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Paragraph 18 of the annotated agenda, Annex 6

Concept note: Selection of standardized baselines vis-à-vis approved methodologies

CDM EB 78
Bonn, Germany, 31 March to 4 April 2014
The Board, at EB62, adopted the “Guidelines for the establishment of sector specific standardized baselines” (the SB guidelines).

The Board, at EB75, discussed instances in which PPs are required to select either an ASB or an AM, where both are applicable to their proposed CDM project activity. The Board requested the secretariat to prepare a concept note, providing analysis of the following issues:

a) Whether the selection of a SB should be mandatory or voluntary, particularly in the context of decision 3/CMP.6;

b) How the decision of the Board on this issue impacts various situations, such as multi-country SBs, application of SBs to PoAs, environmental integrity, etc.

The secretariat consulted with MP62 and SSC-WG43.
• The purpose of this document is to provide an analysis to define requirements for PPs for the selection of an ASB against an AM or AT when both are applicable to a CDM project activity in question.
Key issues, proposed solutions and impacts

Definition of the issues

• The key issue is whether the selection of a SB should be mandatory for PPs if there is both an ASB and an AM/AT applicable to a proposed CDM project activity.

• Decision 3/CMP.6, sets out the rule basis for SBs under the CDM.
  a) Para 44 “Defines a “SB” as a baseline established for a Party or a group of Parties to facilitate the calculation of emission reduction and removals and/or the determination of additionality…..”;
  b) Para 45 decides that “Parties, PPs, as well as international industry organizations or admitted observer organizations through the host country’s DNA, may submit proposals for SBs …..”.
  c) Para 47 decides that “the application of the SBs as defined in para 44 shall be at the discretion of the host countries’ DNAs”.

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Key issues, proposed solutions and impacts

Definition of the issues (continued)

• The Board already decided on the mandatory application of the ASB0001 (Grid EF for Southern African Power Pool), based on the agreement by all the participating DNAs, and ASB0003 (Grid GEF for Uzbekistan) as there should not be two different benchmarks derived from the same method for the same sector at the same time.

• For ASB0002 (charcoal sector of Uganda) and ASB0004 (rice mill sector of Cambodia), the Board did not take any decision on their mandatory or voluntary application.

• PS/VVS/PCP do not have a requirement that governs the selection of ASBs against AMs/ATs applicable to the proposed project activities.
Key issues, proposed solutions and impacts

Interpretation of decision 3/CMP.6

• The application of the SBs is to be at the discretion of the host countries’ DNAs (para 47). This has some implications as follows:
  - The discretion that the host Party enjoys under para 47 means that a SB for a Party cannot be adopted by the Board without the consent of the Party itself. Since the SB is developed by the Board in consultation with the DNA, this is unlikely to be an issue.
  - The second issue is, when a host Party DNA agrees with a SB for use in its country, whether it also has broad discretion to decide the application of the SB including its application to particular sectors and whether it is “mandatory” or “voluntary” for PPs.
  - Decision 3/CMP.6 may be interpreted that there are no generic principles as to how SBs should be applied throughout the CDM.
Interpretation of decision 3/CMP.6 (continued)

• The discretion of the DNA also implies that the DNA would need to formally communicate to the Board its decision on the application of the SB, including its application to particular sectors and whether it is “mandatory” or “voluntary” for PPs.

• However, it must also be noted that the Board is the supervisory body for the CDM, under Article 12 of the KP. In a case where a host Party decides and proposes the scope of application of a SB, and the Board takes a different view, the Board, as the supervisory body for the CDM, would have the competence to reject the proposed SB. However, this does not mean that the Board would have the competence to make the decision about the scope of application itself; only that it may refuse to adopt the proposed SB.
Interpretation of decision 3/CMP.6 (continued)

Therefore, given the potential for conflicting views of the Board and the DNA, a number of practical steps could be taken to avoid disagreement:

a) Ensuring that the DNA specifies the application of the proposed SB in a formal manner (sectors where applicable, whether mandatory or not etc.) before the Board is requested to approve it;

b) Supporting the DNA, through the secretariat and the relevant panel/working group, in ensuring that the DNA has sufficient capacity to understand the implications of its decisions as to the application of the SB;

c) Proposing the application of the SB with explanations and implications and seeking the consent of the DNA before approving it.
Key issues, proposed solutions and impacts

Technical analysis in consultation with MP and SSC WG

• Options for consideration:
  
  a) **Option A**: ASB is mandatory for all project activities taken up by PPs in the host country(ies);
  
  b) **Option B**: ASB is mandatory for all project activities taken up by PPs in the host country(ies), only if the application of the ASB to a project activity is more conservative than the application of an AM or AT;
  
  c) **Option C**: ASB is mandatory for all project activities taken up by PPs in the host country(ies), only if the AM/AT uses a benchmark approach for the determination of baseline emissions;
  
  d) **Option D**: ASB is voluntary for all project activities taken up by PPs in the host country(ies);
  
  e) **Option E**: Selection of ASB vis-à-vis AM/AT should be decided by the Board, in agreement with the DNA, at the time of approval of each SB.
## Key issues, proposed solutions and impacts

<table>
<thead>
<tr>
<th>Option A (mandatory)</th>
<th>- Promote consistency, objectivity, predictability and simplicity and cause no risks to EI, but there is no room for flexibility. Simplest and most straightforward option.</th>
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| **Option B (selection of the more conservative between ASB and AM/AT)** | - Included as a result of discussions by EB members during EB75.  
- It cannot be decided at the time of approval of SB whether it is mandatory or voluntary. PPs shall calculate and compare ER both using the AM and ASB, which is cumbersome and impractical.  
- This option will provide no explicit evidence to promote consistency, objectivity and EI, while providing negative impacts on simplicity and predictability. |
| **Option C (mandatory if it overlaps with benchmark)** | - Ensure predictability, objectivity, simplicity, EI and flexibility.  
- The affected AMs should be identified. |
| **Option D (voluntary)** | - Keep rules simple and flexible but may lead to a situation where PPs select between the ASB and AM/AT according to which of them gives them more emission reductions. |
| **Option E (case-by-case)** | - This option fully takes into account the DNA’s discretion on the application of a SB. Practical in the initial phase of SB submissions. Afterwards, the Board may formulate the rules/criteria, in consultation with DNAs. |
Key issues, proposed solutions and impacts

<table>
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<tr>
<th>Comments by MP62 /SSC WG 43</th>
<th>Secretariat’s action</th>
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<tbody>
<tr>
<td><strong>- Option A (mandatory)</strong> is: (i) Simple. SB gives much better reflection of country situations than AM; (ii) If voluntary, technologies not in the positive list could still receive credits under conventional approach; (iii) Give positive message to market;</td>
<td>Positive/negative side of Option A has been elaborated.</td>
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<td>- Support option A although with a caveat that it should not mean that SBs, even if made mandatory, will not lead to gaming, particularly when applied by small group of free riders.</td>
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<td>- Reasons to support <strong>Option D (voluntary)</strong> include: (i) Natural incentives for SB; (ii) No experience gained for SB.</td>
<td>Positive/negative side of Option D has been elaborated.</td>
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<td>- A lot of support was expressed for <strong>Option C</strong> , to avoid picking and choosing.</td>
<td>Positive/negative side of Option C has been elaborated.</td>
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<td>- A proposal to <strong>modified Option D</strong> which makes the choice of SB voluntary unless DNAs decide to make the SB mandatory is made.</td>
<td>This is included in option D.</td>
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<td><strong>New option E</strong> (where the Board decides on the nature of SB case by case) is proposed, as we cannot predict for each case which one among two, a methodology or a standardized baseline, is more conservative. However it was recognized that it may lead to a lack of guidance to DNA.</td>
<td>New Option E has been added. A recommendation is made to formulate rules/criteria based on lessons learned to provide guidance to DNAs.</td>
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Key issues, proposed solutions and impacts - A snapshot of analysis

Key messages in the presentation

- The methodologies and SBs are required for different facilities in the sector.
- Both methodologies and SBs provide real and additional ERs. In CDM methodologies, more efforts are rewarded with more ERs in a trade-off between efforts and ERs, via tiered approaches.
- Discretion of DNAs on application of SBs is a very important consideration.

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Recommendations to the Board

- The secretariat recommends **Option E (case-by-case consideration)** in view of all the benefits with this option and its consistency with the interpretation of decision 3/CMP.6 outlined in this document.
- The Board may wish to provide further guidance on the revision of the above-mentioned documents, i.e. the PS/VVS/PCP, the “Procedure for development, revision, clarification and update of standardized baselines” (SB procedure) and the SB guidelines.
- If the Board does not conclude on the selection of the options, the secretariat recommends that the Board may adopt the appendices PS, VVS and PCP with a decision that **till the time final decision is taken by the Board on this aspect, the relevant sections of these appendices will reflect “case-by-case consideration of SBs”**.
Subsequent work and timelines

• Based on the guidance by the Board, the secretariat will incorporate changes in the following documents:
  
a) PS, VVS and PCP are submitted for the consideration by the Board at the same meeting (EB78), Draft text in these documents includes all the options in line with this concept note.
  
b) Draft revised SB guidelines to be submitted for the consideration of the Board at EB79;
  
c) The SB procedure can be revised appropriately for the consideration of the Board at a future meeting.