Will Joint Implementation LULUCF projects be impossible in practice?

Bernhard Schlamadinger (Joanneum Research, Austria) and Charlotte Streck, Robert O'Sullivan (Climate Focus, The Netherlands)

The Kyoto Protocol and Marrakech Accords provide Annex I countries the possibility to invest in GHG abatement projects in other Annex I countries under the Joint Implementation (JI) mechanism. The resulting emission reductions are estimated, and then transferred to the investor country as "Emission Reduction Units" (ERUs). According to the Marrakech Accords, these ERUs are generated by converting Assigned Amount Units (AAUs) or Removal Units (RMUs) from the host country's account.

While the procedures for CDM project registration and the issuance for ensuing Certified Emission Reductions (CERs) are now well tested, the JI mechanism is still being fine-tuned. This is particularly true for projects in the land use, land-use change, and forestry (LULUCF) sector. Taking into account the large areas of degraded land in some Eastern European countries and Russia, JI LULUCF projects have significant potential. As JI recognizes a number of LULUCF project activities as eligible for generating credits that are not eligible under the CDM (for example, avoided deforestation, forest and wetland management, sustainable agriculture), JI LULUCF projects have an important demonstration potential for the discussions of a post-Kyoto regime.

Interpretations of the JI LULUCF rules during the implementation of the International Transaction Log (ITL), and the JI LULUCF PDD raise a number of concerns, as they create additional restrictions on the development of JI LULUCF projects.

The JI LULUCF PDD appears to exclude projects that reduce emissions from LULUCF sources by limiting the definition of a project to one that "aims at enhancing net anthropogenic removals by sinks". This excludes most agriculture soil projects and projects that reduce forest degradation and deforestation – project categories with significant potential to reduce emissions. The basis of this seems to be a narrow interpretation of the JI rules that ignores the fact that "carbon sinks" can also be sources of emissions.

The position being taken in the implementation of the ITL is that a JI LULUCF project (such as improved cropland management, or improved forest management) can only be undertaken if the host country has elected to account for the corresponding activity under Article 3.4. of the Kyoto Protocol. All countries that wish to obtain Removal Units (RMUs, the carbon units created under Articles 3.3 or 3.4) for land use activities on their territory have to nominate which activities under Article 3.4 will be accounted for. This choice, which is independent from the JI mechanism, is now being made a condition for the implementation of JI LULUCF projects.

The emerging ITL rules further appears to assume that only RMUs (but not AAUs) can be converted into ERUs in the context of JI LULUCF projects. RMUs will be issued each year, or once for the entire first commitment period. The proposed ITL rules seem to assume that as RMUs are created by carbon-sequestering land use activities only RMUs should be converted into ERUs for JI LULUCF projects. However, this interpretation is not based on any similar rule in the JI modalities and procedures, and it overlooks a number of important features of both RMUs and JI LULUCF projects:

- First, the JI rules state that projects are still able to generate ERUs under "track 2" if the host country has not met its Article 3.3 and 3.4 accounting obligations. The proposed ITL rules in effect contradicts this by preventing any JI LULUCF activities under track 2 from being able to generate ERUs if Articles 3.3 and 3.4 accounting has not been completed.

- Second, if a country's accounting under Article 3.3 and 3.4 does not result in the issuance of any RMUs, that country will in effect also be barred from engaging in any JI LULUCF projects. Furthermore, if a country decides to issue RMUs annually, this will mean that JI project owners will not know from year to year whether or not they will be able to generate any ERUs. This will in effect be determined by the actions of unrelated third parties in different parts of the country rather than the actions of the project owner.

- Third, LULUCF activities, at the national level, can be both emitters or removers of carbon. To the extent an activity is an emitter (such as deforestation activities or degradation of agricultural soils), the reduction of such emissions does not generate any RMUs at the national level. For example: if a country implements a project to reduce emissions from deforestation (under Article 3.3 of the Kyoto Protocol), this will reduce the "consumption" of AAUs, but will not itself result in generation of RMUs. Thus AAUs and not RMUs will have to be converted into ERUs. However, the way the Joint Implementation is in the process of being implemented will make such projects impossible.

We believe that the described interpretations in the LULUCF PDD and being proposed for the ITL do not have any foundation in the Kyoto Protocol or Marrakech Accords. In fact, allowing projects that do not count at the national level under Article 3.4, but generate ERUs (out of AAUs) that are transferred to another country, will further tighten the overall "Kyoto cap" of Annex I countries, and thus enhance its environmental stringency. The controversy around this issue is especially relevant, since Annex I countries must report, by the end of this year, which of the Article 3.4 activities they will elect.

Please send all comments to:
Bernhard Schlamadinger at: bernhard.schlamadinger@joanneum.at
Charlotte Streck at: c.streck@climatefocus.com
Robert O'Sullivan at: r.osullivan@climatefocus.com