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Methodological issues under the Kyoto Protocol

Standardized baselines under the clean development mechanism

**Views related to standardized baselines under the clean
development mechanism**

Submissions from Parties and relevant organizations

Addendum

1. In addition to the three submissions contained in document FCCC/SBSTA/2010/MISC.13, two further submissions have been received.
2. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the language in which they were received and without formal editing.

* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

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Standardised baselines under the Clean Development Mechanism

Submission to SBSTA

August 2010

Australia welcomes the opportunity to submit its views on the use of standardised baselines under the Clean Development Mechanism (CDM).

The concept of standardised baselines has been subject to different interpretations. Therefore there is value in clarifying how Australia defines standardised baselines. Australia considers a baseline to be standardised if it is based on uniform methods and procedures that are applicable to multiple projects of the same type. A standardised value or approach could be applied to multiple projects of the same type (for example all projects in a certain sector, of a certain age and technology) and within a defined geographical area, in order to quantify baseline emissions and determine additionality.

Standardisation can be expressed through the application of default emission factors or values, emission performance standards, or technology-based standards. There would need to be sufficient assurance that emissions reductions and removals can be accurately estimated.

Australia acknowledges that expanding and improving the CDM is an important part of building an effective international carbon market. The development of standardised baselines to increase the efficiency and predictability of the additionality assessment process may encourage broader participation in the CDM.

The option is already available to propose standardised approaches to estimate baselines for CDM project proposals. Uptake has been minimal due largely to the lack of in-country capacity to undertake this work and the difficulty and cost of gathering robust data. There is also limited incentive to develop a standardised baseline that becomes publicly available once the project is registered. Agreement to develop standardised baselines specifically for public use would overcome these obstacles and have broad public benefit.

Publicly available standardised baselines could help lower transaction costs for individual project developers, and increase the transparency and objectivity of the process to assess additionality. This would reduce uncertainty for investors and encourage greater participation in the CDM. Increased participation could mean more abatement activity in developing countries, supported by increased financial flows. By reducing both assessment costs and uncertainty in project approvals, standardised baselines could increase access by underrepresented regions and sectors where costs are prohibitive.

Baselines should be sufficiently conservative to ensure the environmental integrity of the CDM. Nevertheless an overly conservative standard may restrict uptake of the CDM in the target activity while an overly lenient standard could risk crediting non-additional abatement. This would weaken the environmental effectiveness of the CDM. The best option would be to decide on baseline levels on the basis of robust data, according to internationally agreed parameters.

Australia supports the SBSTA developing modalities and procedures to govern the development and operation of standardised baselines for adoption at CMP 6. Australia's preference is for these to include the following:

- The CMP should:
 - provide guidance to the CDM Executive Board on principles and priorities for the development of standardised baselines;
 - authorise the CDM Executive Board to make the accumulated pool of CDM funds available to assist the development of standardised baselines; and
 - provide parameters to the CDM Executive Board to guide the use of CDM funds for this purpose.
- A host party should be involved in the development of standardised baselines for use within its jurisdiction.
- Any entity should be eligible to develop a standardised baseline and put it forward for approval.
- The CDM Executive Board should:
 - on the basis of guidance from the CMP, provide advice as to the sort of standardised baselines it would consider appropriate for approval;
 - : facilitate their development in a robust and transparent manner consistent with existing modalities and procedures;
 - make the accumulated pool of CDM funds available to facilitate the development of standardised baselines;
 - : on the basis of guidance from the CMP, set priorities for the use of these funds and develop procedures to determine eligibility;
 - be responsible for the approval of standardised baselines; and
 - be responsible for the approval of project proposals using standardised baselines.

Australia's further views on the issues listed in FCCC/SBSTA/2010/L.10 are outlined in Attachment A.

ATTACHMENT A

Additional comments on the issues raised in FCCC/SBSTA/2010/L.10

(A) The scope of the development of standardised baselines

The purpose of standardised baselines should be to simplify the approval process for project proposals that aim to create truly additional and cost-effective abatement. Australia could support efforts to standardise any procedure within the CDM approvals process for which this is appropriate.

The option to develop proposals for standardised baselines should be open to any country and activity eligible under the CDM. While they could be applied to both new and existing facilities, standardised baselines may not be appropriate for all activities. They can be more easily and successfully applied to relatively homogeneous activities. Applying a standardised baseline across non-homogeneous activities would result in a less reliable assessment of the baseline.

Standardised baselines could be expressed through the use of emission performance standards, default emission factors or technology standards to estimate a baseline scenario. Beyond this, abatement would be assessed as additional.

The development of standardised baselines will require data from comparable activities and installations. For sectors or regions for which sufficient data is unavailable or difficult to collect, default parameters could also be useful. Default factors should be consistent where possible, for example through the use of IPCC default factors. Where default factors are not already available, there could be a process to have them developed. This should be consistent with the IPCC Good Practice Guidance for the development of emissions factors.

For all approaches, robust data will help ensure that abatement is accurately measurable, reportable and verifiable according to the framework of the CDM. Standardised baselines should be balanced so as to maintain the environmental integrity of the CDM while not restricting uptake.

(B) The mandatory or optional nature of the use of standardised baselines

The development of a standardised baseline should be voluntary and at the discretion of the host Party.

Once developed, we would expect the standardised baseline to be used to assess all applicable projects. However, where specific barriers to its use exist, project proponents could use project-specific values in accordance with an accepted methodology. Both methods should be subject to the same stringency of governance requirements and in both cases the environmental integrity of the CDM must be maintained.

In practice, project proponents are likely to prefer an approved standardised baseline due to increased transparency and lower costs per project.

(C) The procedural requirements for the development of standardised baselines, including the involvement of designated national authorities

The procedural requirements for developing standardised baselines can be identified by the tasks to be undertaken and the bodies best positioned to undertake them.

Three key areas of work will determine whether standardised baselines can contribute effectively to improving the CDM. They are: the development of the standardised baseline; the approval of the standardised baseline; and the approval of projects using the standardised baseline. The following considerations should be taken into account in the allocation of these responsibilities.

The creation of a standardised baseline will involve the development of the standardised methodology, data collection and updating, data analysis and collation and the submission of the baseline proposal.

Any interested entity should be allowed to propose a standardised baseline, including: host countries; industry bodies; international consultancies; multilateral development banks and other development institutions; and project proponents. When applied to specific national or sub-national circumstances, Australia considers standardised baselines would need to be supported by the host country. There may be value in formalised participation or approval by the host country Designated National Authority (DNA) to ensure there is host country support.

Host countries stand to benefit significantly from participation in the development of standardised baselines. Advantages include:

- increased engagement with the opportunities provided by carbon markets;
- capacity building opportunities related to involvement in data collection, collation and analysis;
- valuable experience toward emissions estimation and monitoring on an economy-wide basis;
- an in-depth knowledge of and experience with local industry; and
- assurance that the baseline being developed will be appropriate for and likely to be used by entities within the intended grouping.

Participation by host countries should not preclude the involvement of other bodies internationally. These may also be well placed to contribute to the development of standardised baselines including via capacity building measures. For example, developing country capacity may be built through mentoring by multilateral development banks or bilateral partner agencies.

The option to propose standardised baselines for use in CDM project proposals is already available to project proponents. However uptake has been minimal because of substantial upfront costs compared to costs of developing a project-specific baseline. Most developing countries do not have the necessary expertise or the data at hand on which to base a standardised baseline. In some cases, capacity building and financial assistance to facilitate data collection and analysis could help overcome barriers to uptake (see *section H* below).

Some Parties have suggested that the CDM Executive Board should have responsibility to develop standardised baselines to encourage their uptake. Australia agrees it would also be efficient for a central entity, such as the Executive Board, to develop a standardised baseline approach that could be adapted for use in different countries, where the baseline would apply to high priority abatement activities.

As a first step, the Executive Board would need to provide guidance on what sort of standardised baselines it would approve, on what basis, and any parameters to guide their development. This

would need to accommodate any priorities or parameters set by the CMP. The Executive Board could also provide advice on the sorts of standardised baselines it considers prospective.

To address any potential conflict of interest, whether real or perceived, transparent processes in both development and approval stages will be important. For example the Executive Board could outsource the development of standardised baselines to independent organisations such as industry groups, consultants, DOEs or other expert bodies. This would allow the Executive Board to independently assess and approve standardised baselines and their use in project registration proposals, as per the normal CDM approval procedures.

Standardised baselines should be approved by the CDM Executive Board according to usual practice within the current CDM framework. A decision framework would need to set out how to assess what constitutes an acceptable baseline. This could be guided by a set of technical parameters that would need to be agreed in advance by the CMP.

There may be a need for specific technical expertise in relation to particular sectors, technologies or countries. This could justify the creation of a specialised body within the CDM governance structure to work on standardised baselines, similar to or in conjunction with the current Methodologies Panel. Australia is open to consider all options that facilitate the Executive Board's access to the necessary expertise.

Approval procedures for projects using standardised baselines should be the same as for other CDM projects. In practice this would mean that the CDM Executive Board would be responsible for approving projects.

(D) The priorities for developing standardised baselines

The purpose of standardised baselines should be to simplify the approval process for project proposals that aim to create additional and cost-effective abatement. This will lead to a faster, more transparent process with lower costs and increase access to the CDM where cost and capacity are barriers.

Australia considers priority should be given to activities that are well suited to the use of standardised baselines. Prioritisation could include the following considerations:

- Data availability and homogeneity of activities will allow for more accurate baselines.
- Activities with the greatest potential for cost-effective abatement will benefit most from their availability.
- By reducing costs, standardised baselines can make abatement opportunities in previously under-represented regions more attractive. This could facilitate increased regional distribution of CDM projects.

E) Access by underrepresented regions, subregions, sectors and least developed countries to the CDM

Standardised baselines have the potential to reduce assessment costs and uncertainty in CDM project approvals. This could promote greater access by underrepresented regions and sectors for which costs are currently a barrier.

Opportunities to participate in the development of standardised baselines could build institutional capacity in underrepresented countries or regions. This could include experience managing the emissions performance of relevant sectors or subsectors, and collecting and analysing data.

Australia supports the development of standardised baselines that encourage increased participation by sectors or regions currently under-represented in the CDM, consistent with the priorities outlined above.

(F) The level of aggregation and the boundaries

The level of aggregation and the boundaries of activities covered by the standardised baseline would depend on the sector and/or region in question. Decisions could depend on data availability; the homogeneity of the activities; and the cost effectiveness of creating the baseline.

However even within a homogeneous sector or region there may be cases where more than one baseline is necessary to ensure accuracy. Applying a standardised baseline across non-homogeneous activities would result in a less reliable assessment of the baseline.

For some activities it will be appropriate to set a standardised baseline at the regional level. For others it will be more appropriate at the national or sub-national level. Australia notes that low levels of aggregation can raise issues of data confidentiality.

Decisions related to boundary setting should be made on a case-by-case basis, taking into account specific technologies and sectoral needs. Technical advice (for example from the Methodologies Panel, industry groupings or government data collection agencies) would facilitate decisions on what, if any, parameters might be designed in advance to guide these decisions. As a default, boundaries could be set at the broadest possible level that maintains the accuracy and environmental effectiveness of the baseline while remaining efficient.

The cost-effectiveness of standardised approaches is likely to be greater in regions and sectors where higher participation means a single baseline would be available to a larger number of projects. Cost-effectiveness will also be affected by the frequency of data updates.

(G) Data quality, availability, collection and confidentiality

Data quality and availability will support the development of robust standardised baselines. Transparent data sources will promote confidence and facilitate robust assessments of additionality.

Where developing countries cannot access or collect the necessary data, Australia considers international assistance could be prioritised to build data collection and analytical capability.

The collection, treatment and use of data for the development of standardised baselines will need to take into account implications for data confidentiality. This will be particularly relevant for lower levels of data aggregation.

(H) The financing of the development of standardised baselines, including capacity building and data collection

The development of standardised baselines may involve greater upfront costs than the current project-by-project approach due to the need for greater amounts of robust data. While

standardised approaches are likely to be more cost effective than multiple individual efforts, their development places a disproportionate burden on first movers. Furthermore, first movers have no ability to recover the expense from subsequent users who can use the baseline free of charge.

Development of standardised baselines by governments or other central coordinating bodies could overcome the difficulties of coordination between project proponents.

Assistance for the development of standardised baselines could include:

- In-kind or non-monetary assistance such as technical assistance or guidance, mentoring, technology sharing or transfer;
- Direct financial assistance provided through bilateral and multilateral channels, including fast-start financing; and
- Non-market-distorting assistance similar to the loans or deferred fee payment options already available to underrepresented regions under the CDM. This would allow the market to expand and improve on a self-funded (and therefore more sustainable) basis.

There is longer term value in building developing countries' capacity to measure and account for their emissions as part of standardised baseline development. Activities to support the collection and analysis of data would also build capacity to understand emissions patterns from specific sectors and technical elements that underpin national emissions reporting. This in turn would assist developing countries to undertake analysis and reporting that would improve the robustness of the national communications process. These activities should therefore be able to attract support from bilateral and multilateral sources, and through the financial mechanism of the UNFCCC.

To overcome the financial barriers involved in creating standardised baselines, the CMP could consider authorising the Executive Board to make the accumulated pool of CDM funds available to assist this stage of the process. This could be done through loans similar to those available for underrepresented countries, as per Decision 2/CMP.5.

Priorities for the allocation of resources would need to be agreed in advance by the CMP, consistent with the CMP's guidance to the Executive Board on priorities for development of standardised baselines. Procedures established to decide which entities could access these resources could include consideration of the cost-effectiveness of a standardised approach to baseline setting. Consideration could also include the likelihood of the baseline being used; the homogeneity of the proposed grouping and therefore the accuracy of the baseline; and the expected expense related to accessing or gathering accurate data.

(I) Accounting for developments over time, including past efforts

Updating standardised baselines periodically would maintain the validity of the additionality assessment. Updates could reflect changes in economic conditions, technology penetration and other relevant data.

The interval between updates could take into account the speed of technology development and whether the baseline emissions were expected to be static or dynamic over time. Less frequent updates would be required if the baseline included a projection of improvements to business-as-usual performance and common practice over time. In this case, only minor updates would be required to adjust for any difference between projected and actual performance.

The need for regular updates will have to be balanced with considerations of cost and regulatory uncertainty. Regular updates would enable a more accurate calculation of additionality. However if baselines are likely to change within a project's crediting period, this would erode investor confidence in the project's ability to generate credits. Data updates should therefore be made available for use in *setting* a baseline, but once set, should not change for the duration of the project's crediting period. If there are significant changes in data, for example caused by a sudden technology shift, the latest data should apply to new projects only. Clear processes for updating baselines should be defined upfront.

If standardised baselines are set on the basis of performance standards, the number of participants will probably increase incentives to move toward best practice over time. For example, statistically, a large sample size leaves scope for most participants to improve their performance. The incentive to improve that is created by a standardised baseline with only a few participants will be highly dependent on the performance of the best of those participants and the range of performance between the participants. Australia has valuable experience in this respect, having taken this into account while dealing with levels of support for its emissions intensive trade-exposed industries during the development of its proposed emissions trading scheme.

In assessing whether the effort involved in developing a standardised baseline is justified, the ongoing corresponding workload related to updating data should be taken into account.

Paper no. 2: Japan

Japan's submission on standardized baselines under the Clean Development Mechanism

Japan welcomes the opportunity to submit its views on standardized baselines under the Clean Development Mechanism (CDM), including those in relation to the issues identified in the SBSTA conclusions (FCCC/SBSTA/2010/L.10).

As Japan understands it, a standardized baseline is a standardized parameter, such as a performance standard or a default factor, which is to be used for the baseline setting and additionality determination on projects of a similar nature. As have been pointed out by many Parties on many occasions, standardized baselines are expected to contribute to streamlining of the CDM procedures, particularly additionality determination currently carried out to each and every project using financial indicators not readily available in many countries. The practice of determining additionality on an individual project basis often leads to unnecessary delay in project registration and CER issuance, to the detriment of the project participants as well as their respective host country governments. It is also expected that application of standardized baselines help enhance the transparency of the CDM process and improve the regional distribution of CDM projects since it significantly simplifies the task of establishing baseline emissions, which often requires detailed data not commonly available in many countries. With these in mind, Japan is keen to work closely with other Parties and stakeholders with the aim of achieving a substantive decision at the sixth session of the COP/MOP.

Below are Japan's views on the individual issues that are identified in the aforementioned SBSTA conclusions:

(a) The scope of the development of standardized baselines

Good standardized baselines could be developed for project activities of a similar nature, undertaken within the same national or sub-national boundaries where circumstances surrounding the project activities are deemed similar. In terms of the scope of applicability, standardized baselines should be applicable to both the baseline setting (which is to determine how many emission credits could be issued) and the additionality determination (which is to determine whether or not the project activity in question is eligible as a CDM project), with a view to promoting standardization wherever possible.

(b) The mandatory or optional nature of the use of standardized baselines

While Japan is of the view that the use of standardized baselines should be encouraged once they are established, it also believes that flexibility should be allowed for project participants not to use such baselines if standardization is not appropriate due to specific circumstances of the project activity.

(c) Procedural requirements for the development of standardized baselines, including the involvement of designated national authorities (DNAs)

While retaining the current bottom-up approach whereby baseline methodologies are proposed to the Executive Board of the CDM (hereinafter referred to as “the Board”) by project proponents, a top-down approach whereby methodologies incorporating standardized baselines are prepared by the Board should be encouraged. This approach will allow the Board to make best use of its know-how on the baseline establishment and will minimize difficulty associated with the methodology approval, project validation and verification. The Board can also publish a list of CDM project types for which the development of standardized baselines should be prioritized.

In the cases where the host country governments are able to make use of sufficient data necessary for the development of standardized baselines, Japan expects that they can play an active role in developing the baselines and proposing them to the Board for its approval. As one of the possible approaches to be taken, special streamlined procedure could be applied to the approval by the Board if the baselines are proposed by DNAs.

(d) The priority for developing standardized baselines

Priority should be placed on streamlining the procedures, ensuring the environmental integrity, enhancing transparency and improving regional distribution.

With respect to project types for which standardized baselines are to be developed, priority should be given to those for which necessary data can be made available with reasonable efforts and benefit of the standardization is expected, and those which the relevant DNAs consider important on the policy grounds.

(e) Access by underrepresented regions, subregions, sectors and least developed countries to the CDM

As already mentioned, standardized baselines are expected to contribute to the improvement of the regional distribution of CDM projects. This could be achieved particularly through the preparation of default factors to be used in establishing the baselines. In order to address the underrepresentation issue on the CDM, the Board and DNAs of host countries will need to work very closely so that specific situations of the countries will be taken into account in the project development. Capacity building exercises, including in relation to the data collection and evaluation, should also be facilitated.

(f) The level of aggregation and the boundaries

The level of aggregation and the boundaries need to be considered on a case by case basis, in such a way that maximizes the merits of the standardization.

(g) Data quality, availability, collection and confidentiality

Collection of high quality data is one of the key elements for the successful development of standardized baselines. Every possible measure to ensure the quality of data, including capacity building and financial support, should be taken. Project types for which data collection is relatively easy should be prioritized at the early stage. In case of significant difficulties in the data collection, the use of conservative default values should be encouraged.

(h) The financing of the development of standardized baselines, including capacity-building and data collection

Various sources of financing should be considered to fund the development of standardized baselines. Activities of the Board relating to standardized baselines should be funded within CDM budget.

(i) Accounting for developments over time, including past efforts

For each standardized baseline, the modality for update, including its frequency and review process, should be defined when the baseline is established. This will allow characteristics specific to the project type to be taken into account in the update process.
