Sylvera

Sylvera's responses to consultation: Requirements for the development and assessment of mechanism methodologies

Questions for Public Inputs

General Questions

1. In relation to the inputs[1] prepared for the consideration of the Supervisory Body on requirements for the development and assessment of methodologies for the mechanism established by Article 6, paragraph 4, of the Paris Agreement, what is missing and what can be improved?

Baseline Setting

General

2. What is understood by the elements in the chapeau to paragraph 33 of the RMP and how could they be operationalized?

	What is understood	How can it be operationalised?
a) *encourage ambition over time*	To ensure methodologies push for greater climate action constantly; to ensure they require effort and improvement over time.	> Requirements to update baselines regularly > Ensure there are mechanisms to discard project types that are no longer additional (as when RE projects in developed countries were discarded by the VCS and Gold Standard) > Ensure 6.4ER prices are high enough to push for mitigation efforts rather than reliance on market mechanisms to meet NDCs; this could be achieved by discounting x% from the real issuance volume (i.e. OMGE)
b) *encourage broad participation*	Develop methodologies that are implementable in practice by any host Party	> Methodologies should cover a wide range of project types/activities so Parties, regardless of their differences, have the opportunity to issue 6.4ERs and participate in cooperative approaches as a seller > Any technical requirements or barriers to entry for host countries should be kept to an absolute minimum, and extensive support to meet those requirements should be made available and easily accessible for LDCs
c) *be real, transparent, conservative, credible, below 'business as usual'*	> Real: activity genuinely took place > Transparent: information about the project and the credit should be fully available > Conservative: calculations (baseline setting, issuance volumes, uncertainty	> Strong third-party verification, validation, and monitoring requirements should be implemented (to assure not just the adherence to rules and procedures but also, to the fullest extent possible, direct impacts on emissions)

[1] *A6.4-SB004-AA-A10 - Draft recommendation: Requirements for the development and assessment of mechanism methodologies* and the documents referred under its document history comprise the previous inputs in this area.

	levels, etc.) are done in a conservative fashion, reducing to an absolute minimum the potential for any hot air to enter the system > Credible: you must be able to easily demonstrate the validity of each credit > Below BAU: The project needs revenue from carbon credits and goes beyond regulatory requirements and common practice	> Identification number for each credit to be able to track credits transactions > Additionality tests to prove activity would not happen in a BAU scenario w/o the project revenue
d) *avoid leakage, where applicable*	Leakage refers to both activity leakage and market leakage. Activity leakage: when, as a result of implementing the project activity, GHG emissions are simply displaced outside of the project area. Market leakage: when non-targeted agents adjust their behaviour in response to altered economic incentives	> Leakage should be avoided where possible and discounts should apply when leakage risk exists. Methodologies can determine certain discount factors attached to different leakage risks. > Jurisdictional approaches can help tackling leakage within the borders of a territory > Market leakage is seen by economists as inevitable for any genuinely additional project, suggesting issuing entities must seek to accurately quantify and account for (i.e. apply discounts for) this
e) *recognize suppressed demand*		
f) *align with the long-term temperature goal of the Paris Agreement*	> Ensuring that any project and/or crediting baselines are either aligned with, or go beyond, emissions trajectories consistent with the long-term temperature goal of the Paris Agreement. > Considering current efforts are misaligned with the Paris Agreement goals, this translates into ensuring the maximum emission reductions/removals possible	The real volume of emission reductions and removals resulting from Art 6 activities will depend on how many actors implement projects for Article 6 and how well-designed the methodologies are to ensure realistic accounting. Thus, methodologies should find a balance between being stringent and allowing the maximum participation possible.
g) contribute to the equitable sharing of mitigation benefits between the participating Parties	Monetary and non-monetary gains from the project should be shared by all stakeholders that play a part in or are affected by the project (both directly or indirectly).	It is difficult to have a standardised framework in practice - this will be linked, among other aspects, to carbon rights in the country. General guidelines of minimum sharing requirements per project type could be drafted.
h) *In respect of each participating Party, contribute to reducing emission levels in the host Party, and align with its NDC, if applicable, its long-term low GHG emission development strategy if it has submitted one and the long-term goals of the Paris Agreement.*	Activities should contribute to the Parties' targets and have the ultimate purpose of helping them achieve them.	Require project activity to be within the host Party conditional NDC. Otherwise, Art 6.4 income could act as an incentive to keep certain sectors "outside" a Party's goals, so that it could continue to create revenue without affecting the targets within its NDC.

3. How might these elements be further elaborated with reference to literature?

Learn from previous experiences: CDM and the VCMs

- Sylvera's carbon credits ratings methodologies

- LSE Grantham Research Institute on Climate Change and the Environment: Avoiding leakage from nature-based offsets by design

Specific

4. What is understood by the performance-based approach(es) identified in paragraph 36 of the RMP?

a) Best Available Technologies (BAT) that represent an economically feasible and environmentally sound course of action, where appropriate;
b) An ambitious benchmark approach where the baseline is set at least at the average emission level of the best performing comparable activities providing similar outputs and services in a defined scope in similar social, economic, environmental and technological circumstances;
c) An approach based on existing actual or historical emissions, adjusted downwards to ensure alignment with paragraph 33 of the RMP.

5. Where might each of these approaches be most applicable – with reference to different programmes or experiences?

Difficult to have one approach fits all - each has specific pros and cons**.** Option a-> c above are for increasing levels of data paucity:

- Option a: only at scales that are data rich (national, developed or smaller, private) could you choose the BAT approach (pro: precision, con: expensive)
- Option c: in a world where activity tracking and socioeconomic factors are more unknown, a 'lower resolution' but 'harsher' (downward adjustment) approach has to be taken (pro: simplicity, con: opacity)

6. How might each of these approaches be implemented – with reference to different programmes or experience?

Option C can build on jurisdictional REDD+ methodologies such as ART TREES or VCS JNR. VCS JNR goes beyond ART TREES requirements and it requires host countries to demonstrate efforts/change of behaviour behind the activity.

7. The interaction of the elements from paragraph 33 and approaches identified in paragraph 36 of the RMP:

a) How do the options for implementation of paragraph 33 of the RMP identified in the paper delivered on the proposed elements?

i. Scalability and replicability

Low for approach A as presumably, it is expensive and inaccessible. While approach C should be relatively scalable/repeatable because it is based on historical data.

ii. Increasing stringency over time

This will be necessary for all of them but particularly approach C. Without using BAT for historical/actual emissions and also arbitrary downward adjustments leaves more scope for

manipulation.

b) How could implementation of the approaches identified in paragraph 36 of the RMP address the elements?

8. Should the stringency over time be in the form of a net-to-gross adjustment to the emission reductions achieved applied in all methodologies, or should stringency be sought through a sector-specific or region-specific adjustment factor, or both?

9. If adoption of a sector-specific and region-specific adjustment factor is proposed, should it be based on projections of sectoral and regional decarbonization pathways provided in the Sixth Assessment Report of Intergovernmental Panel on Climate Change (IPCC) or relevant International Energy Agency (IEA) publications?

Considering the IPCC is a UN body, it seems more appropriate than the IEA. In addition, the IEA focuses on the energy sector and not all Parties to the Paris Agreement are its members. That said, there are some circumstances where IEA pathways should be used. The IEA is able to publish research on an annual basis, whereas the IPCC reporting cycle runs on a longer cadence, so where IEA pathways are more accurate, up to date and stringent than the IPCC Sixth Assessment Report (and ahead of the publication of the Seventh Assessment Report), IEA pathways should be used instead.

10. Should there be a process to receive such factor(s) recommended by a Host Party for consideration by the Supervisory Body?

It would make sense if factors are defined independently for two main reasons. Firstly, doing so would ensure fairer treatment across all Parties. Secondly, the SB does not need to go through the process of revising suggested factors - which would be very time-consuming.

Additionality

General

11. The interaction of the elements from paragraph 33 and approaches identified in paragraph 36 with paragraph 38 of the RMP on Additionality:

a) How should the different elements of the additionality requirements be understood?

b) How should the different elements be demonstrated?

	What is understood	**How can it be operationalised?**
i) would not have occurred in the absence of the incentives from the mechanism	The project could not take place without the revenues from the sale of the issued carbon credits.	Financial additionality tests that learn the lessons of the tests applied in the CDM, and in the Voluntary Carbon Markets
ii) taking into account all relevant national policies, including legislation	The project goes beyond what the Party already requires by law. As the achievement of the NDC is not currently legally binding within many Parties, they	How to avoid incentives for host Parties to not define new laws?

iii) representing mitigation that exceeds any mitigation that is required by law or regulation	are not considered as part of the regulatory additionality test.	
iv) taking a conservative approach that avoids locking in levels of emissions, technologies or carbon intensive practices incompatible with paragraph 33	The evolution of common practice over time, what is carbon-intensive (/carbon reductive) now may peter out	> Common practice/technological additionality tests > Utilised dynamic baselines that automatically update to become more stringent over time

12. In relation to the proposals identified in the inputs to operationalize the requirements of paragraph 38 of the RMP, what is missing and what can be improved?

Further guidance on the specific additionality tests is required for each activity. Common practice/technological additionality is not explicitly mentioned and market additionality seems to be missing.

Specific

13. Are there classes of project, or levels and lifetimes of emissions that would deliver lock in? how might these be identified?

14. Are there classes of project, or levels and lifetimes of emissions that might be favored in a positive list?

Assuming lifetimes of emissions refer to permanence, then longer lifetimes are preferred to push the atmospheric curve out the farthest but with appropriate provisions for risk for NBS (and TBS where applicable) and less marginal changes (i.e. I prefer large changes in activity vs small changes, e.g. REDD vs IFM, the certainty of the change from altering an on-going behaviour vs completely changing behaviour is much lower)

15. What elements or criteria should be used to determine eligibility for automatic additionality, i.e., inclusion on a "positive list"?

Lack of bi-product/financial feasibility. When there is an absence of secondary revenue and financial incentive from policies towards activities (which can be inferred from lack of common practice i.e. if no one is doing this activity - without any VCM/Art 6.2/4 incentive - then it cannot be desirable). If committing to certain project types, it is important to keep in mind the list would be dynamic/ evolves over time.

16. How to consider regulations enforced during the crediting period (CP) under the regulatory surplus test (e.g. At the time of enforcement or at renewal of the CP)?

At the time of enforcement (with some consideration of latency) because avoidance/removals are considered instantaneous so must their intersection with regulation

17. What elements should be retested during renewal of crediting period?

All elements (incl. financial additionality) and the baseline most specifically, especially if its an avoidance activity.

18. Should the crediting period less than 5 years be eligible to be specified in methodologies?

Yes

19. Should enforcement rates of mandatory regulations be considered in the additionality demonstration?

This would require further analysis, to determine which approach would have the greatest impact on reducing emissions. There are reasons to think that both approaches could create perverse incentives. Considering enforcement rates of mandatory regulations could disincentivise enforcement, to lower the bar for credit issuance; not considering enforcement rates of mandatory regulations could disincentivise the passing of mandatory regulations. Both outcomes (reduced enforcement rates and reduced mandatory regulations) could be deleterious to climate action.

General Questions on baseline and additionality

20. How might the application of the elements and approaches for baseline and additionality identified vary according to countries, sectors, technologies or practices or implementation scale?

21. How might the application of the elements and approaches for baseline and additionality identified vary in respect of activities that occur within the boundaries of a large-scale (e.g., national, sub-national, sectoral) strategy or program for reducing and removing GHG emissions?

22. How might these elements or options to address them be informed by assessments such as in IPCC and IEA or Food and Agriculture Organization?

23. How might these elements be informed by host countries standards or policies?

Leakage

General

24. What is meant by leakage?

When, as a result of implementing the project activity, GHG emissions are simply displaced outside of the project area. This type of leakage is especially relevant for REDD projects. Also, especially when a project is implemented at the national level, market leakage might arise (please refer to question 27).

25. When does leakage occur, where are the greatest risks?

That the project results get totally balanced out by GHG emissions increasing outside the project area. This will result in the project not having real results.

However, it is difficult to prove that leakage is attributed to a project. For example, an increase in deforestation rates around a REDD project does not necessarily mean that the project itself triggers them. Deforestation in neighbouring areas could happen anyway as a result of other factors, such as policies that incentivise those practices.

Specific

26. What are the main approaches to address leakage at different scales?

In general, to date leakage has been addressed by adjusting credited mitigation using a leakage discount factor. However, this approach is not considered enough and new ways of assessing leakage should be studied.

To address leakage for jurisdictional programs, market leakage is key. In this context, market leakage refers to an increase in GHG emissions resulting from the change in supply and demand equilibrium caused by the project. For example, if a jurisdictional REDD+ program reduces the supply of timber in Country A, timber production might move beyond the borders of Country A and result in an increase in timber production in Country B.

27. What are the classes of activities for which monitoring at jurisdictional level may be necessary to quantify and account for leakage?

28. Should the emissions from the construction phase be accounted for as leakage or project emissions?

Those emissions do not fall under the definition of leakage so, to avoid confusion, they should be called differently. However, we think they should indeed be deducted from the project issuances in a prorated way (similar to asset depreciation).

29. In which cases and by what methods should 'activity carbon leakages' be addressed?

Please refer to question 26.

Non-permanence and reversals

30. Where are non-permanence risks in respect of emission reductions?

Mainly in nature-based solutions projects.

31. How are these typically addressed, what are the options?

In general, reversal risks are overcome by setting up a buffer pool that can be used in case a reversal occurs. If that is the case, the reversal should be reported by the project. Also, projects' reversals should be checked during the post-crediting period. Long-term monitoring and quantification of loss events, and the corresponding buffer credit cancellation and accounting, are required to support high integrity.

Standardized baselines

32. Should a standardized baseline for a group of host Parties be eligible?

- Standardised baselines may not fit with paragraph 34 mentioned in question 33 below.
- Standardised baselines are not suitable for all project types, and having different possible approaches to baselining might overcomplicate processes and make accounting more difficult.
- As countries develop their MRV capabilities, they should develop their own baseline, which will be more suitable for their national context

Policies, measures and circumstances:

33. In relation to paragraph 34 of the RMP, what guidance should be developed to take into account policies, measures and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances?

Define what constitutes “relevant circumstances” to ensure all Parties follow the same approach.