

UNFCCC > Paris Agreements > Article 6.4 Mechanism

Call for input 2023 – structured public consultation: Further input – Requirements for the development and assessment of mechanism methodologies

To: Article 6.4 Mechanism Supervisory Body

Date: 15/8/2023

Answers and contributions on behalf of the Riverse

Autors: Clément Georget, Erica Dorr

On baseline

- *Q1: Should the above paragraph (46/46bis) be split to improve clarity?*

Yes, the paragraph should be revised to provide clearer guidance on how to justify the choice of baseline for mechanism methodologies. This justification should be more explicit, whether it's derived from a performance-based approach or from making an appropriate choice based on the specific circumstances and context in question.

- *Q2: should the downward adjustment be eligible/applicable for all the approaches to setting the baseline?*

No, downward adjustment should only apply when actual or historical emissions data is available. For baselines derived from research, explicit criteria should guide the appropriate selection, negating the need for downward adjustment.

- *Q3: 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?*

Yes, it should be specified that only mitigation activities influenced by policies are eligible for crediting. However, it's crucial to note that while policies can create favorable

environments for these activities, they shouldn't mandate nor enforce them directly (if so activities won't validate regulatory additionality). This distinction is essential to maintain the integrity of additionality. To ensure genuine additionality, such activities should also meet other type of additionality like financial, prevalence, or technological.

- *Q4: should the downward adjustment be eligible/applicable for all the approaches to setting the baseline indicated in para 44 above?*

(same as Q2)

No, downward adjustment should only apply when actual or historical emissions data is available. For baselines derived from research, explicit criteria should guide the appropriate selection, negating the need for downward adjustment.

- *Q5: would option 2 above fit under 'adjustment downwards? And is it linked to additionality demonstration? How can 'transformative' be defined?*

1. **Would option 2 above fit under 'adjustment downwards'?**

"Adjustment downwards" typically means that the baseline is modified to represent a lower emission scenario than previously projected. In other words, the business-as-usual (BAU) emission projection is adjusted downwards to ensure that credited emission reductions are conservative and ambitious. Option 2 emphasizes the transformative potential of activities to enable deep decarbonisation, which may imply a more stringent baseline (and thus could fit the concept of 'adjustment downwards'). **However, it does not explicitly state a method for setting or adjusting the baseline.**

2. **Is it linked to additionality demonstration?**

Additionality refers to ensuring that credited emissions reductions are above and beyond what would have happened in the absence of the intervention (or the carbon market mechanism). Demonstrating that activities are transformative (as in Option 2) could be seen as a stronger form of "technological additionality".

Transformative solutions may be subject to a streamlined, simplified additionality test, due to the fact that 1) they are typically additional by nature and 2) there is great interest in fast-tracking such technologies with huge benefits.

“Technological additionality” could be defined by: Technological barriers may exist that prevent the mitigation activity from occurring or expanding. This may include access to equipment, infrastructure, or skilled labor. Funding from sales of carbon credits may allow projects to overcome these barriers.

3. How can ‘transformative’ be defined?

A transformative activity or project could be defined by the following criteria:

- **Scale:** A transformative activity should have a broad and significant impact, potentially affecting an entire sector or industry.
- **Longevity:** It should have lasting effects, with benefits that persist long after the project's conclusion.
- **Innovation:** It might introduce new technologies, practices, or systems that weren't previously in place or mainstream in that sector.
- **Barriers Overcome:** A transformative initiative might overcome significant financial, technological, or cultural barriers that previously inhibited decarbonization.
- **Catalytic Impact:** The activity might spur further action in the sector, creating a domino effect of positive change.

On additionality

- *Q6: how does this issue link to policy crediting where policies deliberately intended to generate credits? What considerations are needed in this regard?*

The issue touches on the nuances of policy crediting, where policies are intentionally designed to produce credits. It's essential to clarify that while policies can be crafted to create a favorable environment or set mandates, but once policies enforce activities (to become the new norm), the activities stemming from them may no longer be considered additional. The "additionality" of an activity is anchored on its ability to go above and beyond current norms or regulations.

- *Q7a: 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?*

Yes general additionality tests should be presented first, before presenting the

exceptions and simplified cases.

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?

A project should at least validated regulatory surplus and financial additionality. Here are some test:

Test for Regulatory Additionality:

1. **List Regulatory Mandates:**
 - Enumerate the current laws, statutes, and regulations related to the project's sector and region.
 2. **Project Compliance Analysis:**
 - Assess if the project merely complies with these mandates or if it goes beyond them.
 - If possible, quantify the extent to which the project exceeds mandates. For example, if a regulation requires a 10% reduction in emissions and the project achieves a 20% reduction, then it has exceeded by 10%.
 3. **Determination:**
 - If the project is found to exceed current regulatory mandates or achieves goals not currently mandated, it demonstrates regulatory additionality.
- **Test for Financial Additionality:**
1. **Baseline Financial Analysis:**
 - Calculate the expected revenues and costs of the project without considering the revenue from carbon credits or external funding mechanisms.
 - Calculate the expected net present value (NPV), internal rate of return (IRR), or payback period.
 2. **Comparison:**
 - Compare the financial metrics from step 1 with typical industry benchmarks or financial criteria required by investors or project developers.
 3. **Determination:**
 - If the project's financial metrics are below the benchmarks or criteria without the revenue from carbon credits, then it demonstrates financial

additionality. In essence, it wouldn't be financially viable without the extra support.

- *Q7b. Where may they be simplified, or deemed to have been satisfied?*

The criteria for additionality can be simplified or deemed satisfied in the case of transformative technologies, as defined by a positive list (ie circular economy solutions), and for removal activities. Implementing transformative technologies often brings inherent benefits beyond the baseline scenario, and removal activities naturally contribute to emission reductions. Thus, a streamlined additionality assessment for these categories can expedite project initiation while maintaining environmental integrity.

- *Q8: 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 are indeed necessary, especially when tailored to specific regions, to fast track some required transformative technologies. The approach outlined is fundamentally sound.

- *Q9: 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?*

Pre-project activities, such as commissioning activities, should be factored into the emissions accounting in the initial years of the project. Additionally, upstream emissions should be integrated within the emissions accounting framework, adopting a "cradle to grave" Life Cycle Assessment (LCA) approach. This comprehensive approach ensures a holistic understanding of the project's environmental impact. Further methodological requirements should involve detailed LCA methodologies and guidelines to ensure consistent and rigorous accounting across various projects and sectors.

For example, when starting a pyrolyzer or a biogas site, direct emissions are usually higher than once the production reached its steady state.