



Informal dialogue on Article 6 – Reflection note

Reflections on v2 of the Madrid Presidency text

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Roundtable on
Climate Change and
Sustainable Transition

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

- 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
- 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

List of specific baseline approaches

- 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*)

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 need 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.

Presidency text on Article 6.4, Version 2: Methodologies

34. Mechanism methodologies may be developed by activity participants, host Parties, stakeholders or the Supervisory Body

35. [Where the host Party has specified methodological approaches pursuant to paragraph 27(a) above, relevant mechanism methodologies shall require the application of such approaches, and such application shall be supervised by the Supervisory Body.]

36. Mechanism methodologies shall be approved by the Supervisory Body where they meet the requirements of these rules, modalities and procedures and requirements established by the Supervisory Body.

37. Each mechanism methodology shall require the selection of a transparent and conservative approach, assumptions, parameters, data sources and key factors and should take into account, as appropriate: uncertainty; any leakage due to the implementation of the Article 6, paragraph 4, activity; relevant policy; consistency with the NDC of the host Party, any contribution to reducing emission levels in the host Party, any long-term low GHG emission development strategy of the host Party and the long-term goal of the Paris Agreement ; and should encourage an increase in ambition over time.

Presidency text on Article 6.4, Version 2: Methodologies

OPTION A

38. Each mechanism methodology shall require the application of one of the following approaches to setting a baseline that is below ‘business as usual’, for calculating emission reductions, taking into account relevant national, regional or local circumstances, and providing justification for the choice, while ensuring environmental integrity:

- (a) An approach taking into account best available technologies that represent an economically and/or environmentally sound course of action; and/or
- (b) Performance-based approach, where a baseline is based on the emissions of activities providing similar outputs and/or services in similar social, economic, environmental and technological circumstances; and/or
- (c) The benchmark baseline approach, where a baseline is based on an ambitious benchmark representing a level of GHG emissions for activities within a defined scope and boundary; and/or
- (d) Where the approach referred to in paragraphs 38(a)–(c) above is not considered to be economically and technologically viable, an approach based on:
 - (i) Projected emissions;
 - or (ii) Historical emissions.

39. [Notwithstanding paragraph 38 above, where the host Party has specified baseline approaches pursuant to paragraph 27(a) above, each mechanism methodology shall require the application of that specified baseline approach.]

Presidency text on Article 6.4, Version 2: Methodologies

OPTION B

40. Baseline approaches shall contribute to emission reductions and/or removals in the host Party, be consistent with the implementation of the host Party's NDC and the long term goals of the Paris Agreement, and take into other relevant circumstances. Relevant circumstances include national, regional or local social, economic, environmental and technological circumstances.

41. Each mechanism methodology shall require the application of one of the following approaches to setting a baseline:

- (a) A performance based approach where the baseline is set at least at the average emission level of the best performing comparable activities providing similar outputs and services within a defined scope and boundary in the past three years and where the host Party may determine a more ambitious level at its discretion.
- (b) Where such an approach cannot be applied, an alternative approach can be proposed, with the approval from the host Party and a justification. The justification shall include information on how the application of the proposed baseline approach is consistent with paragraph 40 above.

42. Standardized and/or regional and/or subregional performance based-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 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.

43. Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. A project activity is additional if the emission reductions would not occur in the absence of the mechanism. A project activity is not additional if it is required by law, regulation, or another legally binding mandate.

44. The Supervisory Body may, inter alia, consider the following approaches for assessing additionality;

- (a) An ambitious performance benchmark;
- (b) Cost and barriers;
- (c) Market penetration. *{end of option B}*

Presidency text on Article 6.4, Version 2: Methodologies

45. 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.

{Standardised baselines is also part of Mechanism methodology option B}

46. Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. The activity is additional where:

- (a) Emission reductions achieved by the activity are additional to any that would otherwise occur, taking into account all relevant national policies, including legislation, and represent mitigation that exceeds any mitigation that is required by law or regulation, where available;
- (b) Emission reductions are complementary and/or additional, as relevant, to the policies and measures associated with the NDC, if specified by the host Party, of the host Party.

{Additionality is also part of Mechanism methodology option B}

47. The Supervisory Body may waive additionality requirements 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.