

Article 6 of the Paris Agreement: Informal Technical Expert Dialogues

Baselines and additionality for the 6.4 mechanism

September and October 2021



Guiding questions for this informal technical expert dialogue

- How could a **country identify what is its most ambitious baseline** for a given 6.4 activity?
- How could an **approach or hierarchy take into account considerable local or regional differences** in implementation and the Paris Agreement goals?
- What **guidance needs to come from the 6.4 body and how can it support countries in setting baselines** for a given sector/technology?
- How do these issues **relate to the rest of the package** (Article 6/the wider Glasgow outcome) and how could resolving these issues contribute to reaching consensus?



Content of this informal technical information slide pack

- **Options** for baselines in Madrid Presidency texts
- Presentation of **meaning of terms** used in draft Presidency texts
- **Technical considerations** for each option (baseline approaches)
- **Technical considerations** on Additionality

All slides are without prejudice to the outcome of Article 6 negotiations



Options for baselines in Madrid Presidency texts

COP25 1st Presidency text

Option A - One of:
Performance based
Business as usual
Historical

Option B - One of:
Best available technology
Performance based
Benchmark
Or where not above then projected
or historical

Option C - Performance based
Or alternative approved by host
Party and with justification

COP 25 2nd Presidency text

Option A – One of
Best available technology
Performance based
Benchmark
Or where not above then projected
or historical

Option B – Performance based
Or alternative approved by host Party
and with justification

COP25 3rd Presidency text

CMA shall adopt principles

Outside the options in the three
versions of the Presidency texts:

- Standardized baselines
- Demonstration of additionality



Options for baselines in Madrid Presidency texts

Roles	Elaboration
Who can develop a methodology	Activity participants, host Parties, stakeholders or the Supervisory Body (COP25 3 rd Presidency text)
Who approves the methodology	Supervisory Body approves those that meet the requirements of the rules, modalities and procedures (RMP) and requirements established by the Supervisory Body (COP25 3 rd Presidency text)
Role of the host party in methodology	Option in text: Host Party to explain how baseline approaches and requirements are compatible with its NDC, and its long-term low GHG emission development strategy. (COP25 2 nd Presidency text)
What are the requirements for each methodology	Transparent scenarios, conservative approach, assumptions, parameters, data sources and key factors and should consider, as appropriate: uncertainty; any leakage due to the implementation of the Article 6, paragraph 4, activity; relevant policy; consistency with the NDC of the host Party, any contribution to reducing emission levels in the host Party, any long-term low GHG emission development strategy of the host Party and the long-term goal of the Paris Agreement ; and should encourage an increase in ambition over time(COP25 3 rd Presidency text)
Who can develop a standardized baseline (SB)	Supervisory Body at the request of the host Party or Host Party for approval by the Supervisory Body. (COP25 3 rd Presidency text)
What is the level of aggregation to be used in establishment of (SB)	Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party. (COP25 3 rd Presidency text)
Flexibility for LDC/SIDS	Supervisory Body may waive additionality requirements for any LDCs and SIDS at the request of that Party, in accordance with requirements developed by the Supervisory Body. (COP25 3 rd Presidency text)



Presentation of meaning of terms used in the text

Terminology	Meaning	Possible means of operationalization	Implications	Level of implementation
Encourage ambition over time	<ul style="list-style-type: none"> Raise ambition beyond baseline activity levels or credit against 'ambitious' baselines that would credit lower emission reductions compared to crediting against the 'real' baseline (Stringent baseline). 	<ul style="list-style-type: none"> Stringent baseline over time – Selected baseline are adjusted for the activities in shorter intervals. Limiting length of crediting periods of activities. 	<ul style="list-style-type: none"> Higher emission reduction accrual to the to host country Less credits are generated than real baseline Investment uncertainty due to changing baseline and level of eligible emission reductions for trading. Lower financial attractiveness 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level
Transparent in assumption of key factors Parameters of data sources	<ul style="list-style-type: none"> Assumptions used to determine baseline are transparently included and justified. 	<ul style="list-style-type: none"> Assumptions, data sources, steps and outcomes to determine baseline are included in new methodology submission. Part of monitoring methodology (ex-ante and ex-post) 	<ul style="list-style-type: none"> Clear and readable information. 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level



Presentation of meaning of terms used in the text

Terminology	Meaning	Possible means of operationalization	Implications	Level of implementation
Avoid technology lock-in	Technology lock-in means that the early-stage technology choices made by a mitigation activity does not affect later technology development trends	<ul style="list-style-type: none"> Updating key parameters (dynamic baselines) Adjust the baseline with market diffusion information Forward looking baseline 	<ul style="list-style-type: none"> Assist diffusion of new technologies in host country Investment uncertainty due to changing baseline and level of eligible emission reductions for trading. Lower financial attractiveness 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level
Uncertainty	Lack of sureness of the scenario used to determine baseline	<ul style="list-style-type: none"> The use of conservative assumptions, values, and procedures that are more likely to underestimate than overestimate GHG emissions reductions Net to gross adjustment factors (NTG) factors, Application of discounts (higher uncertainty factors) 	<ul style="list-style-type: none"> The greater the conservativeness more confidence in baseline. Application of too much conservative assumptions would lead to less crediting of emission reductions Higher emission reduction accrual to the to host country. 	<ul style="list-style-type: none"> Principle at the CMA level Operationalization at A.6.4 SB level



Presentation of meaning of terms used in the text

Terminology	Meaning	Possible means of operationalization	Implications	Level of implementation
Leakage	<ul style="list-style-type: none"> Leakage emissions refer to emissions that may occur outside the coverage of the mechanism (mitigation activity) yet may be attributable to it. 	<ul style="list-style-type: none"> Addressed at each methodology level 	<ul style="list-style-type: none"> Credible baseline. 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level
Below BAU	<ul style="list-style-type: none"> Business-as-usual scenarios are an essential point of reference in planning and investment – a baseline to compare alternative scenarios, or a starting point for analysis of a mitigation activity. 	<ul style="list-style-type: none"> Addressed at methodology level, how to determine BAU, and what need to be included. Existing, new policies and/or expected policies in near future to be included in the baseline. 	<ul style="list-style-type: none"> What is already happening as reference may miss innovation – and the transformational change necessary. Not in all situations future policies may have impact in baseline. 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level



Presentation of meaning of terms used in the text

Terminology	Meaning	Possible means of operationalization	Implications	Level of implementation
Contribute to reduce emission levels in the host Party	<ul style="list-style-type: none"> The mitigation activity implemented by A.6.4 activity should contribute to emission reductions that reduce emission levels in host party. 	<ul style="list-style-type: none"> Emission reductions are estimated based on baseline emission minus project minus leakage emissions. Conservative baseline; apportioning of claimed emission reductions; shorter length of crediting period than technical lifetime of the mitigation activity. 	<ul style="list-style-type: none"> Not all possible emission reductions are allowed at design level (due to conservativeness). higher emission reduction accrual to the host country. 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level
Consistency with LTG-PA , LT-LEDs of the host Party	<ul style="list-style-type: none"> The chosen baseline is based on a pre-determined pathway as established in LTG PA and LT-LEDs. 	<ul style="list-style-type: none"> The methodology submission to align its baseline determination 	<ul style="list-style-type: none"> Activity implemented to assist deployment of new emerging technology Inclusion of this macro level pathways in activity level baselines may be challenging. 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level - Approval by host Party or a declaration that the proposed baseline (if not proposed by host) is consistent with its NDC and related policies.
Consistent with NDC and its related polices	<ul style="list-style-type: none"> The chosen baseline is determined based on the NDC and its related policies. 	<ul style="list-style-type: none"> Consideration as to whether policies are mandatory per law, consistency with NDC (conditional and unconditional), enforcement included or not. 	<ul style="list-style-type: none"> Activity implemented to assist deployment of new emerging technology Inclusion of this macro level pathways in activity level activities may be challenging. 	<ul style="list-style-type: none"> Principle at the CMA level. Operationalization at A.6.4 SB level



Technical consideration of different options (Baseline approaches)

Approach	Scale of application	Types of implementation	Coverage of activities	Applicability to emission reductions/removals	Implications
Best available technology	Policy, sector, programme, facility	Not very suitable for refurbishment and rehabilitation. More suited for large scale new facility establishment	Technology switch/ Feedstock switch/ Energy efficiency/ Avoidance/Destruction	Emission reduction	Forward looking baseline based on what exists in market and possibly based on what market may absorb over time.
Performance based approach	Facility, sector, programme, policy.	Suited for large scale new facility establishments and rehabilitation and refurbishment activities.	Technology switch/ Feedstock switch/ Energy efficiency/ Avoidance/Destruction	Emission reduction	Performance could be established at facility level or average of best performing plants or based on performance of given intervention Social sector large investment project and distributed systems for households and SMEs.
Business as usual	Facility level more suited.	More suited for existing activities improving their performance using current baseline	Technology switch/ Feedstock switch/ Energy efficiency/ Avoidance/Destruction	Emission reduction/ Removal	Use of current baseline without future policies, or only based on future policies (what will be built) Activities where other than the investor no one else could implement type of activities.. More suited for existing activities improving their performance.
Historical	Facility level or for removal activities	More suited for existing activities improving their performance	Technology switch/ Feedstock switch/ Energy efficiency/ Avoidance/Destruction	Emission reduction/ Removal	Resource constraints in implementation type of activities.



Technical consideration of different options (Baseline approaches)

Challenges expressed for BAT	Challenges expressed for approaches other than BAT
Distributional questions – access to the technology	Backward looking – not aligned with long terms pathways.
Lack of Data availability	Non-transformational
Incentivizing actions across all interventions	Technology lock in due to use of historical emissions
Appropriateness of level of aggregation, feasibility – requires an assessment as to for which sectors and subsectors benchmarks are appropriate	Unambitious
Cost associated with establishment of BAT	Non consideration of future investment policies
Scale of the 6.4 mechanism a determinant factor.	Potential market leakage
Determination of high, higher and highest level of performance.	Increase service level can still increase emissions than reduction as the CDM methodologies are intensity-based (emission/ton of product etc).



Technical considerations on Additionality

Requirements included in (COP25 1 st and 2 nd Presidency text)	How to implement
<p>(a) Emission reductions achieved by the activity are additional to any that would otherwise occur, considering all relevant national policies, including legislation, and represent mitigation that exceeds any mitigation that is required by law or regulation, where available;</p>	<p>Regulatory surplus – Beyond what is required by law Positive list of technologies/ sector established based on conservative baseline.</p> <p>Traditional assessment methods such as financial and barrier analysis</p>
<p>(b) Emission reductions are complementary and/or additional, as relevant, to the policies and measures associated with the NDC, if specified by the host Party, of the host Party.</p>	<p>Emission reductions achieved should be complementary or additional (beyond the NDC).</p>



The cooperative implementation webpage:

<https://unfccc.int/process/the-paris-agreement/cooperative-implementation>

