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SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE
Thirteenth session
Lyon, 11-15 September 2000
Item 7 of the provisional agenda

SUBSIDIARY BODY FOR IMPLEMENTATION
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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Principles, modalities, rules and guidelines for the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol

Additional submissions from Parties

Note by the secretariat

Addendum

Corrigendum

Between page 40 and page 41

Insert paper entitled Proposal by France on behalf of the European Community and its member States for amendments to document FCCC/SB/2000/4, paragraphs 67 to 89 [see attached]

Proposal by France on behalf of the European Community and its member States for amendments to document FCCC/SB/2000/4

67. The baseline for a CDM project activity is the future scenario describing ~~of~~ what GHG emissions [or removals by sinks] would be in the absence of the project ~~calculated using the validated baseline methodology for the project~~. A baseline shall cover emissions from sources listed in Annex A to the Protocol [or the enhancement of removals by sinks] and shall address all relevant greenhouse gases listed in Annex A to the Protocol.

(The following paragraphs refer to the determination of additionality.)

68. A CDM project activity is additional if ~~it achieves~~:

(1) ~~Emissions additionality~~: Emissions ~~shall be~~ are reduced below [or removals by sinks ~~shall be~~ are increased beyond] those that would have occurred in the absence of the ~~validated~~ CDM project ~~activity, where the validated baseline is defined as the GHG emissions [or removals by sinks] in the absence of the project;~~ and

(2) >~~Financial additionality~~. The project funding ~~shall~~ [~~be~~is additional to] [does not result in a diversion of] GEF >and other financial commitments of the developed country Parties<, ODA or >other systems of cooperation<][~~Funding for CDM project activities shall be additional to ODA,GEF>and other financial commitments of the developed country Parties<.]<~~; Therefore funds from ODA and GEF should not be used to finance the acquisition of CERs and

~~(3) Investment additionality. The value of the CERs shall significantly improve the financial and/or commercial viability of the projcet;< and~~

(3) The project is not business as usual

~~(4) > Technology additionality. The technology used for the project shall be the best [available for the circumstances of the host Party][practicable internationally]. <~~

69. The executive board shall have final responsibility for the additionality for CDM project activities. They shall have the authority to review and audit decisions of the operational entities, and to the degree they find that projects would have been done anyway in the absence of the CDM, reject them.

D. Move to the EB part

(The following paragraphs address the criteria for real, measurable and long-term benefits related to the mitigation of climate change.)

70. [~~Emission reductions [or the enhanced removals by sinks] shall be considered real if the baseline takes adequate account of~~ [The baseline shall~~ould~~ take adequate account of]:

(1) Option 1: The validated project boundary, defined as the space within which the project is implemented and its emissions [or removals by sinks] occur; (both direct and indirect emissions (for instance those related to changes in electricity consumption) should be integrated.)

~~Option 2: Leakage beyond the project boundary to the extent that it occurs at the national and sub-national level.~~

(2) Leakage due to the project, defined as the increase in emissions [or decrease in removals by sinks] outside the validated project boundary. Emission reductions [or increases in removals by sinks] outside the validated project boundary which are due to the project activity cannot be credited to the project activity; and

Leakage may be of two types:

- market effects: changes in supply/demand equilibrium and/or market prices, of inputsand/or outputs; the project developer should discuss which market boundaries - local, regional, national, global - are the most relevant ;
- activity shifting: in case a project limits a GHG emitting activity and this activity is (partially) shifted elsewhere;

As far as possible relevant indicators allowing for the ex post evaluation of the level of leakage should be defined and monitored.

(3) >Variations in actual activity levels during the year. <

Paras 71 to 75 should be moved to section on verification

Option A (para 70):

71. >Except as provided for sequestration projects, < the emission reduction by a CDM project activity during a given year is the *ex post* calculation of baseline emissions less the actual emissions less leakage [or actual removals by sinks less baseline removals by sinks less leakage] due to the CDM project activity during that year.

Option B (paras 71 and 72):

The emissions reduction by a CDM project activity during a given year is the ex post calculation of baseline emissions less the actual emissions or actual removals by sinks ~~less baseline emissions and/or carbon stock~~.

Leakage at the national and/or sub-national level should be addressed in the calculation of baseline emissions less the actual emissions or actual removals by sinks less baseline emissions and/or carbon stock

72. The emissions reduction is measurable if the actual GHG emissions [or removals by sinks] after the project has been implemented can be measured and monitored, in accordance with provisions in this document and the UNFCCC CDM reference manual, and the GHG emissions [or sink enhancement] baseline is calculated using [the registered] [an approved] methodology.

73. >The benefits of a project activity related to the mitigation of climate change shall be considered long-term if the emission reduction persists over an appropriate period of time, taking into account the lifespans of different CDM project activities, and bearing in mind Article 2 of the Convention. <

(The following paragraphs refer to the crediting period for a CDM project activity.)

74. The crediting period for a project is the period of validity of the validated baseline defined as the shortest of: a) the operational life of the project; b) [5~~x~~] years; and c) the period proposed by the project participants. The crediting period of a project may be extended by a validated review of the baseline. Factors in baseline determination which are subject to review at the end of the crediting period should be identified at the outset

(The following paragraphs cover modalities for the setting and revision of baselines.)

75. The establishment of baselines shall be guided by the following principles: reliability, transparency and completeness

76. Baselines shall be established in accordance with provisions contained in this document >and in the UNFCCC CDM reference manual<. Types of baselines considered for the CDM shall include:

(1) A project-specific baseline establishes the emissions [and/or removals] for a specific reference case that represents what would occur in the absence of the project activity >which is unique to the project<. However, the methodology and some standardized parameters to calculate the baseline could be applied to other projects if appropriate.

(2) A [multi-project] [standardized] baseline for a given project type and specific geographic area, which will use a performance standard approved by the executive board and be contained in the UNFCCC CDM reference manual.

77. The choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project baseline and additionality shall be explained in a transparent manner by project participants in the project design document to facilitate project validation and replication.

78. The baseline for a project to reduce emissions by an ***existing source*** should, taking into account trends, represent the lowest of:

(1) Existing actual emissions prior to the project;

(2) The ~~least cost~~ most reasonable technology which represents an economically course of action **for the activity**;

(3) Better than average ~~Current~~ current industry practice in the host country or an appropriate region; and

(4) ~~>The average for such an existing source in Annex [I][II] Parties~~

To help considering trends "autonomous" improvement with respect to the current situation shall be assessed. In particular, in case of refurbishment projects, standard maintenance and operation procedures and not observed M&O shall constitute the baseline; similarly good housekeeping options (with a payback time lower than 2 years) shall be integrated in the baseline

79. When setting the baseline for a project to reduce emissions by a ***new source***, the following options should taking into account trends, represent the lowest of:

(1) The ~~least cost~~ most reasonable technology which represents an economically attractive course of action for such a new course;

(2) Better than average ~~C~~current industry practice in the host country or an appropriate region for new sources; and

(3) The average for such a new source in Annex [I] [II] Parties if possible.

80. [Project design and calculation of a baseline for a land use, land use change and forestry project to reduce emissions and/or enhance removals by sinks will need to address:

(1) Project duration;

(2) Types of baselines (i.e. project-by-project, multi-project);

(3) Issues of permanence and leakage; and

(4) Environmental additionality.]

81. [Methodologies and approaches to deal with project design and baselines for land use, land use change and forestry projects shall be those approved by the executive board.]

82. A [standardized] [multi-project] baseline shall be considered as a default value therefore it shall be conservative in order to preserve the environmental integrity of the Protocol and to deliver an incentive to develop a more specific analysis if appropriate. It ~~must~~may be set to ...

Option 1: the average of Annex I emissions for such project types.

Option 2: a reasonable better-than-average current industry, practice [including ~~and~~ trends] for existing or new sources, as appropriate. If the analysis delivers a range of values as an output and if the variability cannot be clearly linked to explicative variables (availability and price of fuels, specific energy policies, precise characteristics of output, other local circumstances), the lowest emission rate and not the average should be set as the multi-project baseline

~~Option 3: >[x] per cent lower than a comparable validated project specific baseline<. <~~

The level of aggregation (both geographical and sectoral) shall be carefully determined according to the type of activity (local or internationally traded product, availability of different process routes, degree of influence of local production conditions).

83. ~~>The executive board shall give priority to developing [standardized] [multi- project baselines for projects below a specified size whose estimated emission reductions are less than AAA tons per- year or BBB tons over their crediting period. <~~

84. ~~>Any project whose estimated emission reductions exceeds CCC tons per year or DDD tons over its crediting period shall use a project specific baseline. <~~

85. >Relevant national policies and circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project baseline. <

86. The baseline shall ensure that projects do not benefit from national policies [~~which do not contribute to the ultimate goal of the Convention~~] [which encourage activities that lead to greater levels of anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol than would otherwise occur]. On the other hand, methodologies for baseline setting should not discourage ~~act as a disincentive to but rather reward~~ policies contributing to the ultimate objective of the Convention.

87. For least developed country Parties, ["development-benefit-of-the-doubt"] [the least cost option] may be considered as the baseline, even if that option is not bankable, to create CERs to be valued and make the CDM project bankable.

88. Option 1~~: >During a crediting period the validated baseline methodology of a project shall not be subject to revision except if recommended by a designated operational entity verifying the emission reductions. <~~

Option ~~2: Once registered, a baseline shall remain in effect for the crediting period of the project. If the operational life of the project exceeds the crediting period, a new baseline shall be validated at the end of each crediting period upon request of project participants.~~

~~As a final additionality test~~ tThe project developer shall identify and describe barriers (technical, economic, financial, institutional, administrative…) to the implementation of the project which need to be overcome and explain why the project itself cannot be considered as the baseline.

89 A project-specific or [standardized] [multi-project] baseline methodology, contained in the UNFCCC CDM reference manual, may be revised at any time by the executive board. Any revision shall only be relevant to baselines validated subsequently to the time of revision and therefore shall not affect existing registered projects during their crediting period.