

**First UNFCCC Workshop on the implementation of Article 6 projects
under the Kyoto Protocol**

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Article 6 in the context of the Marrakesh Accords

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As the rules for implementing the provisions of the Kyoto Protocol were being designed, the guidelines for projects under Article 6 under the Kyoto Protocol – popularly referred to as “joint implementation (or JI)” - assumed a particular importance. JI therefore became a critical element of the Marrakesh Accords. As was the case for the Marrakesh Accords as a whole, the imperative for the JI rules was to strike the right balance.

The result on JI and the related package which emerged in December 2001 was indeed accepted by all Parties as a good compromise allowing the ratification of the Kyoto Protocol to proceed by ensuring environmental integrity and economic attractiveness. As one of the three mechanisms which feed into the “carbon market” (ERUs and RMUs from JI, CERs from the CDM and AAUs from emissions trading), the rules are balancing interests of hosts and investors, sellers and buyers of credits, and taking into account economic and sustainable development interests of Annex I and non-Annex I Parties.

Annex I Parties, in particular economies in transition (EITs), wanted to ensure that JI projects hosted in their countries could start as soon as possible and thus yield environmental as well as economic benefits, complementing income from the potential sale of excess assigned amount units under emissions trading. Several economic analyses since then have indeed contended that economic benefits for these countries would be maximized if JI was their primary strategy in the first commitment period and excess AAUs were largely banked for later use. On the other hand, non-Annex I Parties wanted to ensure that the benefits from an early start of the CDM foreseen in the Kyoto Protocol were not jeopardized and that the CDM – seen as having strict rules, high transaction costs and liable to pay a share of proceeds into an adaptation fund – was not marginalized by the other two market mechanisms.

The negotiations on the rules for JI in Marrakesh were concluded by creating an incentive for becoming eligible early, i.e. as soon as a Party to the Protocol had a good reporting and registry system in place, JI could function as a domestically-governed system with relatively low transaction costs. The eligibility conditions were identical to those for engaging in direct transfers of assigned amount units, and are referred to as track 1 or as “emissions trading-like JI”. (NB: In this context, an important element of compromise in Marrakesh was that a quality assessment for sinks inventories is not part of the eligibility criteria in the first commitment period.)

A second element of compromise was to foresee an alternative track to doing JI projects in case a Party to the Protocol could not meet all eligibility elements. Under this second track, to compensate for the level of uncertainty regarding environmental integrity, a project is referred to a layer of internationally exercised governance in the form of a “JI as CDM light” process. An Article 6 Supervisory Committee, operating under the direct authority of the Conference of the Parties, serving as the meeting of the Parties to the Kyoto Protocol, would vouch for quality and put its stamp of approval. If a Party pursues this track, transfers of credits from such projects are exempted from the provisions for the commitment period reserve.

The Marrakesh Accords, by offering these two tracks, a “tailor-made JI”, sought to encourage the preparatory process for implementing JI projects so that credits could indeed be obtained as of the year 2008. This opportunity has been well-understood by the markets and is anticipated by them.

In the course of this first UNFCCC JI workshop, details of the two-track JI system will be laid out, including the eligibility requirements under either track – be they related to reporting and monitoring or to the development of a registry system. In several instances, the Marrakesh Accords stress the need for the JI-Article 6 Supervisory Committee process to draw on the experience of the CDM Executive Board. The Chair of the CDM Executive Board and other members of the Board have therefore kindly agreed to share at this workshop their experiences from the CDM process.

The Marrakesh Accords stipulated that the UNFCCC secretariat is to service not only the CDM but also the Article 6 processes. Since Marrakesh, the process for putting in place the CDM has indeed been a very dynamic one and projects are expected to be submitted for registration any day. The secretariat anticipates that a similarly dynamic process will drive JI once the first COP/MOP has set up the A6SC. At national level, many JI initiatives have sprung up and institutional structures are being established. The secretariat is keen to support these developments as resources become available: through establishing a JI web module, modelled after the one for the CDM, and by convening JI workshops as a forum to exchange experience.

In conclusion: When the Marrakesh Accords, and importantly the agreement on JI, were adopted, the expectation was that sufficient assurances were in place for Parties to proceed with ratification and to allow the Kyoto Protocol to enter into force. The next months will show the extent and pace at which the fruits of Marrakesh can be reaped.

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