ERCST

European Roundtable on Climate Change and Sustainable Transition

Chair's reflection note

ERCST Informal Dialogue on Article 6

February 25, 2021

Baseline methodologies; relationship between voluntary markets and Article 6

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This note is meant as an aide-memoire and reflects issues and a logic that has captured the attention of the Chair of the meeting that took place on February 25, 2021. It is in no way meant as a summary, or an endorsement by the author, or the participants in the meeting, of any of the issues or views captured in this note.

Baseline methodologies

The discussion focused mostly on issues raised by the text reflection from the Chair's note. Some of the issues that emerged from that discussion have been noted on the text reflections that were used in that discussion:

- **Process for development and approval of methodologies**:
  - Participants, host Parties, stakeholders, Supervisory body
  - Specification of methodological approaches by host Party according to 27 (a)
  - Methodologies need to be approved by the Supervisory Board
  - Standardized baselines and/or regional and/or subregional performance-based baselines shall be established at the highest applicable level of aggregation in the relevant sector of the host Party.
- **Definition of baseline and elements to be taken into account**:
  - *(This definition does not seem to be agreeable to everyone, but no clear alternative is being put offered or clarity provided on the concerns. Does it need to be expanded? How?)* Baseline reasonably represents the emissions that would have occurred in the absence of the proposed project activity, including elements that needs to be taken into account, whenever applicable:
  - Established in a transparent and conservative manner
  - Relevant circumstances including national, regional or local social, economic, environmental and technological circumstances
  - *(Note: how can we/or should avoid crediting in the absence of policies?)* Relevant national and sectoral policies that **impact the emissions within the project boundary** including but not limited to:
    - Existing laws and regulation
    - NDC
    - LT Strategy
    - *(Note: do we add "scenario that takes us to net zero?")*
- **List of specific baseline approaches** (always taking into account the principles under 2 and process for establishment under 1)
  - Best available technologies (*do we need to start defining "economically feasible"*?)
  - Performance-based approach, where a baseline is based on the emissions of activities providing similar outputs (*note difference between the level of guidance provided in para 38b (more general) and 41a (more specific)*)

- The benchmark set at an ambitious level (to be defined by the SB)
- Possibility to put forward an alternative approach approved by the host Party (see 41b)
- If none of the above is viable
  - Projected emissions (add similar supporting details as in the list above: e.g. projected emissions based on emissions in the past 3 year in a similar sector etc.)
  - Historical emissions (as above) *(Note: how do we qualify this further, how do we make it more concrete?)*

- **Additionality assessment**
  - Methodologies should specify approaches to additionality
    - If the ER do not occur in the absence of the project
    - Cannot be additional if there is law or regulation requiring the activity or the outcome
    - Additionality ca almost in all cases be contested, it needs to be reviewed and re-evaluated at intervals
  - Potential approaches and considerations to additionality
    - Emission reduction when compared to the baseline
    - Positive lists
    - Cost and barriers
    - Market penetration.

Relationship between voluntary markets and Article 6

- Key steps in the carbon asset development process are similar to the process under the CDM and independent standards. However, two additional steps are identified that are needed to reflect the context of the Paris Agreement:
    - First is the host country-level authorization and/or endorsement that ideally would happen early in the process to bring certainty and clarity to the project proponents:
        - A letter of authorization is a requirement under Article 6 that commits the host country to make a corresponding adjustment
        - A letter of endorsement would be optional under voluntary mechanisms to show recognition of the host country and attract investors.
    - The second additional step is the labelling process at the time of issuance or after. This is necessary in order to reflect key attributes of a unit in the registry including use case and associated claim, implications of the use case and the type of carbon asset.
- Voluntary standards are preparing for the Paris Agreement context by looking to align voluntary carbon markets and what this would mean for current rules, requirements and tools. Key provisions will need to be updated in order to add clarity and transparency.
    - Offsetting is currently the largest application of voluntary markets. As a "social license to emit", this can only hold if credibility of offsets is ensured through strong additionality provisions. Other applications are expected to grow and also need rules in place to ensure quality and integrity.
    - In terms of corresponding adjustments, it is a tool under the Paris Agreement to make sure accounting at national level avoids double counting in order to protect the environmental integrity of the system. In voluntary markets, the carbon accounts of the corporation and the country where it is based are separate systems. While the emission reduction might appear in the corporate social responsibility report of the corporation that invests in the host country, it will not be used towards achieving the NDC of the home country of the corporation. Expectations in voluntary markets are that a variety of solutions to avoid double counting will be available depending on the objectives of the buyers and credits will be labeled accordingly.
- As voluntary markets are gaining ground, it is important to better understand their role in mobilizing climate finance. One important achievement of voluntary markets has been to turn the corporate footprint into a liability where the obligation to address corporate emissions is becoming more intense. This has resulted in voluntary corporate commitments on climate action, including offsetting, that drive new flows of investments from developed to developing countries. As specific opportunities are targeted, investments flow towards where it is most needed.
- In terms of raising ambition and overall mitigation of global emissions, it is not clear how voluntary markets can contribute without corresponding adjustments if offsetting is used

to substantiate corporate carbon neutrality claims. However, if the role of voluntary markets is foremost to crowd in investments in mitigation activities that would otherwise not happen or are hard to reach, it is clear that voluntary markets should not be viewed as the main driver of emission reductions. Therefore, the main driver of emission reductions should be increased government regulations with voluntary markets mainly as a driver of climate finance.