2006)

The criteria for baseline setting and pre-approved emission factors could facilitate the development of standardised equations for, e.g.; Emissions from combustion of fossil fuels, Emissions from combustion of renewable biomass, Emissions from captive power generation, Combined margin for power, Emission from the transport of fuels, Emissions from destruction of landfill gas, Avoided emissions of methane from a landfill site (mass based and first order decay), Emissions from a wastewater treatment plant, Emissions from calcination of limestone, Fugitive emissions from natural gas distribution systems and emissions from manure management systems.