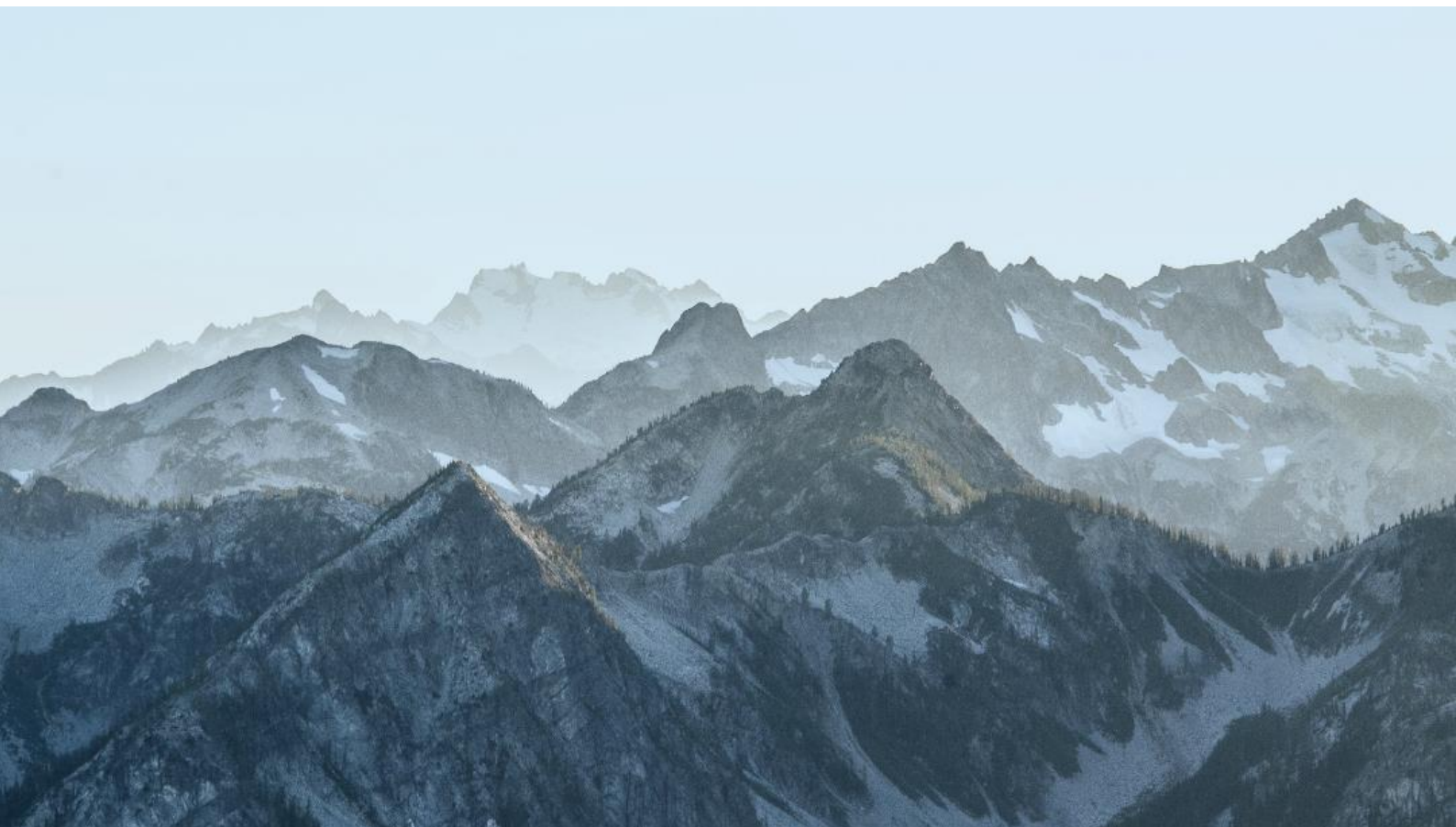




# Input to the draft recommendation on requirements for the development and assessment

Axel Michaelowa, Aayushi Singh, Engin Mert, Ximena Samaniego, Juliana Keßler

Freiburg, Germany, 15.08.2023



## Input to the draft recommendation on requirements for the development and assessment of mechanism methodologies

Perspectives Climate Research (PCR) welcomes the opportunity to provide input to the questions in the updated draft recommendation ([A6.4-SB007-AA-A##](#)) prepared by the informal working group and the secretariat. Please find below our comments to the questions for additional inputs in line with paragraph 5b(v) of the draft recommendation.

### **Section 4.7. [Requirements on baselines] [BASELINES (The approaches)]**

**Q1: Para 46/46bis. Question for additional inputs: should the above paragraph (46/46bis) be split to improve clarity?**

**Answer:** Instead of splitting the paragraph, we propose a new paragraph that is a combination of para 46 and 46bis for clarity:

‘Mechanism methodologies shall require justification of the appropriateness of the choice(s) made in the methodology for setting the baseline while taking into account this and further guidance by the Supervisory Body as well as the requirements of paragraphs 33 and 35 of the RMP, providing full flexibility to reflect local conditions and host Party circumstances, as long the principles are still respected. Factors affecting the appropriateness of the choice include the homogeneity or variability of emission sources with respect to technologies and measures applied, or sectors covered by the methodology, and the availability of data required for the parameters for a conservative and reliable estimation of the baseline. When considering these elements methodologies shall, where applicable, draw from experience from typical mitigation activities that have been already implemented.’

We would like to note that the wording “full flexibility” could be misunderstood to enable circumventing principles and thus propose the addition of “as long as the principles are still respected”.

**Q2: Para 47Ter. Question for additional inputs: should the downward adjustment be eligible/applicable for all the approaches to setting the baseline?**

**Answer:** Yes, the downward adjustment must be applicable to all the baseline setting approaches. There is a need for baselines to become more stringent over time in order to ensure the baseline’s alignment with the Paris Agreement’s long-term goal. Downward adjustment of the baseline enhances ambition by ensuring that the baseline emissions intensity decreases over time.

The II-AMT tool for robust baseline setting ([II-AMT TOOL02](#)) applies the “Paris goal coefficient” (a quantitative downward adjustment approach) to each of the three baseline approaches because none of the approaches guarantees that the proposed activity aligns with increasing ambition.

Therefore, we strongly support the need to apply the downward adjustment to **all** baseline-setting approaches.

**Q3: Para 51. Question for additional inputs: should it be specified that only activities triggered by policies can be credited? Will there be complexities in relation to additionality assessment in this regard?**

**Answer:** There is no precedent for crediting of policies under the CDM on which could be built. Principally, policy crediting should be subject to the following conditions:

- It can be established that the policy incentivizes mitigation actions that would not have happened under business as usual. Such incentivization can be in the form of monetary incentives (subsidies) for mitigation or disincentives to emissions-intensive activities (carbon tax, ETS, etc.) that improve the competitiveness of low-emissions alternatives. This means that pure capacity building or information-related policies would not be eligible for crediting.
- The mitigation actions mobilized by the policy can be specified and their mitigation outcome can be monitored. The activities need to show that they would pass an investment additionality test in the absence of the policy.

Policy crediting should thus be implemented in a form similar to a PoA, with a PoIDD showing how the policy triggers mitigation and a Pol-MADD specifying mitigation activities triggered by the policy, including an investment test applying parameters that would have been realistic without the implementation of the policy.

Please note that sectoral crediting, which has been proposed by various entities, would not be covered by crediting of policies because sectoral emissions are determined by a wide array of policies, and a robust attribution of a net change of emissions is impossible.

**Section 4.8. Approaches for downward adjustment and to address elements of paragraph 33 of the RMP**

**Q4: Para 53. Question for additional inputs: should the downward adjustment be eligible/applicable for all the approaches to setting the baseline indicated in para 44 above?**

**Answer:** Yes. See the answer to Q2 above.

**Q5: Para 54. Question for additional inputs: would option 2 above fit under 'adjustment downwards? And is it linked to additionality demonstration? How can 'transformative' be defined?**

**Answer:** Option 2 does not address the problem that a future transformation spearheaded by activities credited under Article 6.4 does not justify allocation of credits in the present day. If an activity leads to a transformation, this implies that activities of that type will in the future no longer fulfil the

additionality principle, as a successful transformation means that an activity has become business as usual. We thus see no reason that future transformation should be rewarded by crediting in the present day. We also do not see a connection between downward adjustment of baselines and the transformation potential of activities. These issues are conceptually separate.

To put it bluntly: Non-additional activities are the sign that a successful transformation has taken place. For example, if renewable electricity generation is the cheapest form of electricity generation, there has been a successful transformation toward renewable electricity. But this does not justify granting A6.4ERs to non-additional renewable electricity activities.

## Section 5. Additionality

**Q6: Para 87. Question for additional inputs: how does this issue link to policy crediting where policies deliberately intended to generate credits? What considerations are needed in this regard?**

**Answer:** A host country government clearly needs to specify which policies have been introduced specifically to generate Article 6.4ERs. This shall be done by notifying the A6.4SB. Such policies shall not be taken into account in the baseline setting. Please refer to the answer in Q3 regarding the conditions under which a policy can generate credits.

**Q7: Para 87. Question for additional inputs: should there be a statement about the general additionality test before specifying how it may be simplified in certain cases, or be subject of a positive list?**

**Answer:** Yes, there should be a statement about the general additionality test before specifying how it may be simplified in certain cases. The general rules are laid out in paragraph 83 of the draft recommendation.

**Q8: Para 87. Could be a more nuanced approach, i.e. all projects need to demonstrate additionality, some can be excluded or included based on one sort of assessment while others require more detailed assessment: (a) What are the general rules? and (b) Where may they be simplified, or deemed to have been satisfied?**

**Answer:** The [II-AMT TOOL 01](#) proposed a stepwise approach that includes a pre-assessment and four steps (mentioned in paragraphs 86 a and b of the draft recommendation [A6.4-SB007-AA-A##](#)). The first three are mandatory and the subsequent one applies under certain conditions.

We do not see the need for a more simplified approach. We have proposed guiding principles to demonstrate additionality that could be considered as general rules and the tool also specifies how to establish a positive list, so all the steps can be skipped. This provides sufficient simplicity for additionality testing.

**Q9: Para 95. Question for additional inputs: are positive lists needed? If yes, is the above guidance on positive lists too specific and detailed, and may the guidance be shortened?**

**Answer:** Yes, they are needed to facilitate and simplify the process of additionality demonstration. The guidance included is sufficiently concise.

## Section 6. Leakage

**Q9: Para 99. Question for additional inputs: should pre-project activity emissions and upstream emissions be accounted as activity emissions or leakage emissions, or be identified by the Supervisory Body as being beyond the scope of activity accounting guidance? What further assessment is needed in this regard?**

**Answer:** Assuming that pre-project activities are R&D activities, project planning phase, and construction activities (activities that happen until the project start date and are directly related to and within the project's boundary), emissions from these activities should be classified as activity emissions. On the other hand, if activities are displaced outside the activity boundary due to the project activities and cause increased emissions elsewhere, this should be classified as leakage emissions.

Based on VCS, three types of leakage can be differentiated<sup>1</sup>:

- Market leakage: projects significantly reduce the production of a commodity, and production is increased elsewhere to offset the lost supply.
- Activity-shifting leakage (in the context of biological sinks projects): an actor destroying biological sinks relocates to an area beyond the project boundary and destroys sinks there.
- Ecological leakage: a project generates GHG emissions in ecosystems that share a hydrological connection with the project area.

The A6.4SB will have to define for which activity types which forms of leakage need to be considered in the methodology. It should also decide on criteria and procedures determining when a leakage assessment would not be required because it would be deemed as "de minimis."

---

<sup>1</sup> Verified Carbon Standard (2023): Methodology Requirements. 17 January 2023. V4.3. <https://verra.org/wp-content/uploads/2022/12/VCS-Methodology-Requirements-v4.3-FINAL.pdf> (accessed August 8, 2023)



## **Perspectives**

Climate Group GmbH  
Hugstetter Str. 7  
79106 Freiburg, Germany  
[info@perspectives.cc](mailto:info@perspectives.cc)  
[www.perspectives.cc](http://www.perspectives.cc)