ARTICLE 6.4 MECHANISM

A6.4-SB006-AA-A08

Draft recommendation

Requirements for the development and assessment of mechanism methodologies

Version 04.0

United Nations
Framework Convention on
Climate Change

COVER NOTE

1. Procedural background

1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), at its third session, requested the Supervisory Body for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (Article 6.4 mechanism) to elaborate and further develop recommendations, for consideration and adoption by the CMA at its fourth session (November 2022), on the application of the requirements referred to in chapter V.B (titled Methodologies) of the rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (RMP).[1]

2. The CMA, at its fourth session, requested 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 at its fifth session (December 2023). It further requested the Supervisory Body, while developing the recommendations, to consider broader inputs from stakeholders provided in a structured public consultation process.[2]

3. The Supervisory Body, at its fifth meeting (SB 005), requested the secretariat to further work on the draft elements for the recommendation on requirements for the development and assessment of mechanism methodologies taking into account guidance from the Supervisory Body at that meeting. In particular, the Supervisory Body requested the secretariat to prepare a draft recommendation for consideration at its next meeting, including:

   (a) Proposals to frame, implement or operationalize the elements discussed at the meeting, taking into account the inputs of members of the Supervisory Body.

   (b) Options to reflect different views expressed by members of the Supervisory Body at SB 005 as options to address the requirements.

   (c) Proposals for potential consolidation or grouping of options to implement the different elements through a common option.

2. Purpose

4. The purpose of this document is to advance the work to elaborate and further develop draft recommendations, on the basis of the RMP, on the application of the requirements referred to in chapter V.B (Methodologies) of the RMP.

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[1] See decision 3/CMA.3, para. 6(d), for the request, and the annex to 3/CMA.3, for the Rules, modalities and procedures for the mechanism established by Article 6, para. 4, of the Paris Agreement, contained in document FCCC/PA/CMA/2021/10/Add.1, available at: https://unfccc.int/documents/460950.

[2] See decision 7/CMA.4, paras. 21 and 22, for the request, contained in document FCCC/PA/CMA/2022/10/Add.2 available at: https://unfccc.int/documents/626570.

3. Current Work

5. This document consolidates:

   (a) Text from "Information Note: Status of current work on the application of the requirements referred to in chapter V B (Methodologies) of the rules, modalities and procedures,"[3] (hereinafter referred as SB 003 Info Note);

   (b) New proposals based on SB 005 discussions, inputs to the fourth meeting of the Supervisory Body (SB 004) and public inputs received in response to the call for public inputs launched after SB 004.[4] In this regard, it should be noted that:

      (i) New proposals are neither the recommendations of the secretariat nor that of the informal working group on methodologies but are rather options prepared to facilitate structured discussion by the Supervisory Body;

      (ii) Square brackets are used to indicate different opinions or choices in a proposal. Flower brackets are used for additional notes to the entry.

4. Subsequent work and timelines

6. Further work will be carried out to on these draft recommendations based on guidance from the Supervisory Body.

5. Recommendations to the Supervisory Body

7. The Supervisory Body may wish to consider this document and provide guidance for further work.

[3] See annex 4 of the meeting report of the third meeting of the Supervisory Body (A6.4-SB003-A04), available at https://unfccc.int/sites/default/files/resource/a64-sb003-a04.pdf.

[4] See Compilation of inputs in response to the "public consultation: Requirements for the development and assessment of mechanism methodologies" and related literature (A6.4-SB0005-AA08).

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1. Procedural background

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2. The CMA, at its fourth session, requested the Supervisory Body to elaborate and further develop recommendations for consideration and adoption by the CMA at its fifth session. It further requested the Supervisory Body, while developing the recommendations, to consider broader inputs from stakeholders provided in a structured public consultation process.[2]

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3. Normative Reference

4. The “shall” requirements in this document are those that the user of this document (i.e. activity participants, host Parties, stakeholders or the Supervisory Body) is obliged to satisfy in order to claim conformance to this document. Other types of provisions in this document include (i.e., recommendations (“should”), permissions (“may”), possibilities and capabilities (“can”)). Besides prescriptive recommendations explanatory information is also included in this document (e.g. summarizing the basis for or reasoning behind a requirement).

5. Reducing emissions, increasing removals and mitigation co-benefits of adaptation actions and/or economic diversification plans are collectively referred to as ‘emission reductions’ in this document.

4. Baseline setting

4.1. Encouraging ambition over time

6. Paragraph 33 of the RMP states that “Mechanism methodologies shall encourage ambition over time…”.

[1] See decision 3/CMA.3, para. 6(d), for the request, and the annex to 3/CMA.3, for the Rules, modalities and procedures for the mechanism established by Article 6, para. 4, of the Paris Agreement, contained in document FCCC/PA/CMA/2021/10/Add.1, available at: https://unfccc.int/documents/460950.

[2] See decision 7/CMA.4, paras. 21 and 22, for the request, contained in document FCCC/PA/CMA/2022/10/Add.2, available at: https://unfccc.int/documents/626570.

7. Mechanism methodologies are intended to remove barriers to deployment of clean technologies, thus reducing the cost of decarbonization and unlocking investment in low-carbon solutions.

8. The requirement on encouraging ambition over time shall be implemented through the application of approaches based on:

   (a) Increasing the stringency of baselines over time;

   (b) [The implementation of replicable and scalable mitigation activities enabling an expanded user base of low-carbon solutions after initial deployment] [Demonstration that proposed activities are transformative, i.e. have the potential to transform an entire sector, as opposed to producing incremental improvements, taking into account the specifics of a sector, geographical location and level of uncertainty of greenhouse gas (GHG estimation in relation to the technology or practice covered by the methodology];

9. [Developing baseline contraction factors (BCFs) to periodically adjust the baseline downwards, is one way of implementing more stringent baselines over time.]

10. [BCFs may be developed by the host Party and approved by the Supervisory Body. A procedure will be established to guide the development of BCFs, including a process for consultation with the host Party.]

11. Options to define and operationalize BCFs, if chosen to be implemented by the Supervisory Body, are elaborated in the A6.4-SB006-AA-A07 “Concept note: Proposals and options to operationalize baseline contraction factor, avoid ‘lock-in levels of emissions’ and address leakage in the draft recommendation on requirements for the development and assessment of mechanism methodologies”.

4.2. Being real, transparent, conservative, credible, below business as usual

12. Paragraph 33 of the RMP states that “Mechanism methodologies shall (…) be real, transparent, conservative, credible, below business as usual (…)”.

13. Mechanism methodologies shall ensure that the results of Article 6.4 activities developed using them represent actual tonnes of GHG emissions reduced or removed and shall provide credible methods for estimating emission reductions. Such estimation should be based on up-to-date scientific information and reliable data gathered through robust monitoring methods, excluding extraneous cofactors affecting emission reductions.

14. Mechanism methodologies shall require transparent descriptions of the source of the data used, and disclosure of data sources unless they are confidential, the assumptions made, the references used and the steps followed in deriving the estimates of the results of Article 6.4 activities, where necessary, including equations.

15. Mechanism methodologies shall result in conservative emission reduction estimates, from the measures applied, options chosen or assumptions made, and shall not overestimate the emission reductions from Article 6.4 activities. Where relevant, mechanism methodologies shall require the accounting of uncertainty associated with modelled and surveyed data.

16. Mechanism methodologies shall require that the baseline selected shall be demonstrated as being below 'business as usual' (BAU). For that purpose, mechanism methodologies shall require the identification of the BAU scenario(s) and provide an approach for the calculation of BAU emissions.

17. BAU is a technology or practice that has significantly penetrated (more than [ ] per cent share of market/usage) in a territory. 'Below BAU' may be estimated as the difference between reference emissions and BAU emissions, where the latter represents plausible emissions in providing the same outputs or service level of the proposed activity in the host Party. Reference emissions may be estimated by considering, for example, equipment efficiency higher than that required by law and regulation or efficiency higher than the equipment/facility that has the highest market share locally in the last three years.

18. [Mechanism methodologies may require the application of BCFs to show that the chosen baselines are below BAU.]

19. Mechanism methodologies shall ensure that baselines are real, transparent, conservative, credible and below BAU by:

    (a) Including robust, transparent and user-friendly measurement, reporting and verification (MRV) systems;

    (b) Using performance standards that are data driven and made publicly available;

    (c) Including requirements to demonstrate concrete changes in GHG levels, transparently showing each step in the process, including the scientific calculations;

    (d) Adopting life-cycle approaches and considering embodied emissions of materials and products where relevant;

    (e) Choosing the lowest emissions baseline when multiple sources of data and vintages are available to set the baseline;

    (f) Avoiding double counting risks.

4.3. Contributing to the equitable sharing of mitigation benefits between participating Parties

20. Paragraph 33 of the RMP states that "Mechanism methodologies shall…contribute to the equitable sharing of mitigation benefits between the participating Parties…".

21. [Mechanism methodologies have been designed to contribute to the equitable sharing of mitigation benefits between participating Parties, through the short crediting periods and provision of a share of proceeds for adaptation that have been specified.]

22. Mechanism methodologies shall require activity participants to describe, in the project design document, the measures taken to deliver mitigation benefits to the participating Parties.

23. This requirement may also be operationalized through the designated national authorities (DNAs), acknowledging that it is their full right to demand an equitable share of benefits as a pre-condition for the approval of activities and/or authorization of Article 6.4 emission

reductions (A6.4ER) to achieve their nationally determined contributions (NDCs). Activity participants shall follow any guidance from the DNAs in this regard.

24. The Supervisory Body may develop further guidance regarding the consideration of co-benefits in mechanism methodologies in relation to contributing to the equitable sharing of mitigation benefits between participating Parties.

25. [Mechanism methodologies shall contribute to the equitable sharing of mitigation benefits between participating Parties by setting baselines that are well below BAU, including through the application of a baseline contraction factor.]

4.4. Aligning with the NDC of each participating Party, if applicable and LT-LEDs, if it has submitted one and the long-term goals of the Paris Agreement

26. Paragraph 33 of the RMP states that "Mechanism methodologies shall … 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".

27. Mechanism methodologies shall require demonstration that the activity aligns with the latest NDC of the host Party (if applicable) or [encourages] [enables] increasing ambition in the NDCs, and aligns with the long-term low greenhouse gas emission development strategies (LT-LEDs) (if it has submitted one) [and the long-term goals of the Paris Agreement].

28. To meet the above requirements, mechanism methodologies may require that the proposed activity type has been approved by the host Party for implementation under Article 6.4 (e.g. included in a published host Party approval list or in another formal communication of the relevant national authority or specified in its NDC implementation plan).

29. [To meet the above requirements, mechanism methodologies may require the demonstration that the marginal costs of the proposed activity are beyond a threshold (e.g. based on a comparison to the marginal abatement costs of measures in the same sector included in the host Party's NDC). The Supervisory Body will further consider this topic and may develop further guidance in future meetings of the Supervisory Body.]

4.5. Aligning with the long-term temperature goal of the Paris Agreement

30. Paragraph 33 of the RMP states that "Mechanism methodologies shall … align with the long-term temperature goal of the Paris Agreement …".

31. Mechanism methodologies shall align with the long-term temperature goal of the Paris Agreement by considering emission reductions and removals that deliver mitigation in this decade and avoid creating perverse incentives and/or reward activities that lead to locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the RMP.

32. Mechanism methodologies shall require demonstration that the activity is aligned with long-term temperature goal of the Paris Agreement [while taking into account different circumstances, capabilities and emission pathways that apply at the host country level].

33. [Mechanism methodologies may require the application of BCFs to meet the above requirements.]

4.6. Requirements on baselines

34. Paragraph 36 of the RMP states that

"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 [in the RMP] 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;

(iii) An approach based on existing actual or historical emissions, adjusted downwards to ensure alignment with paragraph 33 above [in the RMP]."

35. Paragraph 27 of the RMP states that "A host Party may specify to the Supervisory Body, prior to participating in the mechanism: (a) Baseline approaches and other methodological requirements... ".

36. Mechanism methodologies shall justify the appropriateness of the choice(s) made in the methodology for setting the baseline while taking into account guidance on the performance-based approach in the RMP. [For the approach based on existing actual or historical emissions, the mechanism methodology may apply BCFs to adjust the existing actual or historical emissions downwards to ensure alignment with paragraph 33 of the RMP.]

37. A host Party may determine a more ambitious baseline requirement at its discretion.

4.7. Encouraging broad participation

38. Paragraph 33 of the RMP states that "Mechanism methodologies shall (…) encourage broad participation …".

39. The Supervisory Body should encourage development of a broad range of methodologies covering a wide range of mitigation technologies and measures. Mechanism methodologies should encourage broad participation by being simple, clear, avoiding complexity and applicable for broad sectoral, technology, and geographic coverage.

40. [The Supervisory Body's communication measures will promote better understanding of the mechanism's methodology requirements across standard-setting bodies and other stakeholders, which may facilitate harmonization and greater participation, particularly from the private sector, and avoid a fragmented market with perverse incentives for entities

to select methodologies with the lowest transaction cost]. Mechanism methodologies should:

(a) Encourage participation of a broad range of stakeholders during methodology development, as described in "Procedure: Development, revision and clarification of baseline and monitoring methodologies and methodological tools";

(b) Balance stringency and maximum participation by being simple but highly accurate, such that a wide range of activity participants and host Parties can apply methodology requirements irrespective of the scientific infrastructure, financial resources available to them, and their national circumstances;

(c) Take into account the context on the ground in host Parties, including institutional arrangements, and provide options to facilitate the meeting of requirements, such as by enabling the drawing from multiple data sources to address any data gaps, particularly for lesser developed countries, and use of conservative default values and benchmarked data from comparable regions;

(d) Allow flexibility to use all of the performance-based approaches identified in paragraph 36 of the RMP.

4.8. Including data sources and accounting for uncertainty

41. Paragraph 34 of the RMP states that "Mechanism methodologies shall include relevant assumptions, parameters, data sources and key factors (…)".

42. The Supervisory Body should ensure that mechanism methodologies are transparent, comprehensive and comprehensible and that they include relevant assumptions, parameters, data sources and key factors. Where relevant, requirements shall be expressed in terms of performance rather than specification of a product, and these requirements should be verifiable.

43. If it is necessary to invoke a requirement in a methodology that appears elsewhere in another methodology, this should be done by reference and not by repetition. If a test method or a procedure is, or is likely to be, applicable to two or more methodologies, a tool should be prepared on the method/procedure itself, and each methodology shall refer to it to prevent potential deviations on account of repetition.

4.9. Recognizing suppressed demand

44. Paragraph 33 of the RMP states that "Mechanism methodologies shall (…) recognize suppressed demand …".

45. The Supervisory Body will recognise suppressed demand under a situation where the baseline equipment or measure cannot realistically provide the level of service required of the Article 6.4 activity, by considering that the baseline scenario is not the historical condition, but rather an alternative technology that provides the level of service comparable to that provided by the Article 6.4 activity.

46. In the context where the baseline equipment or measure cannot realistically provide the level of service of the Article 6.4 activity, the Supervisory Body will recognize alternative technology that provides a level of service comparable to that provided by the Article 6.4 activity to be the baseline scenario rather than the historical situation.

47. The Supervisory Body will assess whether suppressed demand is a plausible situation in a given context on a case-by-case basis and, where relevant, it will recognize suppressed demand by including benchmarks and default factors in specific methodologies that may not be below BAU. Mechanism methodologies may include such factors, where relevant, for use by activity participants; however, activity participants shall not directly estimate supressed demand while applying a methodology.

48. [Suppressed demand refers to the situation where energy demand is insufficient or not satisfied due to barriers, such as low income or lack of energy infrastructure in relation to users. A satisfied demand indicates that a minimum level of energy services, such as electricity for lighting or heating is met. Due to income effect (i.e. incomes grow over time), energy service demand and consumption would increase, so that even without access to electricity it is likely that energy consumption in the without-project scenario would rise over time. The Supervisory Body may undertake further work on how to measure the level of energy services and, ultimately, how to determine whether there is supressed demand.]

4.10. Taking into account policies and measures and relevant circumstances

49. Paragraph 34 of the RMP states that "Mechanism methodologies shall … take into account … policies and measures, and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances (…)".

50. [The Supervisory Body will develop [further] guidance on how mechanism methodologies shall take into account policies and measures and relevant circumstances at a future meeting of the Supervisory Body.]

51. [The Supervisory Body will address how to take into account relevant circumstances when developing guidance at a future meeting of the Supervisory Body.]

52. Mechanism methodologies shall consider local conditions in specifying requirements for methodology parameters (e.g. the determination of waste products from industrial processes or the market penetration for new technologies).

53. The Supervisory Body may develop further guidance on modalities for eligibility of policy crediting to incentivize increased ambition and mitigation at a large scale, acknowledging that the approaches for crediting the introduction of policies is inherently different from crediting projects or programmes.

4.11. Standardized baselines

54. Paragraph 37 of the RMP states that "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 [in the RMP].".

55. The application of standardized baselines is not mandatory unless explicitly stated in an approved standardized baseline. When application of a standardized baseline is not mandatory, activity participant may establish additionality and baseline emissions for their activity as an alternative to applying a standardized baseline.

56. A standardized baseline is a baseline developed by/for a host Party or a group of host Parties on a sub-national, national or group-of-countries basis rather than on an activity

basis, to facilitate the calculation of GHG emission reductions and/or the determination of additionality for Article 6.4 activities, while facilitating assurance of environmental integrity.

57. The approaches for setting the baselines referred to in chapter 4.6 above shall also be applied for the development of standardized baselines.

58. Standardized baselines may be developed by the host Party and approved by the Supervisory Body following an assessment against the procedures for the development of a standardized baseline that shall be developed and approved by the Supervisory Body at a future meeting of the Supervisory Body.

59. The host Party and the Supervisory Body should determine the level of aggregation taking into account the following:

    (a) A default level of aggregation shall comprise the facilities or equipment producing a similar type of output within the geographical boundaries of one Party. The level of aggregation may be expanded to a group of Parties with similar circumstances relating to the output;

    (b) A default group of facilities should be disaggregated when significant dissimilarities exist in the performance of facilities or groups of facilities in the country/region. In this case, the disaggregation shall be carried out according to relevant criteria, such as production scale, installed capacity or age of the facilities, and standardized baselines values should be determined for each group of similar facilities;

    (c) Disaggregation should not result in standardized baselines with overlapping applicability.

60. Standardized baselines may include a default validity period of three years, starting from the date of approval by the Supervisory Body. A host Party may propose a shorter or longer validity period taking into account specificity of sectors in which activities are undertaken, and by providing justification for the consideration of the Supervisory Body.

61. After the validity of a standardized baseline has expired, the updated standardized baseline shall be considered by the Supervisory Body subject to the host Party making a request for the update. The updated standardized baseline shall not impact already registered activities up to the end of their first crediting period.

62. The Supervisory Body will develop and approve separate guidance on standardized baselines at a future meeting of the Supervisory Body, including “Procedure: Development, revision, clarification and update of standardized baseline development”.

63. The Supervisory Body will develop separate guidance on standardized baselines for a group of Parties at a future meeting of the Supervisory Body.

5. Additionality

64. Paragraph 38 of the RMP states that “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 [in the RMP]".

65. Paragraph 39 of the RMP states that "The Supervisory Body may apply simplified approaches for demonstration of additionality for any least developed country (LDC) or small island developing State (SIDS) at the request of that Party, in accordance with requirements developed by the Supervisory Body".

66. Additionality assessment shall require activity participants to take a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with the requirements discussed in chapter 4 of this document.

67. {See further proposals in relation to 'lock-in' in the A6.4-SB006-AA-A07 "Concept note: Proposals and options to operationalize baseline contraction factor, avoid 'lock-in levels of emissions' and address leakage in the draft recommendation on requirements for the development and assessment of mechanism methodologies".}

68. For additionality demonstration, mechanism methodologies shall require that:

    (a) Only mitigation activities that would not be undertaken without the incentive from the carbon market are eligible;

    (b) Only emission reductions that are surplus over what would have occurred under current laws and regulations and current industry practices in the host country are eligible;

    (c) [Only mitigation activities that do not lead to locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the RMP are eligible.]

69. The Supervisory Body may approve a list of technologies that are considered additional, termed a positive list of technologies. Mechanism methodologies should require activity participant to demonstrate that the proposed Article 6.4 activity is part of the positive list of technologies established by the Supervisory Body in order to use the positive list for the demonstration of additionality.

70. The Supervisory Body will consider the technologies for which necessary conditions exist, with a high degree of certainty, in accordance with the requirements above, where relevant on a regional basis, considering special circumstances of LDC/SIDS, as the basis for developing the positive list.

71. The Supervisory Body will develop further guidance on simplified approaches for demonstration of additionality including any positive lists of technologies for application in LDCs/SIDS at a future meeting of the Supervisory Body.

72. [The Supervisory Body will identify and publish a list of technologies that may lead to locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the RMP.]

73. Definitions included below are applicable together with the requirements specified in this document:

    (a) **[Relevant law/regulation—**Any legally binding laws, rules, mandates, regulations, statutes, agreements or other legal requirements in force at the national, subnational or local levels applicable to the proposed activity and that require technological, performance or management actions. These legal requirements may, for example, require the use of a specific technology, meeting a certain standard of performance, or managing operations according to a certain set of criteria or practices. Overarching policy targets or generic plans without specified instruments or means of implementation are not considered included under the definition;]

    (b) **Regulatory surplus—**The emission reductions that an activity aims to achieve which is over and above what is mandated by a relevant law/regulation in effect as at the activity start date. In determining whether an action is surplus to regulations, the activity participants do not need to consider voluntary agreements without an enforcement mechanism, optional guidelines or general government policies;

74. Positive list of technologies are activities deemed automatically additional when applicable conditions are satisfied. The following attributes/conditions relate to positive lists:

    (a) Global positive lists contain activity types that, under all contexts, can show that their net present value of costs significantly exceeds (e.g. by at least 25 per cent) revenues and savings without carbon finance;

    (b) Activity types that can show, in the national context, that their costs exceed revenues and savings (e.g. their marginal abatement cost exceeds a country-specific benchmark value) and that they have very low penetration rates (e.g. less than 2 per cent) are eligible to be put on a national positive list;

    (c) A positive list may be based on market penetration for a new technology. It may be region specific or global and should be periodically reviewed;

    (d) Positive lists should be developed based on inputs from experts and the public and should include independent assessment and validation.

75. The Supervisory Body shall ensure that:

    (a) Automatic additionality through positive lists included in mechanism methodologies shall only be applicable to activity types where there is a high degree of certainty that the activity would not occur without carbon market revenues;

    (b) Procedures are in place to review the continued applicability of underlying conditions of the positive lists at regular intervals and to update the positive lists as necessary.

76. Host Parties may propose national positive lists for the consideration of the Supervisory Body, where necessary using the process for the development of standardized baselines.

77. {See proposals in relation to the negative list in in the A6.4-SB006-AA-A07 “Concept note: Proposals and options to operationalize baseline contraction factor, avoid ‘lock-in levels of emissions’ and address leakage in the draft recommendation on requirements for the development and assessment of mechanism methodologies”.}

6. Leakage

78. Paragraph 33 of the RMP states that “Mechanism methodologies shall … avoid leakage, where applicable …”.

79. Leakage is the net change of anthropogenic emissions by sources of GHGs which occurs outside the project boundary and which is measurable and attributable to the Article 6.4 activity, as applicable.

80. Mechanism methodologies shall:

    (a) Ensure that the potential sources of leakage in a typical activity covered by the mechanism methodology are identified, including, but not limited to, used equipment transferred outside of the project boundary and diversion of resources from other activities, or diversion of production or service provision;

    (b) Include provisions to avoid or minimize all sources of leakage as far as possible;

    (c) Quantify the leakage that cannot be avoided and deduct it from the emission reduction achieved by the Article 6.4 activity;

    (d) Require the activity participant to follow any guidance from the DNA of the host Party on leakage, where available.

81. For some classes of activities, monitoring at jurisdictional level and use of a standardized baseline (or equivalent) may be necessary to quantify and account for leakage. In addition, further work will be undertaken by the Supervisory Body to assess the implications of activities implemented outside national borders and transboundary activities.

82. The Supervisory Body will develop further guidance in this regard at a future meeting of the Supervisory Body.

83. {See proposals in relation to the leakage in the A6.4-SB006-AA-A07 “Concept note: Proposals and options to operationalize baseline contraction factor, avoid ‘lock-in levels of emissions’ and address leakage in the draft recommendation on requirements for the development and assessment of mechanism methodologies”.}

7. Non-permanence and reversals

84. Paragraph 34 of the RMP states that “Mechanism methodologies shall … address reversals, where applicable”.

85. ‘Reversal’ means the release into the atmosphere of the verified tonnes of removals.

86. Mechanism methodologies shall address reversals of removals using a consistent approach specified under the recommendations on removals.

87. [The Supervisory Body will develop further guidance in this regard at a future meeting of the Supervisory Body.]

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Document information

Version	*Date*	*Description*
04.0	28 June 2023	Published as a late annex to the annotated agenda of SB 006. This version takes into account guidance from the Supervisory Body at SB 005 (SB 005 meeting report, para. 17 & 18).
03.0	21 February 2023	Published as an annex to the annotated agenda of SB 004. This document integrates: A6.4-SB003-A04 – Information note: Status of current work on the application of the requirements referred to in chapter V B (Methodologies) of the rules, modalities and procedures (version 1.0, 07 November 2022) A6.4-SB003-AA-A05 – Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 2.0, 25 October 2022) This version incorporates comments from the Supervisory Body at SB 003 (SB 003 meeting report, para. 15).
02.0	25 October 2022	Published as an annex to the annotated agenda of SB 003. This version incorporates comments from the Supervisory Body at SB 002 (SB 002 meeting report, para. 14)
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Related documents:

28 June 2023	A6.4-SB006-AA-A07 – Concept note: Proposals and options to operationalize baseline contraction factor, 'lock-in levels of emissions'and leakage in the draft recommendation on requirements for the development and assessment of mechanism methodologies (version 01.0)
17 May 2023	A6.4-SB005-AA-A07- Information note: Draft elements for the recommendation on requirements for the development and assessment of mechanism methodologies (version 01.0) A6.4-SB005-AA-A08 - Information note: Compilation of inputs in response to the "public consultation: Requirements for the development and assessment of mechanism methodologies" and related literature (version 01.0)
21 February 2023	A6.4-SB004-AA-A10 - Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 03.0) (Zip file: Appendices 1 - 4 to Annex 10)
07 November 2022	A6.4-SB003-A04 – Information note: Status of current work on the application of the requirements referred to in chapter V B (Methodologies) of the rules, modalities and procedures (version 01.0)

25 October 2022	A6.4-SB003-AA-A05 – Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 02.0) A6.4-SB003-AA-A06 - *Information note*: Requirements for the development and assessment of mechanism methodologies (version 02.0)
12 September 2022	A6.4-SB002-AA-A07 - Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 01.0) A6.4-SB002-AA-A08 - *Information note*: Requirements for the development and assessment of mechanism methodologies (version 01.0)
08 July 2022	A6.4-SB001-AA-A06 - *Concept note*: Guidelines for implementation of methodological principles, approaches, and methods for the establishment of baseline and additionality (version 01.0)