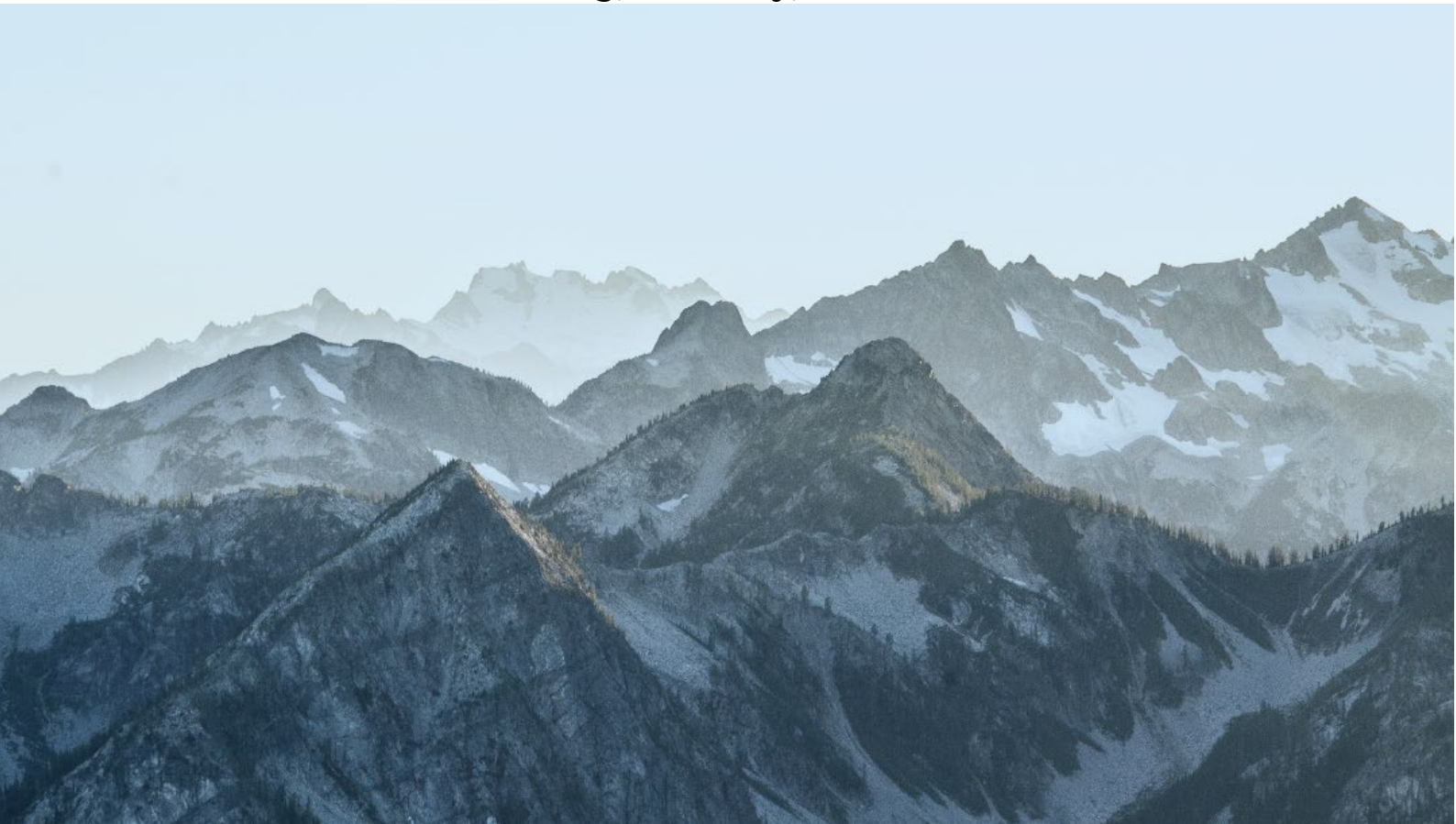




Input to the issues included in the
annotated agenda and related annexes
of the fifteenth meeting of the Article 6.4
Supervisory Body

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Input to the issues included in the annotated agenda and related annexes of the fifteenth meeting of the Article 6.4 Supervisory Body.

Perspectives Climate Research (PCR) welcomes the opportunity to provide input on the issues included in the annotated agenda and related annexes of the fifteenth meeting of the Article 6.4 Supervisory Body.

Please find below our comments on two of the documents published by MEP 004 that will be considered under **agenda item 3.4 Methodologies** (paragraph 24):

- **Draft Standard: Demonstration of Additionality in Mechanism Methodologies** (A6.4-MEP004-Annex02)
- **Draft Standard: Setting the Baseline in Mechanism Methodologies** (A6.4-MEP004-Annex01)

Additionally, we have included some general comments on **agenda item 3.5 Registry** (paragraphs 25 and 29).

1.1. Agenda item 3.4 Methodologies (paragraph 24):

Draft Standard Demonstration of additionality in mechanism methodologies (A6.4-MEP004-Annex02)

Key messages:

Generally, we find the proposed additionality standard **well-balanced, with strong and stringent criteria** that enhance environmental integrity while ensuring feasibility.

We strongly support the following elements of the standard:

- Regarding the choices of additionality tests,
 - We support that **standardized methodologies** shall demonstrate that it is **very likely** that Article 6.4 activities that are eligible under the methodology satisfy the investment analysis, as long as the bold definition of “very likely” at a **90% probability threshold** is applied. This prevents that standardized methodologies are used to circumvent robust additionality testing
 - We fully support the **applicability conditions for benchmarking** as well as the requirement for a benchmark to show a **“very likely”** level of additionality.
- On the design of the **regulatory test**, we note the detailed and comprehensive specification of policies, **including financial incentives**. We believe it is essential to ensure that all relevant regulations are properly considered in additionality assessments. This approach enhances transparency and prevents selective application of policies.

- Concerning the design of the **investment test**,
 - we strongly agree with defining the **final investment date** as the start date as it provides clarity in determining project timelines.
 - We support **prevention of arbitrary separation of projects into components**. This prevents cherry-picking of seemingly unattractive components.
 - We support applying **quantitative approaches for uncertainty** in the sensitivity analysis.
- Regarding the **barrier test**
 - We welcome the **recognition of indigenous knowledge and customary law** adds flexibility while maintaining rigor, particularly in contexts where traditional practices influence economic and environmental decisions.
- Regarding the **common practice test**, the need to define a **realistic maximum market size or potential** ensures that the test is not gamed by using an overblown market potential to artificially depress technology shares
- Regarding the attribution of other sources of finance
 - we fully support the **pro-rata attribution** as it ensures a fair allocation of financial contributions among different funding sources.
 - The requirement to prove that **public funding would not have filled the financing gap** prevents over-reliance on public finance and ensures that carbon revenues genuinely contribute to making an activity viable.
- Regarding the avoidance of lock-in, we support the **10-year default technology lifetime threshold**. We consider this a pragmatic solution to prevent outdated technologies from receiving credits. This approach encourages the adoption of cleaner and more efficient alternatives over time.

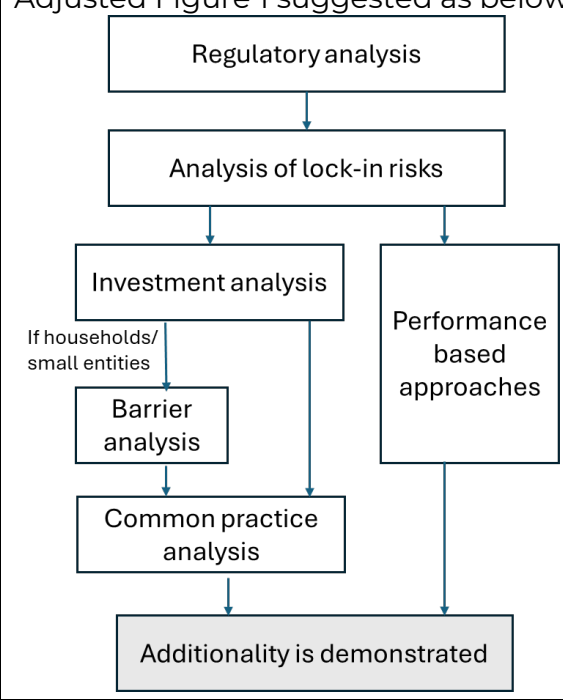
However, we ask for the following changes to ensure a consistently high degree of environmental integrity:

- Expand the applicability to **Programmes of Activities (PoAs)**
- Regarding the choices of additionality tests
 - We would like to see a narrower specification of the **conditions that allow use of the barrier test**, with a limitation to **household technologies in rural areas**, and **small companies working in the informal economy**, as well as **not allowing host countries to generalize the barrier test**.
- Regarding the design of the regulatory test
 - We ask the SB to endorse the option that all regulations are covered, **regardless of whether they are enforced or not**.
- Regarding the design of the investment test
 - We would ask the SB to reject the option to **demand a minimum level of revenue increase to demonstrate investment additionality is unworkable**, as it depends on **A6.4ER price forecasts for the entire crediting period**, which are highly uncertain and unreliable.
- Regarding the design of the barrier test
 - We would ask the SB to allow application of the barrier test only on the activity level and **not at the methodology level**, as barriers are highly site-specific. We would ask the SB to eliminate the **“first-of-its-kind”** given that **gaming of the reference area**, cannot be excluded which could lead to manipulated additionality claims.

Detailed comments:

In Table 1, we have included detailed comments on sections where options in the text are provided

Table 1. Detailed comments on the Draft Standard Demonstration of additionality in mechanism methodologies (A6.4-MEP004-Annex02)

Section and paragraph	Comment	Preferred option / proposed change
Section 3 Applicability paragraph 5	We think that the standard needs to be directly applicable to PoAs. The cover note does not specify any rationale behind this limitation.	"This version of the standard is applicable to proposed mechanism methodologies for activities undertaken at the project <i>and programme</i> level".
Section 5.2 Possible combinations of approaches Para 17 and Figure 1	We consider that Figure 1 should reflect that investment analysis is the default approach as stated in para 17.	Adjusted Figure 1 suggested as below  <pre> graph TD A[Regulatory analysis] --> B[Analysis of lock-in risks] B --> C[Investment analysis] B --> D[Performance based approaches] C -- "If households/ small entities" --> E[Barrier analysis] E --> F[Common practice analysis] C --> F D --> G[Additionality is demonstrated] F --> G </pre>
Section 5.2 Possible combinations of approaches para 18	We suggest deleting paragraph 18. "Allowing proponents of mechanism methodologies to propose the use of barrier analysis in other instances"	Deletion of the text.

Section and paragraph	Comment	Preferred option / proposed change
	with due justification" as this once again creates a loophole . While the MEP has indicated in the cover note (para. 10(a)) that this approach is similar to provisions introduced in the CDM in 2009, PACM should go beyond the CDM.	
Section 5.3 Application of the approaches at different levels para 22 (d)	We suggest to delete the reference to host countries in paragraph 22 (d). The barrier test should not be generalized at the host country level; it should always be applied at the activity level. While standardized baselines can be useful for efficiency, they are inherently rigid and lack project-level granularity . We see a serious risk in this approach leading to low-integrity outcomes.	Deletion of <u>Host Countries</u> .
Section 5.3 Application of the approaches at different levels para 21 (a)	<p>The paragraph refers to a 'subset' of activities without providing clear guidance on the maximum level of disaggregation allowed. We suggest including either clarification (like a maximum threshold of disaggregation) or delete it.</p> <p>We also suggest that a maximum validity period needs to be clearly indicated as the paragraph only refers to an ex-ante validity period (e.g. three years). Setting a maximum validity period would ensure greater consistency.</p>	<p>"(a)Proponent of the mechanism methodology: The proponent of a mechanism methodology may demonstrate that one or several of the approaches referred to in section 5.1 are satisfied for all, or a subset of, the potential Article 6.4 activities that are eligible under the methodology (see Box 1 for an example).....</p> <p>....The mechanism methodology may need to be regularly revised to update the underlying analysis. The proponent of the mechanism methodology shall therefore specify the duration of the validity of the proposed methodology <u>should not exceed three years</u>".</p>
Section 6.1 Regulatory Analysis	We strongly support Option A.1: All legal requirements shall be deemed to be enforced . This	"Paragraph 27: All legal requirements shall be deemed to be enforced".

Section and paragraph	Comment	Preferred option / proposed change
Paras 27 and 28	<p>option strengthens the credibility of climate policies, supports meaningful emissions reductions, and prevents the potential misuse of carbon finance. We acknowledge the MEP's rationale outlined in the cover note (paras. 14–17), which explains the trade-offs between both options. However, we believe a stringent approach is preferable to avoid perverse incentives and uphold the integrity of the mechanism.</p> <p>We also think that there should not be no exemptions for LDCs and SIDs in this regard.</p>	
Section 6.1 Frequency of updating the regulatory analysis para 29 (a)	<p>Despite the MEP's rationale outlined in paragraph 18 of the cover note, we strongly support Option B.1. Reassessment at each verification to ensure environmental integrity and maintain the credibility of Article 6.4 emissions reductions. This approach minimizes the risk of issuing non-additional credits, aligns with best practices from established carbon crediting programs, and allows for adaptive responses to evolving legal and market conditions. While Option B.2 provides certainty to activity participants, it risks over-crediting and undermining market fairness. To uphold the robustness and trustworthiness of the mechanism, periodic reassessment is essential.</p> <p>Additionally, we recommend including a mandate requiring a future regulatory impact analysis.</p>	<p>"Where the analysis is applied by activity participants, as referred to in paragraph 27(b) above, the analysis shall be conducted at <u>each verification of emission reductions or net removals. Activity participants are requested to determine that there are no legal requirements, either in effect or set to take effect, that would require or motivate implementation of the activity during the activity's forthcoming crediting period. If such legal requirements are identified, then crediting for the activity shall only be allowed until the date the legal requirements would take effect</u>".</p>
Section 6.3.2 General requirements for conducting investment analysis Para 44 c	<p>The mandate provides a strong foundation for ensuring that Article 6.4 activities are not primarily driven by public funding and that the mechanism remains additional. We welcome the pro rata attribution approach to account for multiple sources</p>	

Section and paragraph	Comment	Preferred option / proposed change
	of finance, as it helps ensure a fair and transparent allocation of crediting. However, demonstrating that public funding would not have filled the funding gap in the absence of A6.4ER revenues may be complex and difficult to implement. Public funding schemes often have varying criteria and objectives, making it challenging to establish a clear counterfactual. Therefore, further guidance and robust methodologies will be essential to ensure that this requirement is applied consistently and does not create unnecessary barriers for project developers.	
Section 6.3.2 General requirements for conducting the investment analysis para 41 and Section 6.3.5 Requirements applicable to benchmark analysis para 51	<p>We strongly support Option C.1. in paragraphs 41 and 51 to clearly indicate that an Article 6.4 activity is not financially viable in the absence of revenues from A6.4ERs.</p> <p>While Option C.2 aims to strengthen investment additionality assessments, the requirement for a minimum revenue increase is unworkable due to its reliance on uncertain A6.4ER price forecasts over the entire crediting period. Given the volatility of carbon credit prices, such forecasts are often unreliable, making the test excessively uncertain and ultimately unviable.</p>	Deletion of option C.2
Section 6.4.1 Applicability of Barrier Analysis para 54 (a) and (b) and para 55.	We consider the provisions of barrier assessment and its application to household-level technologies and small entity led projects quite problematic . It may introduce an imbalance as (middle and upper class) households in urban areas can easily access finance for large-scale technologies, such as air conditioners	<p>54 (a) to read: Implemented at individual households <i>in rural areas</i> (e.g., distribution of efficient cookstoves);</p> <p>54 (b) to read: Undertaken by small public or private entities that typically do not have access to commercial or public third-party finance (e.g., schools, small</p>

Section and paragraph	Comment	Preferred option / proposed change
	<p>or refrigerators, while this is not the case for smaller household technologies typically used in rural areas.</p> <p>We suggest to provide further clarification criteria for the applicability of barrier analysis in the cases described in (b).</p> <p>We also suggest deletion of paragraph 55 as it creates a loophole for problematic forms of the barrier test.</p>	<p>commercial enterprises <i>in the informal sector</i> that do not have sufficient credit worthiness to access loans)"</p> <p>Deletion of paragraph 55.</p>
Section 6.4.2 Requirements for conducting the barrier analysis para 56 (d)	<p>We find the "first-of-its-kind" test based on a relevant geographical area highly problematic due to the risk of gaming the definition of the reference area. Without clear and objective criteria for determining the geographical boundary, activity participants could strategically define the area to ensure their project qualifies as first-of-its-kind, even if similar activities exist nearby.</p> <p>We suggest deletion of the paragraph.</p>	Deletion of paragraph 56 (d)

Draft Standard: Setting the Baseline in Mechanism Methodologies (A6.4-MEP004-Annex01)

Key messages:

We welcome the progress made in refining the A6.4 MEP004 Baseline Standard. We find the proposed framework well-structured.

We strongly support the following elements of the standard:

- Robust **general principles** and detailed and well-specified **definitions**. The requirement to define the **applicable geographical area** and of **increasing stringency of baselines over time** reinforce environmental integrity. Furthermore, the consideration of emissions intensity trends and stringent treatment of uncertainty contribute to a conservative and science-based approach.
- The **general sequence of downward adjustment** as shown in the flowchart graph (Fig. 3) - first adjusting historical emissions, then assessing BAU, applying long-term goal-related adjustments, and finally selecting the lowest of the baselines determined in previous steps - ensures a comprehensive and conservative baseline determination process.
- We support defining **BAU** as a historical situation until the end of lifetime, followed by a shift to economically viable technology. The **build margin** to be used by greenfield activities, looking at activities commissioned in the last three years, is also appropriate.
- We salute that **Best Available Technologies** (BAT) are defined in a way that does not require economic viability of the BAT for all companies. The ex-ante fixation of validity of a BAT improves predictability and transparency.
- We support **whitelists/blacklists** of activities, based on Global Stocktake (GST) outcomes as they reinforce additionality
- We see **generally applied downward adjustments through coefficients that increase over time in a pre-determined manner** as key to ensure alignment with the long term goal of the Paris Agreement.

We propose the following changes:

- We ask to **apply downward adjustment coefficients** at the **country level**, and determine them centrally. Differentiation according to sectors or even activity types will be prone to lobbying and dilute the clear characteristics of the approach. Under the Paris Agreement, countries are the entities that specify emissions targets and net zero pathways and thus a country-specific downward adjustment coefficient is the most consistent way to apply the common but differentiated responsibilities and respective capabilities criterion of the UNFCCC. Sectoral or activity-type-specific coefficients would become elements of competition policy, and aligning them with the country-led nature of the Paris Agreements would be challenging.
- **The provisions for benchmarks** should be aligned with those in the additionality standard

Detailed comments:

In Table 2, we have included detailed comments on sections under the draft baseline standard, also we have indicated our preferred option or sections where clarity is lacking.

Table 2: Detailed comments on the Draft Standard Setting the baseline in mechanism methodologies (A6.4-MEP004-A01). Please note that these comments refer to both the explanatory section as well as the standard text as such.

Section and paragraph	Comment and preferred option (if applicable)	Preferred option / proposed change (Include proposed text)
Section 2, definitions, para 5 (n)	The definition of sector is not specific enough	A segment of a national economy that delivers a specific type of good or service, applying a definition provided by an international organization (e.g. IPCC, WTO, etc.)
Cover Note – Section 3.1 Para 11	We fully support the MEP approach, i.e., mandatory downward adjustment should apply to all three approaches without exception to uphold environmental integrity and ensure conservativeness.	
Cover Note – Section 3.3 Para 21	We are surprised by the lack of reference to the downward adjustment by downward adjustment coefficient that we find in the following section and would suggest that such a reference be made here as well as, anchoring the downward adjustment coefficient both in paragraph 33 and paragraph 36.	
Cover Note – Section 3.3 Para 23 (a)	We strongly support Option A.1.1 , which defines the whitelist . This ensures that only activities with significant and sustained emission reductions are eligible. Aligning with the Global Stocktake (GST) priorities enhances credibility, avoids carbon lock-in, and ensures Article 6.4 credits drive transformative action.	We strongly support Option A.1.1 , which defines the whitelist based on paragraphs 28, 29, and 33 of decision 1/CMA.5.

Section and paragraph	Comment and preferred option (if applicable)	Preferred option / proposed change (Include proposed text)
Cover Note – Section 3.3 Para 24 (a)	Private sector-driven approaches (e.g., ICVCM or MDB-led) should only serve as informative inputs to the regulation under Article 6.4 and must not be used as direct references .	
Cover Note – Section 3.3 Para 24 (a)	We support Option B.2.2. The approaches referred to in Option B.2.1 are partially problematic. For example, ICVCM excludes all grid connected renewables in many countries. But in any country, there are renewable energy projects that are truly additional, with the additionality depending on the renewable energy resources available at each site.	Option B.2.2: The blacklist is defined by the Supervisory Body and be updated regularly
Cover Note – Section 3.4 Para 28	Better to adopt a more stringent approach. Option B.2 is preferred , as neither Option B.1 nor B.3 provides sufficient stringency.	Option B.2: The consideration of the long-term temperature goal of the Paris Agreement is also required in the context of quantifying the downward adjustment, is preferred
Cover Note – Section 3.4 Para 29	We support paragraph 29(a), but 29(b) and (c) raise concerns as they may allow sectoral lobbying and gaming. This could lead to discrepancies across sectors (e.g., energy, forestry, waste). A country-level downward adjustment coefficient approach is needed and in line with the principles of the Paris Agreement and the UNFCCC.	Downward adjustment coefficients for individual Parties or groups of Parties
Cover Note – Section 3.4 Para 34 (e)	We strongly endorse the principle of “ sufficiency ”	If sectoral approaches are retained, the higher the level of consumption of goods/services, the higher the downward adjustment.
Cover Note – Section 5 Para 39	The standard should be explicitly applicable to PoAs . The current cover note does not provide justification for this limitation.	“This version of the standard is applicable to proposed mechanism methodologies for activities undertaken at the project <u>and programme</u> level”.
Section 6.2.3 Methods for quantification of baseline	The current text lacks specificity in the selection criteria for models.	We recommend incorporating detailed criteria for model selection, including peer review, historical validation, uncertainty assessments, and sector-specific calibration. Methodologies should justify

Section and paragraph	Comment and preferred option (if applicable)	Preferred option / proposed change (Include proposed text)
emissions or removals Para 52 (c)		model choice and document key assumptions for transparency and credibility .
Section 8 Downward adjustment for consistency with paragraph 33 of the RMP Para 61	The current wording allows downward adjustments to vary by sector and activity type , which may lead to inconsistencies and leniency in specific cases.	Downward adjustment factors should be set at the host country level to maintain a consistent, fair, and data-driven approach without highly transaction cost intensive sector-specific customization. The SB should commission a technical paper for specification

1.2. Agenda item 3.5 Registry (paragraphs 25 and 29):

We welcome the rapid operationalization of the registry, including the interim version and the adoption of necessary procedures. Ensuring timely access for Host Countries should remain a priority to facilitate their active participation in the mechanism. Clear guidance on access procedures and technical support for Host Countries would further enhance the effectiveness of the registry.

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