CCPO

CLIMATE CHANGE PROJECTS OFFICE

Working with Business for a Cleaner Planet

A Climate Change Business Guide

2. An Explanation of Joint Implementation and the Clean Development Mechanism

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http://www.dti.gov.uk/ccpo

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Department for **Environment, Food & Rural Affairs**

dti

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INTRODUCTION

This guide - *An Explanation of Joint Implementation and the Clean Development Mechanism* - is a companion to the guide *An Introduction to Climate Change Projects*. Both guides have been produced by the UK Government's Climate Change Projects Office, the CCPO.

The introductory guide provides an overview of Climate Change Projects, including relevant background and typical examples, to raise awareness of the opportunities they present for UK business.

This guide is aimed at businesses who have identified that the international Kyoto Project Mechanisms, Joint Implementation (JI) and Clean Development Mechanism (CDM), are of interest and who want to know more about the processes involved. The advice includes how to ensure projects are eligible for greenhouse gas emission reduction credits, and an overview of the timetable for key decisions related to Kyoto Project Mechanisms. This guide will be updated as necessary. Please check our website to confirm you have the most up-to-date edition.

The CCPO is here to help UK business by offering an expert advice service and a "first-stop shop" to access all areas of Government involved in Climate Change projects. We offer general briefings and tailored advice, but are limited in the amount of time we can devote to individual projects, so additional consultancy services will often be required to advance specific project proposals.

To find out more about how the CCPO can help you, please visit our website at **http://www.dti.gov.uk/ccpo**

We would also like to draw your attention to the glossary of Climate Change terms included on the site, and the database of professional services.

If you think we can help you, please contact us.

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JOINT IMPLEMENTATION (JI)

Principle

Joint Implementation allows a country with a Kyoto Protocol emission reduction target (i.e. an industrialised country or one in transition to a market economy - an Annex I country) to meet part of its target through carrying out a project to reduce greenhouse gas emissions in any economic sector of another Annex I country. This arrangement is subject only to:

i) The project having the approval of the countries involved; and

ii) The project resulting in emission reductions which would not have otherwise occurred in its absence.

During the first Kyoto Commitment Period (2008-12), credits are accumulated for the reduction in greenhouse gas (GHG) emissions, equivalent to the amount the emissions have been reduced compared to a “business as usual” scenario (known as the “baseline”). These credits are called Emission Reduction Units (ERUs), and they can be used by an investing company to set against its own emissions target, or sold to allow another company (or country) to meet its own target, either in the same country or abroad.

The different GHGs have different potentials to impact on Climate Change, so one ERU is awarded for emission reductions in any of the greenhouse gases equivalent in impact to one tonne of carbon dioxide emissions. This means, for example, that landfill gas projects involving methane emission reductions can be particularly attractive, as methane has a greenhouse gas potency approximately twenty times that of carbon dioxide.

Investor
and host countries and companies

In JI projects, emission reductions generated through investments are transferred to another country to assist the second/investor country to meet its own target.

- The benefit to the host country and local partners is that investment funds are provided for sustainable economic growth which might not otherwise be available.
- The benefit to the investor country or company is that emission reductions are met at a lower cost than would be possible at home.
- Alternatively, an investor company may benefit from an additional source of revenue by selling the credits which are generated by the project.

The most likely countries to host JI projects are those whose emissions allowances are likely to exceed the number they need to be in compliance with their Kyoto target i.e. Central & Eastern Europe and Former Soviet Union countries. Less promising prospects for undertaking JI projects are likely in countries that will need to employ all cost-effective domestic project opportunities to meet their Kyoto target, or those intending to bank any excess credits for compliance with targets in future Commitment Periods.

Likely investors include those who will have difficulty meeting their targets, or find it relatively expensive to do so. For example, the Dutch Government is planning to meet approximately half of its emission reduction target through JI and CDM projects, and has put in place the necessary funding to achieve this.

http://www.senter.nl

Project example

A UK company might seek to build a gas power station in an East European country to replace an old coal station. The project must replace an existing high greenhouse gas emitting source with a lower emitter; the reduction in emissions must be "additional" to that which would occur under a "business as usual" scenario. The scheme must not be simply replacing a defunct coal station that is reaching the end of its life, nor could a project qualify if it involved building a gas powered plant in an area which does not normally use coal as a source of energy. Each project will have an agreed baseline against which the ERUs are calculated.

At present the UK company could not use the credits to achieve an emission reduction target set by the UK Government, but it could sell the credits, either now (as a futures option or contract) or once they have been verified.

Processes

The processes to be followed and the parties involved with a JI project are described in Section 2.

The assigned ERUs will not be awarded until the first Commitment Period, 2008-2012. However, it may be possible to make arrangements in advance for transfer of their ownership to a third party, in return for upfront capital.

The Annex I Countries

The countries which have signed up to the Kyoto Protocol and been assigned an emission reduction target are:

Australia, Austria, Belgium, Bulgaria*, Canada, Croatia*, Czech Republic*, Denmark, Estonia*, Finland, France, Germany, Greece, Hungary*, Iceland, Ireland, Italy, Japan, Latvia*, Liechtenstein, Lithuania*, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Poland*, Portugal, Romania*, Russian Federation*, Slovakia*, Slovenia*, Spain, Sweden, Switzerland, Ukraine*, United Kingdom, United States of America**

* Countries that are undergoing the process of transition to a market economy

** The USA has declared its intention not to ratify the Kyoto Protocol, and therefore not to adopt its Kyoto emission reduction target

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SETTING UP AND RUNNING A JI PROJECT: FIRST TRACK

Step 1
Project proposal

A project developer outlines a project, identifies a host country and identifies the other project participants. Host countries will need to be Annex I countries.

Step 2
In principle agreement from investor and host country

The project developer approaches their National Authority[1] to confirm eligibility to take part in JI projects. The developer also contacts the host country's National Authority to discuss the proposal.

The UK Climate Change Projects Office (CCPO) is already set up to offer advice and assistance to UK business, and it will act as the point of contact with the UK's National Authority.

Step 3
Preparation of project documentation

Full project documentation needs to be prepared, including a description of the project, the basis for determining the emissions which would occur without the project (the baseline) and what this level is, the emission reductions arising from the project that are over and above "business as usual" (additionality), and plans for monitoring the reductions.

The services of an environmental consultant may prove useful when drawing up this documentation, especially for the baseline calculations and demonstration of the amount of additional emission reductions the project will generate.

[1] The National Authority is the official body representing a Government which takes part in the arrangement of JI/CDM projects

Step 4
Validation of the baseline
The validity of the approach to baseline setting and the calculations need to be submitted to the National Authority of the host country and be validated in accordance with national procedures.

Step 5
Request for project approval
The Climate Change Projects Office will check initial eligibility of the project and seek the UK National Authority's approval as necessary once these procedures are established, prior to the developer seeking project approval from the host country's National Authority. The CCPO can also help to facilitate a Memorandum of Understanding between the investor and host country, if required.

Approval is confirmed through the host country issuing a Letter of Approval (LoA). This confirms the country's approval for the transfer of carbon credits called Emission Reduction Units (ERUs). The investor country may also need to issue a Letter of Approval.

Step 6
Application for third party funding
The project developer may wish to seek third party funding from one of the bodies specifically set up to fund this type of project, such as the World Bank's Prototype Carbon Fund or the Dutch Government's ERUPT programme. In this case, the project documentation and LoA would need to be submitted in support of the request for funding. In return, the funder may take future ownership of some or all of the ERUs.

Step 7
Implementation of project
The project is implemented in the host country.

Step 8
Monitoring
The National Authority of the host country will establish procedures to monitor the project and to verify the emission reductions.

Step 9
Issue of ERUs
The host country's National Authority will issue the ERUs. These could be issued for each year of the five year period 2008-2012.

Step 10
Trading of ERUs
The ERUs may be the property of the original project developer, or they may be transferred to a third party funding body. Either way, the owner is free to trade the ERUs on the international emissions trading market.

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SETTING UP AND RUNNING A "SECOND TRACK" JI PROJECT

An Annex I country which fails to meet some specific eligibility criteria for participation in JI projects, defined in the Kyoto Protocol, may still host JI projects if additional verification mechanisms are put in place to underwrite the expected emission reduction credits. This approach is termed Second Track Joint Implementation and more closely matches the process for CDM projects, see Figure 1.

The process for Second Track JI is described below, with the differences between First Track and Second Track JI highlighted in *italics*.

Step 1
Project proposal

A project developer outlines a project, identifies a host country and identifies the other project participants. Host countries will need to be Annex I countries.

Step 2
In principle agreement from investor and host country

The project developer approaches their National Authority to confirm eligibility to take part in JI projects. The developer also contacts the host country's National Authority to discuss the proposal.

The UK Climate Change Projects Office (CCPO) is already set up to offer advice and assistance to UK business, and it will act as the point of contact with the UK's National Authority.

Step 3
Preparation of project documentation

Full project documentation needs to be prepared, including a description of the project, the basis for determining the emissions which would occur without the project (the baseline) and what this level is, the emission reductions arising from the project that are over and above "business as usual" (additionality),and plans for monitoring the reductions.

The services of an environmental consultant may prove useful when drawing up the documentation, especially for the baseline calculations and demonstration of the amount of additional emission reductions the project will generate.

Step 4
Validation of the baseline

The validity of the approach to baseline setting and the calculations need to be submitted to an independent body, termed an Independent Entity (IE), for validation. The IE must already have been registered with the JI Supervisory Committee.

Step 5
Request for project approval

The Climate Change Projects Office will check initial eligibility of the project and seek the UK National Authority's approval as necessary once these procedures are established, prior to the developer seeking project approval from the host country's National Authority. The CCPO can also help to facilitate a Memorandum of Understanding between the investor and host country, if required.

Approval is confirmed through the host country issuing a Letter of Approval (LoA). This confirms the country's approval for the transfer of carbon credits called Emission Reduction Units (ERUs). The investor country may also need to issue a LoA.

Step 6
Application for third party funding

The project developer may wish to seek third party funding from one of the bodies specifically set up to fund this type of project, such as the World Bank's Prototype Carbon Fund or the Dutch Government's ERUPT programme. In this case, the project documentation and LoA would need to be submitted in support of the request for funding. In return, the funder may take future ownership of some or all of the ERUs.

Step 7
Implementation of project

The project is implemented in the host country.

Step 8
Monitoring

The project developer monitors the project to identify the emission reductions. Monitoring reports are issued to an Independent Entity.

Step 9
Verification

An independent body (accredited by the JI Supervisory Board) verifies the monitored emissions.

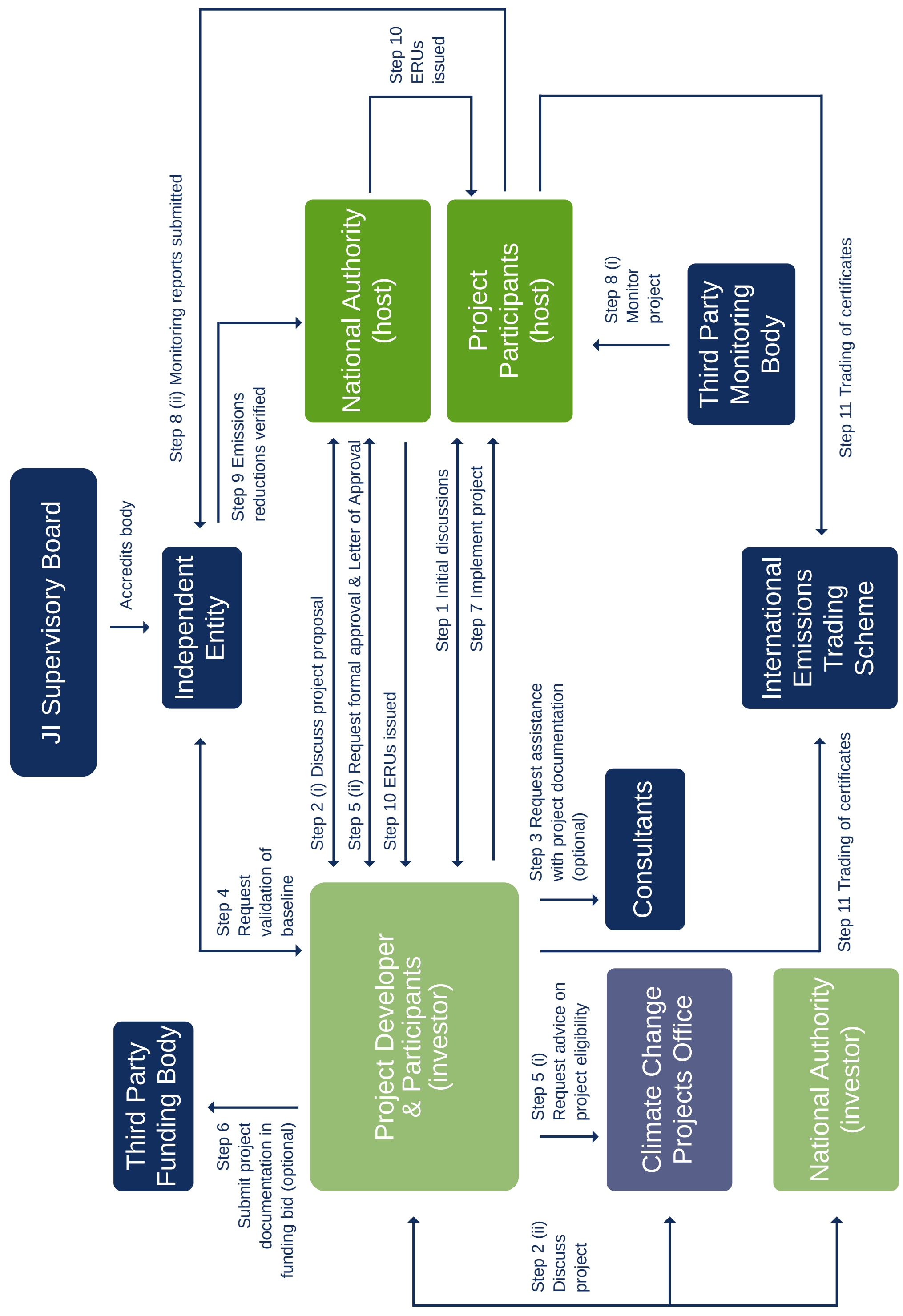
Step 10
Issue of ERUs

The project host submits the monitoring reports to the host country's National Authority. This body then issues the ERUs. These could be issued for each year of the five year period 2008-2012.

Step 11
Trading of ERUs

The ERUs may be the property of the original project developer, or they may be transferred to a third party funding body. Either way, the owner is free to trade the ERUs.

FIGURE 1 PROCESSES AND PARTIES INVOLVED IN A SECOND TRACK JI PROJECT



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The Clean Development Mechanism (CDM)

Principle

CDM is similar to JI, but project activities must be hosted by a developing country (i.e. a non-Annex I country, as defined in the Kyoto Protocol). The host countries do not have their own Kyoto emissions targets and any credits acquired by Annex I countries can be used to offset increases in their own domestic emissions. Therefore, an additional level of assurance is required regarding the validity and amount of emission reductions achieved before they can be used towards the Kyoto target of an investor country.

Like JI projects, CDM projects must result in reductions that are additional to those which would have occurred in the absence of the project. A further criterion for CDM is that the project must help the host developing country to achieve its sustainable development goals.

All CDM projects must be registered with the CDM Executive Board. The Board also accredits independent bodies called Designated Operational Entities (DOEs). A Designated Operational Entity will be needed to check the baseline assumptions and method, to determine the validity of the project in terms of meeting all eligibility criteria for registration, and to verify the monitored emission reductions prior to the issue of credits by the CDM Board.

As the emission reductions for CDM projects are certified they are termed Certified Emission Reductions (CERs). However, as far as emissions trading is concerned, one CER is equivalent to one ERU, assigned for a saving in any of the greenhouse gases equivalent in impact to one tonne of carbon dioxide emissions. It is possible to start CDM projects from 2000, and to bank CERs generated prior to the Kyoto Commitment Period (2008-2012). The ability to earn emission reduction credits prior to the first Kyoto Commitment Period, between 2008 and 2012, is an important advantage that CDM has over JI.

Ownership of the CERs is subject to negotiation between the project investors and the hosts. The project developer may retain all of them or there may be a transfer of ownership of part or all of the emission reduction credits to a third party. At the project development stage, future credits may be transferred to a third party in return for capital to fund the project's development, or they may need to be shared out between a number of investors and grant providers.

Investor
and host countries

The countries which can potentially act as host countries are those without their own Kyoto targets, i.e. Non-Annex I countries.

- The benefit to the host country and local partners is that investment funds are provided for sustainable economic growth which might not otherwise be available.
- The benefit to the investor country or company is that emission reductions are met at a lower cost than would be possible at home.

Project example

An example of a CDM project would be the installation of photovoltaic cells to replace the use of a diesel generator for domestic heating in a developing country. To be eligible, a CDM project must replace a planned or existing high greenhouse gas emitting source with a lower emitter, and the reduction in emissions must be "additional" to that which would occur under a "business as usual" scenario. Each project will have an agreed baseline against which credits are calculated. Each project will also need to demonstrate its contribution to sustainable development in the host country, as determined by the host country's Government.

Processes

The processes to be followed and the parties involved to enable a project to be termed a CDM project are shown in Figure 2, in the next section.

The diagram shows the processes for a bilateral project, where an investor and a host country are both involved, and for a multilateral project where a third party funding organisation is also involved.

A set of special streamlined procedures for small-scale CDM projects is currently being developed by the CDM Executive Board. Such projects are defined as:

- Renewable energy project activities with a maximum output capacity equivalent of up to 15 MW (or an appropriate equivalent);
- Energy efficiency improvement project activities which reduce energy consumption on the supply and/or demand side, by up to the equivalent of 15 GWh per year; or
- Other project activities that both reduce anthropogenic emissions by sources and directly emit less than 15 kilotonnes of CO_2 equivalent per year.

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SETTING UP AND RUNNING A CDM PROJECT

Step 1
Project proposal

A project developer outlines a project, and identifies a host country (a non-Annex I country) and the other project participants. It may also be helpful to discuss the project with the investor country's National Authority.

The UK Climate Change Projects Office (CCPO) is already set up to offer advice and assistance to UK business, and it will act as the point of contact with the UK's National Authority.

Step 2
Agreement from host country

The project developer approaches the host country's National Authority, and this body reviews and supports the project, and issues a Letter of Endorsement (LoE).

Step 3
Preparation of project documentation

Full project documentation is prepared. This includes a description of the project, evidence of technology transfer, the contribution to sustainable development in the host country, the approach to baseline setting and calculation of the emissions occurring in the absence of the project, the emission reductions arising from the project that are over and above "business as usual" (additionality), plans for monitoring and verification of the reductions, and the LoE.

The services of an environmental consultant may prove useful when drawing up the documentation, especially for the baseline calculations and demonstration of the amount of additional emission reductions the project will generate.

Step 4
Application for third party funding

The project developer may wish to seek third party funding from one of the bodies specifically set up to fund this type of project, such as the World Bank's Prototype Carbon Fund (PCF). In this case, the project documentation would need to be submitted in support of the request for funding. In return, the funder may take future ownership of all or part of the Certified Emission Reduction credits (CERs).

Step 5
Request for formal project approval - validation

The Climate Change Projects Office will check initial eligibility of the project, prior to the developer seeking formal project approval.

The project documentation is submitted to an accredited Operational Entity* (OE) for validation. Based on this documentation, and comments received from stakeholders, the OE determines whether or not the project should be validated. If the project is satisfactory, the OE submits the project to the CDM Executive Board for registration as a CDM project.

Step 6
Implementation of project

The project developer receives confirmation of the project's registration and the project is implemented.

Step 7
Monitoring

The project developer monitors the project to identify the emission reductions. Monitoring reports are issued to the project host.

Step 8
Verification

The project host submits the monitoring reports to an accredited Operational Entity* for verification of both the implementation of the monitoring plan, and the calculation of the project's emissions. The Operational Entity certifies the emission reductions, calculated by comparing the actual emissions against the baseline, and notifies the CDM Executive Board.

Step 9
Issue of CERs

The CDM Executive Board issues Certified Emission Reduction credits (CERs) equivalent to the emission reductions achieved, but retains 2% of them as an adaptation levy (a fund to help developing countries adapt to the effects of Climate Change). Further administrative charges may also be levied; this aspect has yet to be finalised.

Step 10
Trading of CERs

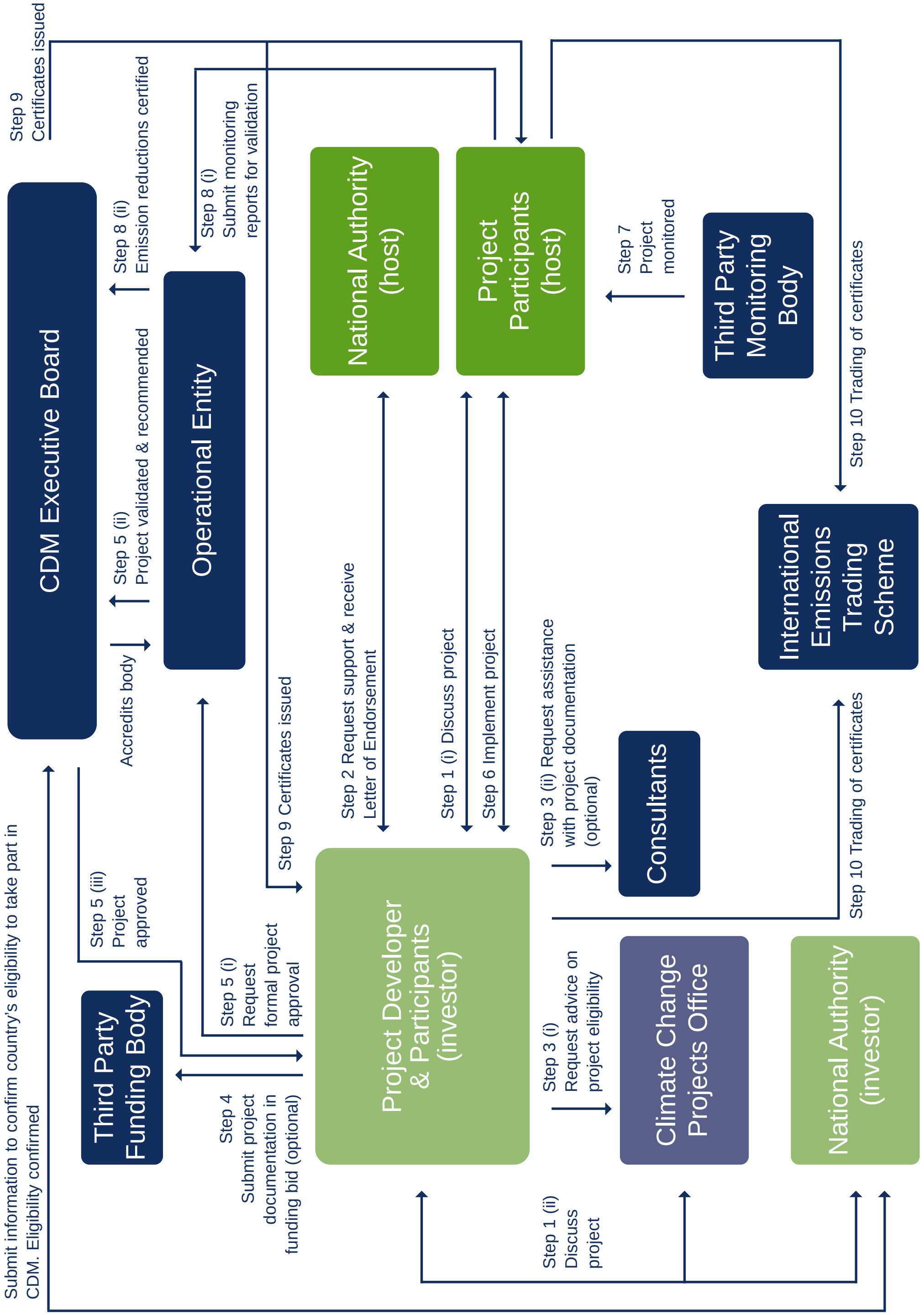
The CERs may be the property of the original project proposer, or they may be transferred to a third party funding body. Either way, the owner is free to trade the CERs.

Step 11
Cycle of steps 7 to 10 is repeated

Steps 7 to 10 (monitoring, verification, issue of certificates and trading) are repeated annually throughout the life of the project. The maximum project life is 21 years. At seven year intervals, the baseline will need to be independently validated and may need to be revised. Alternatively, a 10 year crediting period can be chosen at the outset, with no option of renewal.

* The project developer bears the cost of the independent project validation, and monitoring and verification of the emission reductions.

FIGURE 2 PROCESSES AND PARTIES INVOLVED IN A CDM PROJECT



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THE TIMETABLE FOR THE KYOTO MECHANISMS

Is Everything

in place to obtain CERs and ERUs?

The tables on pages 25-34 summarise the key elements of the JI and CDM processes which are needed for a project to be eligible to accrue emission reduction credits, and the timescale for finalising the rules governing these procedures where these are currently outstanding.

The Marrakesh Accords[1], adopted in November 2001, set in place much of the framework and implementing rules for CDM and JI projects. However, some additional work needs to be done at an international level. The CDM Executive Board is already in operation, and the JI Supervisory Committee will be established at the first international climate change conference following the entry into force of the Kyoto Protocol (known as CoP/MoP1)[2].

[1]The Marrakesh Accords can be found at

http://unfccc.int/resource/docs/cop7/13.pdf

and the action taken is available from

http://unfccc.int/resource/docs/cop7/13a01.pdf to 13a04.pdf

[2]CoP/MoP is the Conference of the Parties serving as the Meeting of the Parties

When
will credits be issued, and by whom?

For JI projects, ERUs will be issued by the host country.

JI project status can relate to activities taking place anytime after 1 January 2000, but projects can only be awarded credits from 2008 when the first Kyoto Commitment Period (2008-2012) commences. Credits will only be confirmed when countries comply with the necessary national eligibility criteria, or for so-called "Second Track JI projects" (where one country is not in compliance), once approval has been received from the JI Supervisory Committee.

If one country is not in compliance with the Kyoto Protocol requirements, more rigour is required to provide assurance of the amount of ERUs that can be transferred. This assurance is provided by an Independent Entity (IE) accredited by the JI Supervisory Committee.

CDM projects require validation by Designated Operational Entities (DOE), and registration by the CDM Executive Board (CDM EB). Credits are issued by the CDM EB, after verification of the emission reductions by the DOE.

The CDM EB is currently:

- Developing verification and monitoring guidelines for the establishment of baselines and the additionality of emission reductions; and
- Designating Operational Entities on a provisional basis. These entities can then validate and verify projects and emission reductions.

It is intended that operational entities will be formally designated, and further guidelines on projects will be adopted by the CoP 8 in October 2002. The project guidelines should include the simplified procedures for small-scale CDM projects, and more guidance on baselines.

Formal validation and registration of projects, and ultimately verification and certification of emissions, can then follow, leading to the issue of the first CER credits.

NATIONAL ELIGIBILITY REQUIREMENTS

In order for countries to participate in the project mechanisms there are some key eligibility requirements that need to be met. Generally speaking, countries intending to use the credits have the most onerous eligibility requirements. Countries that host CDM projects have the least eligibility requirements, and countries may issue ERUs under Second Track JI on limited eligibility requirements. These requirements are summarised below.

National Eligibility Criteria - Taking Part in JI First Track
Countries must:

- Inform the secretariat of the UNFCCC of the designated focal point for approving projects;
- Inform the secretariat of the UNFCCC of its national guidelines and procedures for approving JI projects.

To transfer and/or acquire ERUs, a country must:

- Have ratified the Kyoto Protocol;
- Have established its assigned amount in accordance with the Protocols and Accords;
- Have in place a national system for estimation of emissions by sources and removals by sinks of all GHG;
- Have in place a national emissions registry in accordance with guidelines;
- Have submitted to the UNFCCC the most recent required inventory in accordance with guidelines;
- Have submitted to the UNFCCC supplementary information on its assigned amount.

National Eligibility Criteria - Taking Part in JI Second Track
There are fewer requirements on the country for a Second Track JI project, and hence in addition to fulfiling these requirements, the JI Supervisory Committee must validate the project and verify the emissions.

To transfer and/or acquire ERUs, a country must:

- Have ratified the Kyoto Protocol;
- Have established its assigned amount in accordance with the Protocols and Accords;
- Have in place a national system for estimation of emissions by sources and removals by sinks of all GHG;
- Have submitted to the UNFCCC the most recent required inventory in accordance with guidelines.

The CCPO is able to advise on whether an Annex I country is likely to be eligible for First Track JI projects, or whether it is more likely to have to host Second Track JI projects.

National Eligibility Criteria - Taking Part in CDM
Both countries must:

- Designate a national authority for CDM

To make use of CERs to contribute to the national target, an investor country must:

- Have ratified the Kyoto Protocol;
- Have established its assigned amount in accordance with the Protocols and Accords;
- Have in place a national system for estimation of emissions by sources and removals by sinks of all GHG;
- Have in place a national emissions registry in accordance with guidelines;
- Have submitted to the UNFCCC the most recent required inventory in accordance with guidelines;
- Have submitted to the UNFCCC supplementary information on its assigned amount.

PROJECT STAGES AND TIMETABLE FOR FINAL APPROVAL OF THE RULES
- JOINT IMPLEMENTATION FIRST TRACK

Project Approval Process	JI – FirstTrack
Supervisory Body	**No supervisory body involvement required**
Project Design Document (PDD)	• Format to be elaborated after the Kyoto Protocol enters into force, but national procedures will probably follow the broad format of the CDM outline.
Supporting Documentation	• To supplement the PDD and demonstrate that all requirements have been met.
Environmental Analysis/Assessment	• Analysis of a project's environmental impacts must be conducted, and if these are significant, an assessment will be required in accordance with the host country's procedures.
Baseline Methodology to establish the emissions which would occur if the project didn't take place.	• Host country issues the Emission Reduction Units (ERUs), based on the difference between the baseline emissions and the emission reductions/storage associated with the project, so it will probably apply a similar methodology to that for Second Track JI.
Monitoring Plan	• A host country issues the ERUs and will require assurance regarding the emission reductions actually achieved, so it will probably apply a similar methodology to that for Second Track JI.
Process for Small-Scale Projects	• Not applicable
Government Approval	• Both Governments must agree to the project because of the transfer of Assigned Amount Units (AAUs) between them.
Project Finance	• Some organisations are prepared to commit to buying emissions at a price agreed in advance of the transfer of credits.
Project Implementation	• No third party approval is required.
Verification of Emission Reductions	• Verification requirements for the emissions reduced/stored are determined by the host country, as the project involves the transfer of emission reductions rather than the generation of new emission reductions.
Issue/Transfer of Carbon Credits	• No project registration is required. ERUs can only be issued once Assigned Amount Units (AAUs) exist for the issuing country.
Trading of Carbon Credits	• The UK Emissions Trading Scheme was launched in April 2002 to enable companies to meet internally agreed or UK Government agreed emission reduction targets, or generate revenue. • EU Emissions Trading may start in 2005. • International Emissions Trading will start in 2008.

PROJECT STAGES AND TIMETABLE FOR FINAL APPROVAL OF THE RULES
- JOINT IMPLEMENTATION SECOND TRACK

Project Approval Process	JI – Second Track
Supervisory Body	**JI Supervisory Committee will be elected at CoP/MoP1. The mandate of the Supervisory Committee (JI SC) includes supervising the verification of the ERUs generated by JI projects, accreditation of the IEs and the provision of guidelines on baselines and monitoring.**
Project Design Document (PDD)	• Format to be elaborated after the Kyoto Protocol enters into force, but it will need to contain sufficient information to determine whether the project: - Is approved by countries involved; - Results in a reduction in greenhouse gas emissions or storage of emissions by sinks. • PDD must be submitted to an Independent Entity (IE) for validation. • IEs will be accredited by JI SC.
Supporting Documentation	• To supplement the PDD and demonstrate that all requirements have been met.
Environmental Analysis/Assessment	• Analysis of a project's environmental impacts must be conducted, and if these are significant, an assessment will be required in accordance with the host country's procedures
Baseline Methodology to establish the emissions which would occur if the project didn't take place.	• Baseline methodology criteria were elaborated in the Marrakesh Accords (CoP 7) in **November 2001**. The JI SC will provide further guidance on its establishment, as appropriate.
Monitoring Plan	• Monitoring criteria were elaborated in the Marrakesh Accords (CoP 7) in **November 2001**. The JI SC will provide further guidance on its establishment, as appropriate.
Process for Small-Scale Projects	• Not applicable
Government Approval	• Both Governments must indicate their approval of the project, as part of the PDD. • The PDD is reviewed by the IE when recommending to the JI SC that the project is approved.
Project Finance	• Some organisations are prepared to commit to buying emissions at a price agreed in advance of the transfer of credits.

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PROJECT STAGES AND TIMETABLE FOR FINAL APPROVAL OF THE RULES - JOINT IMPLEMENTATION SECOND TRACK

Project Approval Process	JI – Second Track (continued)
Project Implementation	• The IE validates that all requirements have been met and recommends approval from the JI SC. • The JI SC will be elected at CoP/MoP1, and subsequently the IEs will be approved.
Verification of Emission Reductions	• Monitoring is carried out by a third party, with reports forwarded to an IE for verification of the emission reductions. • IE recommends to the host country the number of ERUs it should issue. • IEs will be formally designated by the JI SC.
Issue/Transfer of Carbon Credits	• No project registration is required. ERUs can only be issued once Assigned Amount Units (AAUs) exist for the issuing country. Currently, there is no fixed date for this.
Trading of Carbon Credits	• The UK Emissions Trading Scheme was launched in **April 2002** to enable companies to meet internally agreed or UK Government agreed emission reduction targets, or generate revenue. • EU Emissions Trading may start in **2005**. • International Emissions Trading will start in **2008**.

PROJECT STAGES AND TIMETABLE FOR FINAL APPROVAL OF THE RULES - CLEAN DEVELOPMENT MECHANISM

Project Approval Process	CDM
Supervisory Body	**CDM Executive Board – elected at CoP 7 in November 2001.**
Project Design Document (PDD)	• Format framework agreed in the Marrakesh Accords in **November 2001**. • PDD must be submitted to a Designated Operational Entity (DOE) for validation. • DOE recommends approval of project by CDM Executive Board (CDM EB). • DOEs can be designated on a provisional basis by CDM EB and will be subject to formal designation by the next CoP (these usually occur annually).
Supporting Documentation	• To demonstrate satisfaction of participation requirements in addition to the information in the PDD. • To show the comments from local stakeholders and how these have been taken into account.
Environmental Analysis/Assessment	• Analysis of a project's environmental impacts must be conducted, and if these are significant, an assessment will be required in accordance with the host country's procedures.
Baseline Methodology to establish the emissions which would occur if the project didn't take place.	• This needs to be submitted as part of the information sent to the DOE, for confirmation of methodology and calculations. • CDM EB is currently establishing guidelines on baseline methodologies for adoption at CoP 8 in **October 2002**.
Monitoring Plan	• The requirements for the Monitoring Plan were agreed at CoP 7 in **November 2001**. • CDM EB is currently establishing approved guidelines on monitoring methodologies for adoption at CoP 8 in **October 2002**.
Process for Small-Scale Projects	• CDM EB is currently establishing streamlined procedures for small-scale projects for adoption at CoP 8 in **October 2002**.
Government Approval	• Both Governments must indicate their approval and the host Government must confirm that the project assists with delivering its sustainable development objectives. • This is the final step in project validation, prior to CDM EB registration of the project.

Continues over

PROJECT STAGES AND TIMETABLE FOR FINAL APPROVAL OF THE RULES - CLEAN DEVELOPMENT MECHANISM

Project Approval Process	CDM (continued)
Project Finance	• Some organisations are prepared to commit to buying emissions at a price agreed in advance of the transfer of credits.
Project Implementation	• Approval from the CDM EB is required to guarantee that Certified Emission Reductions (CERs) will be awarded. • Projects which were started after **1 January 2000** may apply retrospectively for project approval once the procedures are in place, but the project must be validated and registered by **31 December 2005**.
Verification of Emission Reductions	• Monitoring is carried out by a third party, with reports forwarded to the DOE for verification of the emission reductions. • DOE recommends to the CDM EB the number of CERs it should issue for the project. • DOEs can be designated on a provisional basis by CDM EB from **December 2001**, and will be formally designated by CoP 8 in **November 2002**.
Issue/Transfer of Carbon Credits	• Projects will be able to be registered by the EB once submitted by the DOE, and credits will be awarded once verification of the emission reductions has taken place.
Trading of Carbon Credits	• The UK Emissions Trading Scheme was launched in **April 2002** to enable companies to meet internally agreed or UK Government agreed emission reduction targets, or generate revenue. The rules governing the eligibility of CDM credits remain to be developed. • EU Emissions Trading may start in **2005**. • International Emissions Trading will start in **2008**.