

# SAFEGUARDS AND INCENTIVES FOR CROSS-BORDER MITIGATION: LESSONS FROM JI

As we move to a climate agreement that sees every nation taking action, Hanna-Mari Ahonen and Kari Hämekoski look at what lessons can be taken from experience with Joint Implementation

The Kyoto Protocol's Joint Implementation (JI) is an international tool for harnessing private sector resources to voluntarily identify and realise mitigation potential in countries with emission caps beyond what is required by national law or incentivised by host country policies. Conceptually, JI offers a blueprint for two key functions relevant for any robust climate policy framework: quantification of the emission reductions achieved by specific mitigation efforts, and provisions for sharing the emission reductions between the host country and other participants in contexts where overall emissions are capped.

Practical experience with JI provides valuable lessons about the versatility and diversity of this flexibility mechanism, challenges associated with multiple inconsistent standards, the importance of trust in the quality of emission reductions, and models for avoiding double-counting of mitigation outcomes even in complex cases with overlapping climate policies and mechanisms.

Effective climate action requires cross-border cooperation between countries, between different sectors within a

## JI PROJECTS BY HOST COUNTRY

| Host country   | projects |
|----------------|----------|
| Ukraine        | 321      |
| Russia         | 182      |
| Czech Republic | 59       |
| Poland         | 40       |
| Bulgaria       | 38       |
| Romania        | 21       |
| Lithuania      | 20       |
| France         | 17       |
| Estonia        | 14       |
| Germany        | 13       |
| Hungary        | 13       |
| OTHERS*        | 23       |

\*Belgium, Finland, Greece, Spain, Sweden, New Zealand, Slovakia, Latvia. Source: UNEP DTU JI Pipeline, October 2015

## EFFECTIVE CLIMATE ACTION REQUIRES COOPERATION BETWEEN COUNTRIES, BETWEEN DIFFERENT SECTORS, AND BETWEEN GOVERNMENTS AND THE PRIVATE SECTOR

country, and between governments and the private sector. Current and future climate action consists of various types of mitigation targets, policies and measures at international, national, regional, installation and sectoral levels, creating a fragmented landscape of mitigation incentives. Within an economy-wide emissions cap, some mitigation action may be required by regulation, certain emissions restricted by caps, and further mitigation potential may or may not be incentivised by domestic policies and measures.

### LESSON 1: JI IS A VERSATILE MITIGATION TOOL THAT, DEPENDING ON THE CONTEXT, CAN BE USED TO SUBSTITUTE, COMPLEMENT OR SERVE AS DOMESTIC MITIGATION POLICY.

JI introduces a carbon price, which acts as a mechanism for discovering and realising least cost mitigation potentials within a covered sector (or country). The incentive is the possibility to count the mitigation outcome – the Emission Reduction Unit (ERU) – towards the investor's compliance. Such cross-boundary flexibility can enhance cost-effectiveness by unleashing joint low-cost mitigation potential instead of implementing more costly mitigation potential on one side of the border, while leaving cheaper options untapped on the other.

JI was originally designed as an international mechanism between two countries with caps, but host countries have used it creatively as a domestic cross-sectoral mitigation tool, for example allowing unregu-

lated sectors to supply emission reductions for capped sectors under an emissions trading system (ETS), as illustrated by the EU and Switzerland in their submissions to the UNFCCC<sup>1</sup>.

It is up to the policy-maker to determine the role and scope of JI in the overall policy mix, taking into account interactions between different policies and measures. For landfill gas capture, JI was the sole incentive in Russia and Ukraine, whereas in some EU accession countries, such as Lithuania, JI served as a transitional tool to incentivise early action ahead of regulation that mandated landfill gas capture, thus rendering the activity ineligible under JI once the regulation came into force. Denmark, Spain and Switzerland have experimented with domestic mitigation support schemes modelled on JI, whereby the government or regulated installations pay for domestic emission reductions quantified in accordance with domestic JI-like standards.

### LESSON 2: JI CAN HARNESS PRIVATE SECTOR RESOURCES TO VOLUNTARILY IDENTIFY AND REALISE MITIGATION POTENTIAL BEYOND THE PACE AND LEVELS ACHIEVED BY DOMESTIC POLICIES AND MEASURES.

The private sector needs clear and predictable rules, stable and transparent processes and a sufficient price for emission reductions to incentivise investments in mitigation. Even where the scope for JI is limited to small niches of unregulated

emissions, JI can be a valuable private sector-driven tool for discovering mitigation potential and costs, identifying and bridging of policy gaps and promoting innovation and transition to new policies.

For example, in the case of nitric acid plants, JI realised untapped low-cost potential to reduce nitrous oxide emissions. Several countries used JI to incentivise voluntary early mitigation beyond the levels required by environmental permits ahead of the sector's incorporation into the EU ETS. Some set stringent benchmarks for crediting, thereby retaining part of the mitigation benefit as a contribution towards the national target, while allowing further emission reductions to be sold to finance the mitigation investment.

**LESSON 3:  
COUNTRY-SPECIFIC STANDARDS  
CAN CREATE FRAGMENTATION  
AND MISTRUST IN JI, THEREBY  
UNDERMINING THE CREDIBILITY OF  
THE ENTIRE MECHANISM.**

Originally, the quality of JI projects and ERUs was assessed either under the host country-specific Track 1 or the UN-supervised Track 2. A recent study<sup>2</sup> questions the environmental integrity of a large share of JI projects and issued ERUs, suggesting that the share of issued ERUs with questionable quality varies significantly for the four countries analysed: from over 80% in Ukraine and Russia to 0% in Poland and Germany. Ukraine and Russia have surplus emission quotas under the Kyoto Protocol, which may weaken incentives to control the quality of the issued ERUs compared with countries with targets that require deviation from business-as-usual emissions which have strong incentives to ensure that ERUs are only issued against real emission reductions that are reflected in their GHG inventory.

Mistrust towards the quality of ERUs from some countries has spilled over to entire JI market, undermining the market for environmentally robust JI activities. The ongoing JI reform is developing a single-track approach with international oversight to ensure common minimum standards across all activities, enhancing the credibility and consistent application of the mechanism independent of the ambition level of host country targets.

**LESSON 4:  
TRANSPARENT PROCEDURES AND  
ACCOUNTING ARE NECESSARY – BUT  
ARE NOT NECESSARILY SUFFICIENT  
FOR ENSURING CREDIBILITY.**

Current JI rules do not ensure transparency – but they do ensure that the ambition embedded in the collective Kyoto target is maintained through the conversion of ERUs from the national emission quota. Transparent information on standards and their application is crucial for assessing environmental quality, and robust tracking and accounting are essential for ensuring that emission reductions are not double-counted towards compliance. However, transparency and accounting alone cannot guarantee that the units issued and used for compliance meet minimum standards and represent real mitigation.

**LESSON 5:  
TRUST IN THE QUALITY OF THE  
MECHANISM IS ESSENTIAL FOR  
ITS FUNCTIONING, AND CALLS FOR  
INTERNATIONAL COORDINATION AND  
OVERSIGHT.**

This trust comes from striking a balance between international oversight and national implementation. This requires robust international minimum standards for eligibility, baselines and quantification of emission reductions; appropriate national application of such standards to fully reflect

## TRUST IN THE QUALITY OF THE MECHANISM IS ESSENTIAL FOR ITS FUNCTIONING

relevant host country policies, circumstances and priorities; and independent verification and effective enforcement to ensure that standards have been met and appropriately applied.

International procedures for approving methodologies and accrediting auditors can promote consistency and minimum quality across activities. The ongoing JI reform process is considering all these elements, with the aim of transforming a decade of lessons into a blueprint for an environmentally robust tool to incentivise and quantify real cooperative mitigation outcomes.

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(1) Kollmuss, A., Schneider L. and Zhezherin, V. 2015. Has Joint Implementation reduced GHG emissions? Lessons learned for the design of carbon market mechanisms. Stockholm Environment Institute, Working Paper 2015-07.

