

# Climate Analytics comments in response to August 2023 document on methodologies: A6.4-SB007-AA-A##

August 2023

The Article 6.4 Supervisory Body has put out a further open structured call for inputs on its paper on recommendations related to baselines. See Report of 6.4SB sixth meeting - A6.4-SB006 – at paragraph 19. We provide comments below related to document A6.4-SB007-AA-A##.

## **Section 4 - Baseline setting**

- By its own terms, Article 6 of the Paris Agreement exists to support Parties in enhancing their mitigation and adaptation ambition (Article 6.1). Article 6 was adopted in a context in which the insufficiency of mitigation ambition was already recognized to jeopardize achievement of the Paris Agreement’s referenced 1.5°C global warming limit.
- In this ongoing context of insufficient ambition, each element of paragraph 33 of decision 3/CMA.3 is significant, mandatory (“mechanism methodologies shall...”), and must be operationalized in a credible, persuasive, transparent and predictable way. These elements are not just “methodology principles” but **operational requirements** and this should be reflected in the choice of section heading.
- Baselines need to become more stringent over time to ensure that Article 6.4 both contributes to and aligns with the long-term temperature goal.
- In this context (and relevant to sections 4.1 and 4.8 of the document), **top down baseline contraction factors (BCFs), linked to IPCC 1.5°C pathways, that reflect linear reductions to net zero carbon dioxide emissions by 2050 should be fully explored, to support the credibility of Article 6.4ERs**, the credibility of Article 6 as a whole and Paris Agreement consistency. Due

attention may need to be given to how best to accommodate the different development contexts of host Parties in this context, recognizing that all Parties have agreed to collectively aim to achieve net zero emissions around mid-century, in resolving to pursue efforts to limit the temperature increase to 1.5 °C (decision 1/CMA.3, paras 21-22; 1/CMA.4, para 8) and all Parties have recognized the importance of best available science in policymaking (1/CMA.3, para 1; 1/CMA.4, para 5).

- For project developers, **predictable, top down, default BCFs, consistent with IPCC 1.5°C pathways and Paris Agreement goals, and established by the Supervisory Body**, will help plan investments in given locations and sectors. In contrast, an open-ended general requirement that baselines be adjusted downward and become more stringent with each renewal period will not provide sufficient guidance to project proponents, or hosts, or sufficient confidence to the public, on Paris Agreement alignment.
- For host Parties, baseline methodologies need to provide assurance that their engagement in Article 6.4 activities will not lead to over-crediting; but beyond this protection of environmental integrity, baseline methodologies also need to support host Parties in retaining mitigation outcomes that can be used toward their own NDC achievement and enhancement over time. Some Parties **lack expertise in modelling and/or are less able to project the impacts of Article 6.4 activities on their mitigation goals**. Some Parties may face **unequal information or bargaining power in discussions or negotiations with project developers or partners**, leaving them less able to secure a significant own mitigation benefit from Article 6.4 project activities, once corresponding adjustments have been made. Establishment of top down BCFs can help ensure that all host Parties retain a domestic mitigation benefit from Article 6 engagement that can be used toward NDC achievement and enhancement over time, in the move to net zero by 2050.
- It was difficult for many developing countries to establish standardized baselines under the CDM. These baselines had the potential to become rapidly out of date in small economies, for example, with the addition of large renewable energy installations. **Predictable BCFs, centrally established, can support and enable broad participation**, and remove the burden on small countries of establishing or reviewing bottom up BCFs.

#### ***Section 4.1 – Encouraging ambition over time***

- Paragraphs 12 and 13 should read “**shall**” rather than should.
- Paragraph 14 should include a reference to **transformative approaches**, inserting, “*by prioritizing transformational approaches*, by prioritizing technologies....” etc. Paragraph 14’s reference to “low carbon solutions” would

better read “low carbon **and zero emission approaches**”, as low(er) carbon is not necessarily a “solution”, where the goal is zero emissions over time.

- Paragraph 15'- this paragraph could also helpfully refer to **avoiding fossil fuel lock in**.
- Transformative approaches could be understood as **zero-emission or near zero emission** approaches.
- Paragraph 16 – mechanism methodologies shall require adoption of a **quantitative** approach set out in 4.8.

#### **Section 4.4. Contributing to the equitable sharing of mitigation benefits between the participating Parties**

- The “equitable sharing” of mitigation benefits implies a **sharing of mitigation outcomes between the project proponent(s) and host Party that is quantified and can be assessed quantitatively**.
- It will be important for methodologies to ensure that host Parties retain a significant share of the mitigation outcomes achieved from Article 6.4 activities, so that activities contribute to the host Party’s own NDC achievement.
- For example, **equitable sharing might be presumed** if under a given methodology **one-half or more** of the mitigation outcomes calculated to have been achieved over the relevant crediting period are retained by the host Party. In such a scenario, even once corresponding adjustments have been made for authorized A6.4ERs, the host Party will not be in deficit from an accounting perspective due to its participation in Article 6.4 activities. A calculation that estimates mitigation outcomes to be retained by the host over a project activity’s lifetime, after applying BCFs, may also be helpful in assessing whether this criterion is satisfied.
- Paragraph 29 is not helpful in its presentation of a menu (“inter alia”) of optional alternatives, some of which cannot be quantified. Instead, a clear **quantitative approach** is needed to demonstrate an equitable sharing of benefits and allow for an assessment of whether this requirement is met. A reference to the **share of proceeds for adaptation** is misplaced here. The mandatory share of proceeds for adaptation required under decision 3/CMA.3 is not a “mitigation benefit shared between **the participating parties**” to an Article 6.4 activity (see para. 33). It is delivered to the Adaptation Fund, where it supports activities across developing country Parties particularly vulnerable to the impacts of climate change. These beneficiary countries are a diffuse group and not “the participating parties” to a given Article 6.4 project activity (e.g., host Party, project proponent, investing Party). If the intent of 29c is to address the relative burdens

of SoP on participating Parties, then that seems to be a different issue from the issue addressed in para. 33. Regarding paragraph 29d – “Where there are **mitigation co-benefits** derived from the activity and identified in the mechanism methodologies” - the notion of mitigation “co-benefits” of a mitigation activity is circular and it is unclear what is intended here from a quantitative perspective.

- Neither paragraph 31 nor 31bis alone is sufficient and 32 is not a suitable alternative. Regarding paras 30-34, the equitable sharing of mitigation benefits is a mandatory requirement under 3/CMA.3, para. 33. Accordingly, there must be a way to assess objectively whether this requirement has been met; a description of efforts undertaken can accompany, but not replace, satisfaction of a mandatory quantitative requirement implemented through methodologies.

#### **Section 4.5**

- It has to be recognized here that NDC alignment may be problematic where Party NDCs themselves are not Paris Agreement aligned, or where countries have failed to bring forward the economy-wide NDCs encouraged of all Parties under the Paris Agreement.

#### **Section 4.8**

- See comments under the heading “Section 4 – Baseline setting” above, relating to these options. For the reasons stated above, support for establishment of **top-down default baseline contraction factors (BCFs), linked to IPCC 1.5°C pathways, that reflect linear reductions to net zero emissions by 2050.**
- Host Parties retain the option to apply more stringent downward adjustments beyond these values.

#### **Additional inputs on selected consultation questions:**

*Should the downward adjustment be eligible/applicable for all the approaches to setting the baseline?*

- Yes, a predictable downward adjustment over time should be applicable to all baseline approaches.

*Should the downward adjustment be applicable for all approaches to setting the baseline indicated in paragraph 44?*

- Yes, as above. With respect to removals, it should be noted that under the UNFCCC, Article 4, and Paris Agreement Article 5, all Parties have an obligation both to reduce emissions and to enhance sinks. Accordingly, baselines should reflect that Parties should already be making efforts to improve on historical emission levels in the context of their sinks.

*Are positive lists needed? If yes, is the above guidance on positive lists too specific and detailed, and may the guidance be shortened?*

- Positive lists will be helpful.
- Reserving the ability of the Supervisory Body to develop negative lists could be useful, but, as a practical matter, negative lists run the risk of implying that activities not on the list are permitted, which itself can be problematic.