

**A6.4-SB002-AA-A08**

Information note

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Requirements for the development and  
assessment of mechanism methodologies

Version 01.0



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## 1. Procedural background

1. Decision 3/CMA.3, paragraph 6 (d),<sup>1</sup> requests the Supervisory Body to elaborate and further develop recommendations, for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at its fourth session (November 2022), on the application of the requirements referred to in chapter V.B of the Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (RMP) to that decision (titled 'Methodologies'). The relevant paragraphs are as follows:

*33. Mechanism methodologies shall encourage ambition over time; encourage broad participation; be real, transparent, conservative, credible, below 'business as usual'; avoid leakage, where applicable; recognize suppressed demand; align to the long-term temperature goal of the Paris Agreement, contribute to the equitable sharing of mitigation benefits between the participating Parties; and, 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.*

*34. Mechanism methodologies shall include relevant assumptions, parameters, data sources and key factors and take into account uncertainty, leakage, policies and measures, and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances, and address reversals, where applicable.*

*35. Mechanism methodologies may be developed by activity participants, host Parties, stakeholders or the Supervisory Body. Mechanism methodologies shall be approved by the Supervisory Body where they meet the requirements of these rules, modalities and procedures and the requirements established by the Supervisory Body.*

*36. Each mechanism methodology shall require the application of one of the approach(es) below to setting the baseline, while taking into account any guidance by the Supervisory Body, and with justification for the appropriateness of the choices, including information on how the proposed baseline approach is consistent with paragraphs 33 and 35 above and recognizing that a host Party may determine a more ambitious level at its discretion:*

*(a) A performance-based approach, taking into account:*

*(i) Best available technologies that represent an economically feasible and environmentally sound course of action, where appropriate;*

*(ii) 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;*

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<sup>1</sup> See decision 3/CMA.3 contained in document FCCC/PA/CMA/2021/10/Add.1 available at: <https://unfccc.int/documents/460950>. The annex to the decision begins on page 29 (English language version).

*(iii) An approach based on existing actual or historical emissions, adjusted downwards to ensure alignment with paragraph 33 above.*

*37. Standardized baselines may be developed by the Supervisory Body at the request of the host Party or may be developed by the host Party and approved by the Supervisory Body. Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party and be consistent with paragraph 33 above.*

*38. Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. Additionality shall be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation, and taking a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 above.*

*39. The Supervisory Body may apply simplified approaches for demonstration of additionality for any least developed country or small island developing State at the request of that Party, in accordance with requirements developed by the Supervisory Body.*

2. The Supervisory Body, at its first meeting, considered the concept note “Guidelines for the implementation of methodological principles, approaches and methods for the establishment of baseline and additionality”, and discussed how the principles included in chapter V.B of the RMP can be further elaborated as guidance for the development of methodologies for the mechanism.
3. The Supervisory Body agreed that an informal working group on methodologies comprising its members and alternate members as well as secretariat staff would work prior to the second meeting of the Supervisory Body to prepare draft recommendations to the CMA, taking into account the inputs provided at this meeting for consideration by the Supervisory Body at its second meeting, with a view to forwarding the recommendations to CMA 4. The Supervisory Body noted that there are capacity-building needs for host Parties to participate in the mechanism, including those relating to methodologies, to deliver higher ambition of the Parties.

## **2. Purpose**

4. The purpose of this document is to develop options to elaborate and further develop recommendations for the consideration of the Supervisory Body, for recommending to CMA.4, based on the inputs received from Supervisory Body members during the first meeting of the Supervisory Body and subsequently. It aims to unpack overarching issues covered under paragraph 33 to 39.

## **3. Key issues and proposed solutions**

5. Options for elaborating the requirements in paragraphs 33 to 39 of the RMP are included below.

### 3.1. Encouraging ambition over time

6. “Encourage ambition over time” refers to ambition of the user of the methodology for mitigation through the activities implemented in the geographic region covered, consequently contributing to the ambition of the Host Party directly or indirectly.
7. The Supervisory Body may wish to consider the following options (not mutually exclusive) to address “encourage ambition over time” requirement:

#### 3.1.1. Option 1: Introduction of a baseline contraction curve

8. Under this option, requirements related to baseline setting that enable GHG emission reductions only from activities that contribute to achieve the long-term temperature goals of the Paris Agreement are introduced. For this purpose, the Supervisory Body may consider introducing a baseline contraction curve developed either by host Parties or the Supervisory Body and use it to cap the baseline emissions, as illustrated in Box 1 of the Appendix.

*Pros: This option ensures that the baseline for activities developed will always be aligned with the long-term temperature goals of the Paris Agreement.*

*Cons: It is a new concept without previous experience under CDM and other mechanisms.*

#### 3.1.2. Option 2: Facilitate more transformational mitigation activities by:

9. Under this option, transformational mitigation activities may be facilitated by:
  - (a) Adoption of the following principles for development of new methodologies:
    - (i) Deep decarbonization of the economic system, going beyond the low-hanging fruit pathways, incentivizing action from all the driver of the economic activities, consumers, technology providers, financiers and policy makers but also local communities, indigenous people, youth leveraging and inspiring the development at scale of integrated climate and sustainability solution;
    - (ii) Future thinking that address the long-term needs, by translating the long-term end goal into mitigation action now, to avoid high-carbon trap;
    - (iii) Expanded space for mitigation actions beyond incremental improvements of industrial processes to promote alternative innovative solutions for the satisfaction of human needs;
    - (iv) Enhanced sustainability through encouraging the host country to authorize coherent mitigation actions aligned with its NDC and LT-LEDS, integrated into all its short-term and long-term social and economic planning enabling both short and long-term benefits;
    - (v) Scale by through activities that can be scaled up and replicated.
  - (b) In terms of the scope and eligibility, avoid crediting projects that commit to continuing emissions over long timescales;

- (c) Developing methodologies which promote transformative climate action in a value chain by considering principles, requirements and guidelines for the quantification and reporting of the carbon footprint of a product (e.g. ISO 14067:2018) in new methodologies;
- (d) Avoiding activities undertaken in a value chain for which the carbon footprint of the end-product(s) is higher than the carbon footprint of the baseline product(s) satisfying the same need.

*Pros: This option promotes transformative changes, not limited to the emission reductions associated with the activities (this is evident from (c) and (d)).*

*Cons: This option needs to address the emissions in the entire value chain of product, which can be challenging if data is not available.*

### 3.1.3. Option 3: Use of other elements

10. The following elements shall be used in mechanism methodologies:

- (a) When using a programmatic approach, progressively including more efficient and less greenhouse gas-intensive project technologies/measures in the distribution plan taking into account experience gained in host countries;
- (b) Installation of more equipment/measures using the same technology over a period (i.e. wider geographic coverage or greater penetration among the potential end users) demonstrated using empirical data;
- (c) Additional coverage of sectors over a period demonstrated using empirical data;
- (d) Increasing the stringency of baselines during each renewal of the crediting period considering experience under the CDM and other mechanisms (e.g. requiring a more conservative grid emission factor over time);
- (e) By incentivizing new low-emission technologies with very low penetration rates (e.g. <10% penetration rate) by designating them as 'first-of-its-kind' or 'automatically additional' and excluding technologies with high penetration rates (e.g. >50% penetration rate) by designating them as 'common practice' or 'business-as-usual';
- (f) By making additional investments in adopting digital technologies, particularly for monitoring (e.g. Internet of Things technologies, blockchain technologies), thereby increasing the reliability of the estimates and reducing uncertainties.

*Pros: this approach has been tested under CDM and could be easily operationalized.*

*Cons: It may not necessarily ensure the ambition levels required by the long-term goals of the Paris Agreement.*

## 3.2. Encouraging broad participation

11. The requirements to address "encouraging broad participation" are recommended in section 3.2 of the document "Requirements for the development and assessment of mechanism methodologies". The proposal includes, among others, those requirements

related to broad sectoral coverage and technological coverage of methodologies, the combination of methodologies, simplification of methodological requirements, and inclusive stakeholder consultation.

### **3.3. Shall be real, transparent, conservative, credible and below business-as-usual (BAU)**

12. The requirements to address “shall be real, transparent, conservative, credible and below business-as-usual (BAU)” are recommended in section 3.3 of the document “Requirements for the development and assessment of mechanism methodologies”.

### **3.4. Avoid leakage where applicable**

13. The requirements to address “avoid leakage where applicable” are recommended in section 3.4 of the document “Requirements for the development and assessment of mechanism methodologies”. The recommendation includes requirements to consider the following types of leakage as well as to monitor them at a national level, not just at a project level:

- (a) Equipment transfer outside the project boundary;
- (b) Land use by project activities leading to the displacement of agricultural activities and deforestation;
- (c) Diversion of biomass residues from other possible application;

14. It is also recommended that positive leakage (decreasing emissions) should not be accounted.

### **3.5. Recognizing suppressed demand**

15. The requirements to address “recognizing suppressed demand” are recommended in section 3.5 of the document “Requirements for the development and assessment of mechanism methodologies”.
16. Host Parties may develop a list of basic human needs that require a minimum service level.

### **3.6. Contributing to the equitable share of mitigation benefits between participating Parties**

17. The Supervisory Body may wish to provide guidance regarding concrete elements that should be included in the methodologies in this regard.

18. The following options (**not mutually exclusive**) may be considered:

- (a) **Option 1:** Host Parties determine a contribution factor defining the share of credits that should stay in the Parties to support achievement of their NDCs. This contribution factor may be defined at a Party level or at a sectoral level and be updated to support the achievement of their NDCs;

*Pros: This option allows flexibility for host Parties to determine a contribution factor, taking into account national circumstances.*

*Cons: This option can discourage the development of mechanism activities since it adds a discount to the claimed emission reductions.*

- (b) **Option 2:** Mechanism methodologies determine a contribution factor defining the share of carbon credits to be kept within the host Party to protect its ability to meet its NDC, and to reserve space to take on progressively greater ambition in further NDCs in line with any LT-LEDS;

*Pros: This option provides a straightforward approach to set a global factor for each sector methodology.*

*Cons: This option can discourage the development of mechanism activities since it adds a discount to the claimed emission reductions. This option also does not allow flexibility for host Parties to determine a contribution factor that takes into account national circumstances.*

- (c) **Option 3:** Mechanisms methodologies provide guidance on the situation (e.g. exporting renewable electricity or green hydrogen to another Party) where mitigation activities are undertaken in one host Party but the impacts of these same mitigation activities are materializing in the form of GHG emission reductions in another Party;

*Pros: This option encourage the development of mitigation activities that are undertaken in one host Party but the impacts of these same mitigation activities are materializing in the form of GHG emission reductions in another Party.*

*Cons: This option may pose a challenge to ensure consistency within NDCs of Parties concerned.*

- (d) **Option 4:** Mechanism methodologies provide an approach for ex-ante calculation of GHG emission reductions to enable up-front payment of carbon credits and access to loan or low-cost finance.

*Pros: This option encourages the development of mechanism activities where upfront finance is necessary.*

*Cons: No major concerns.*

### **3.7. Aligning with long-term temperature goals of the Paris Agreement and, with respect of each participating Party, contributing to reducing the emission levels in the host Party and aligning with its NDC (if applicable), its LT-LEDS (if it has submitted one) and the long-term goals of the Paris Agreement.**

19. Paragraph 26(e) of the RMP indicates:

*26. Each host Party of Article 6, paragraph 4, activities shall, prior to participating in the mechanism, ensure that: (...)*

*(e) It has indicated publicly to the Supervisory Body the types of Article 6, paragraph 4, activity that it would consider approving pursuant to chapter V.C below (Approval and authorization), and how such types of activity and any associated emission reductions would contribute to the achievement of its NDC, if applicable, to its long-term low greenhouse gas (GHG) emissions development strategy, if it has submitted one, and to the long term goals of the Paris Agreement.*



20. Therefore, it is one of the participation requirements for host country designated national authorities (DNAs) to provide information to the Supervisory Body about the types of activities it would consider approving and how they contribute with the achievement of NDC, LT-LEDS or long-term temperature goals of Paris Agreement.

21. Host Parties may specify the “types of activities” as:

- (a) Sectoral scope as defined in Appendix I of the recommendation document; and/or
- (b) Sub-sectors; and/or
- (c) Specific mitigation technologies/measures.

22. For alignment with the Host Party’s NDC, if applicable, or to its long-term low GHG emissions development strategy, the SB may wish to consider the following options:

- (a) Option 1: Host Party notifies the Supervisory Body of the emission trajectory for that sector.

*Pros: This option provides full flexibility to the Host Party to develop the trajectory curve taking into account the specific circumstances of the Host Party.*

*Cons: It may lead to inconsistent interpretation of applications since no harmonized approach is followed to develop the emission trajectory. In addition, there could be challenges related to the resources available inside the Host Party to develop the trajectory.*

- (b) Option 2: Host Party submits the emission trajectory for that sector to the Supervisory Body for assessment.

*Pros: While providing some flexibility to the Host Party to develop the trajectory curve taking into account the specific circumstances of the Host Party, this option also allows oversighting of the SB to ensure consistency and environmental integrity of the submitted emission trajectory.*

*Cons: Although the assessment by the SB may secure a level of consistency and environmental integrity of the submitted emission trajectory, this option leads to the longer processing time by the Supervisory Body, which may result in delays for the development and registration of mechanism activities. In addition, this option may lead to challenges related to the resources available inside the Host Party to develop the trajectory.*

- (c) Option 3: The emission trajectory is developed top-down by the SB

*Pros: This option allows full oversight of the SB to ensure consistency and environmental integrity of emissions trajectories.*

*Cons: Although the assessment by the SB may secure a level of consistency and environmental integrity of the submitted emission trajectory, this option leads to the longer processing time by the Supervisory Body, which may result in delays for the development of mechanism activities by activity participants and their registration. In addition, it may be challenging to develop different trajectories for different sectors and different countries, especially where data is not readily available which lead to a high demand for resources.*

- (d) Option 4(a): The emission trajectory is developed based on an approach from the SB, and the trajectory is notified by the Host Party to the SB

*Pros: This option ensures a level of consistency and environmental integrity of the submitted emission trajectory by following a harmonized and standardized approach developed and approved by the SB, while at the same time provides flexibility to the Host Party to develop the trajectory curve while taking into account the specific circumstances of the Host Party.*

*Cons: There could be challenges related to the resources available inside the Host Party to develop the trajectory. In addition, there could be challenges where the data is not readily available in Host Parties to apply the approach.*

- (e) Option 4(b): The emission trajectory is developed based on an approach from the SB, and the trajectory is submitted by the Host Party to the SB for its assessment

*Pros: This option ensures a level of consistency and environmental integrity of the submitted emission trajectory by following a harmonized and standardized approach developed and approved by the SB, while at the same time allowing oversighting of the SB to ensure consistency and environmental integrity of the submitted emission trajectory.*

*Cons: There could be challenges related to the resources available inside the Host Party to develop the trajectory in addition to challenges where the data is not readily available in Host Parties to apply the approach. Also, this option leads to the longer processing time by the Supervisory Body, which may result in delays for the development of mechanism activities by activity participants and their registration.*

23. For options 2 and 4(b), similar approach is in place under the CDM where DNA can submit bottom up standardized baseline that is assessed by the Executive Board for approval.

**3.8. Include relevant assumptions, parameters, data sources and key factors and take into account uncertainty, leakage, policies and measures, and relevant circumstances including national, regional or local, social, economic, environmental and technological circumstances and address reversals where applicable**

24. The requirements to address these principles are recommended in section 3.8 of the document “Requirements for the development and assessment of mechanism methodologies”.
25. CCS is the only type of emission reduction for which reversal is relevant and CCS is using storage in geological formation. Reversal in the context of other type of storage (Ecosystem carbon pools and long-lasting products) is addressed under the requirements for the development and assessment of methodologies pertaining to removal activities and is not relevant in the context of this document.
26. Leakage was discussed in section 3.4 above. No further guidance is required.

### 3.9. Requirements for baselines

27. Paragraph 36 of the RMP ‘requires’ the application of ‘one’ of the approach(es) listed, whereas it seems to also allow a combination of approaches in stating ‘A performance based approach taking into account [...]’. The Supervisory Body may wish to clarify that a combination of approaches is eligible,
28. The three approaches for baseline setting from paragraph 36 of the RMP do not apply necessarily to the whole outputs of an activity generated during its entire lifetime. Each of them can be applied to identify the baseline for part of the output generated by an activity.
29. The requirement that the activity developers can substantiate that the scenario “not investing” is the baseline scenario is different from the additionality requirement as it is more demanding. While for the additionality requirement it is enough to demonstrate that the mitigation activity would not be undertaken in the absence of the mechanism (but another investment for example in a different technology could be undertaken), this requirement necessitate to establish that no investment would have been undertaken in the absence of the mechanism. The additionality establish that what would happen in the absence of the mechanism **is not the mitigation activity**, but it can be another investment scenario. To be able to use existing actual or historical emissions, the requirement is to establish that “not investing” is what would happen in the absence of the mechanism.

### 3.10. Requirement for Additionality

30. Paragraph 38 of the RMP requires additionality to be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation, and taking a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 above. The following options are proposed:

- (a) Option 1: Enhancement of the additionality demonstration by requiring the alignment of the activity’s carbon intensity and lifetime with an emission trajectory that contributes in achieving the climate goals, avoiding the activity to lead to locking in levels of emissions, technologies or carbon-intensive practices

*Pros: The is option adds an extra layer of checking that the activity will not result in emission reductions that may fall outside the scope of future updates of a Host Party’s NDC.*

*Cons: Additionality under this option should be demonstrated at the activity level on a case-by-case approach.*

- (b) Option 2: Establishment of a global positive and negative list of activities<sup>2</sup>

*Pros: Global positive lists significantly reduce the transaction costs for the development of mechanism activities. These lists also secure that the technologies included will represent those with higher efficiency (and, consequently, with lower GHG emissions).*

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<sup>2</sup> Positive lists can be developed at the country level as standardized baselines.

*Cons: Developing global positive lists may be resource intensive based on the availability of data at a global level. Although the activities included in the positive list will represent those with higher efficiency, it may also be too stringent for countries since it does not take into account national and specific circumstances.*

- (c) Option 3: An activity with emissions below the baseline is additional where it is established that the baseline emissions are equal or below the emissions of any activity that would have occurred in the absence of the incentives from the mechanism.

*Pros: Same as option 1.*

*Cons: Same as option 1.*

- (d) Option 4: Combination of options 1, 2 and 3.

### **3.11. Requirement for standardised baselines**

31. Detailed guidance regarding the level of aggregation, data coverage and vintage and frequency of update were included in the document “Requirements for the development and assessment of mechanism methodologies”.

## **4. Subsequent work and timelines**

32. Further work will be taken up as agreed by the Supervisory Body.

## **5. Recommendations to the Supervisory Body**

33. It is recommended that SB considers the concept note while developing recommendations requested by the CMA.

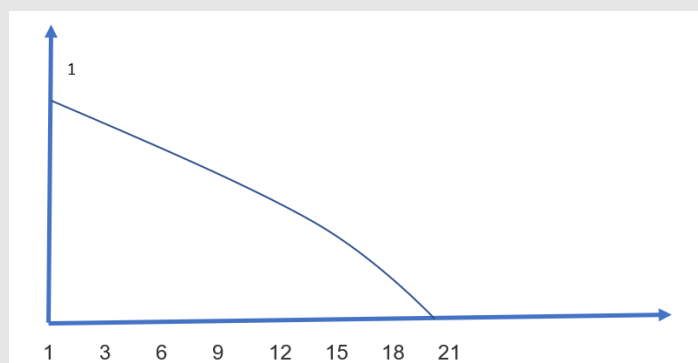
## Appendix. Baseline contraction factor curve

- The box below describes steps to calculate a cap of the baseline using a baseline contraction factor curve developed either by host Parties or the Supervisory Body.

### Box 1. Use of a baseline contraction factor curve

A decreasing cap is used for the baseline. Why a cap: Baseline emission are activity specific and difficult to have an activity specific contraction factor.

The cap of the baseline (year Y) = Benchmark emission year 1 x baseline contraction curve year (Y)



#### Baseline contraction curve = BCC

BCC standardized in all cases:

- **Option 1:** Host Party develop and notify SB;
- **Option 2:** Host Party develop and submit to SB for approval;

#### BE1: Benchmark emission/emission intensity for year 1:

**Option 1:** The cap is fully standardized (BE1 is also standardized):

BE1 is a standardized baseline developed by the Host Party (country and sector specific):

- **Sub Option 1.1.:** Host Party develop and notify SB;
- **Sub Option 1.2:** Host Party develop and submit to SB for approval.

For new methodologies: requirement to cap the baseline with: BE1 \* BCF.

For CDM methodologies: SB revise the CDM methodologies adding a requirement to cap the baseline with: BE1 (developed by host Party) \*BCF.

**Option 2:** The cap is partially standardized (BE1 developed by the activity proponent following a methodological procedure).

BE1 is determined following a methodological approach to be integrated in all methodologies by the methodology developer.

Activity developer willing to use CDM methodologies, propose a revision to incorporate the procedure for the determination of BE1.

Activity developer will calculate BE1 with data at year 1 or later but not before.

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### Document information

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| <i>Version</i> | <i>Date</i>       | <i>Description</i>                                       |
|----------------|-------------------|--|
| 01.0           | 12 September 2022 | Published as an annex to the annotated agenda of SB 002. |

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Decision Class: Regulatory  
Document Type: Information note  
Business Function: Methodology  
Keywords: A6.4 Mechanism, data collection and analysis, methodologies, regulatory framework

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