

Agenda item 3.4 (a.1)

Paragraph 24 of the annotated agenda

Standard: Setting the baseline in mechanism methodologies

Article 6.4 Supervisory Body – Fifteenth meeting

Thimphu, Bhutan, 11 to 14 February 2024



Procedural background

- The SBM, at its 10th meeting, approved its workplan for 2024 and requested the MEP to develop recommendations for baseline tools and guidance on standardized baselines.
- At MEP001, the MEP initiated its work on baselines and recommended that a single standard be developed that contains requirements for both baseline determination and standardized baselines. At its eleventh meeting (SBM 011), the Supervisory Body approved this recommendation.
- At MEP002, the MEP considered the draft standard and discussed several issues related to the standard and agreed to continue working on the document.



Procedural background

- At MEP003, the MEP finalized a first draft and agreed to seek public input on this draft standard.
- At MEP0004, the MEP, updated the standard taking into consideration public comments and agreed to recommend the draft standard for consideration by the SBM.



Purpose

The purpose of the draft “Standard: Setting the baseline in mechanism methodologies” is to address the mandate provided by the SBM at its 11th meeting to develop recommendations on the requirements for setting the baseline in mechanism methodologies.

The draft Standard covers activities involving emission reductions and activities involving removals.



Key issues and proposed solutions

1. This version of the draft standard is aligned with the “methodologies standard” (as adopted by SBM014) and incorporates the input received in response to the call for public input on the draft standard.
2. In elaborating the draft standard, the MEP identified several key issues. In some cases, the draft presents options for further consideration by the SBM (indicated with brackets or through alternative text options).
3. In the cover note, the MEP provides further information on key issues, including an assessment of advantages and disadvantages of different options.



Key issues and proposed solutions (1)

Key issues:

1. Approach towards baseline setting and downwards adjustment
 - a) Basis for applying paragraph 45 to 47 of the methodology standard (A6.4-SBM014-A05)
 - b) Whether the process can be streamlined
2. Application of baseline approaches at different levels of aggregation
3. Alignment with the long-term temperature goal of the Paris Agreement
 - a) As per paragraph 36 of the methodology standard
 - b) As per paragraph 46 of the methodology standard



Key issues and proposed solutions (2)

1. Approach towards baseline setting and downwards adjustment

Step 1: Selection and justification of baseline approach according to RMP 36 (i) to (iii) (*section 6*)

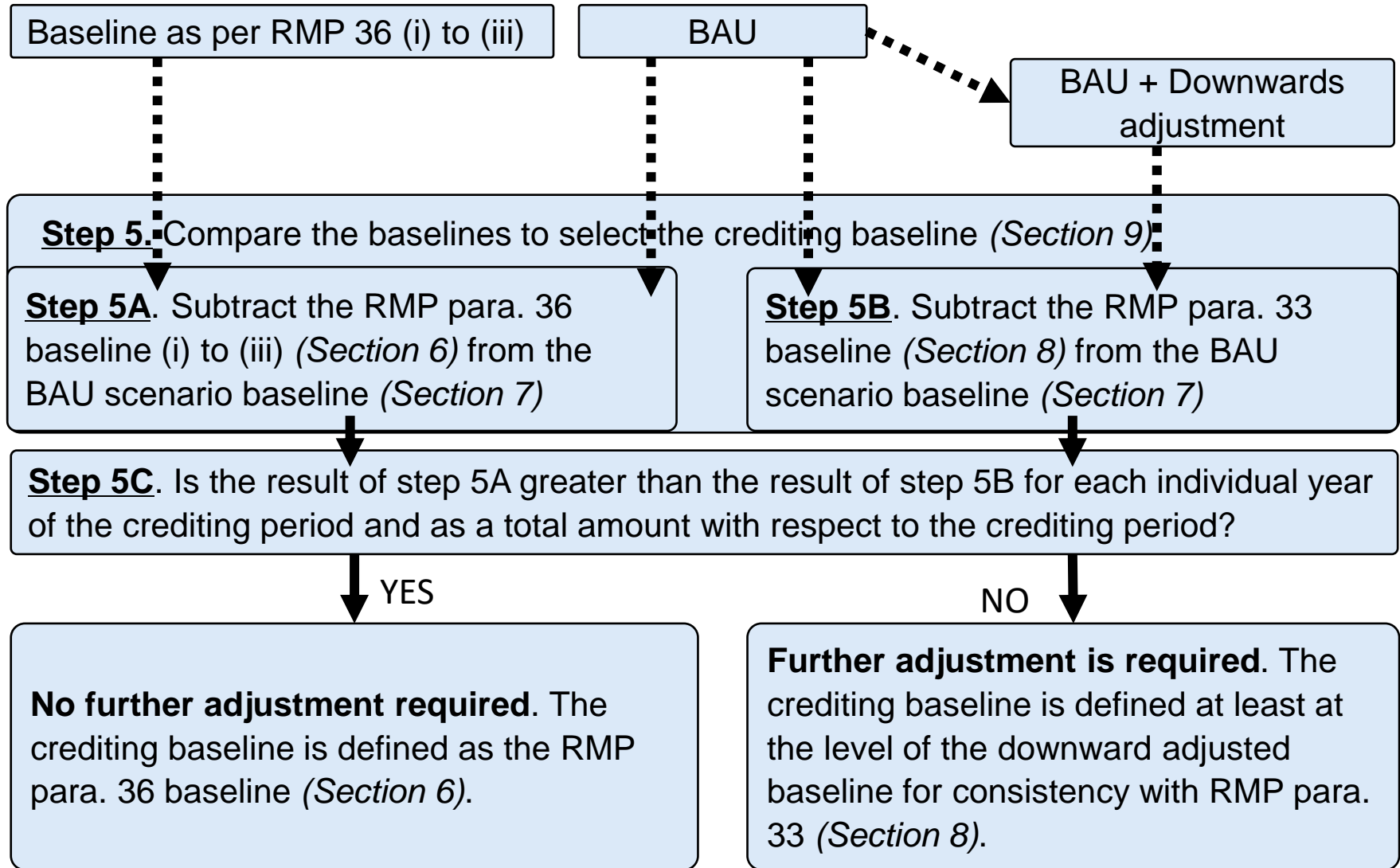
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Step 2: Application of the RMP para. 36 performance-based approach to setting the baseline ((i) BAT; (ii) Ambitious benchmark; (iii) Approach based on existing or actual historical emissions adjusted downwards (...)) (*section 6*)

Step 3: Identification and quantification of the conservative BAU scenario (*section 7*)

Step 4: Quantify the downward adjustments for consistency with paragraph 33 of the RMPs and the resulting baseline" (*Section 8*)



Key issues and proposed solutions (3)



1. Approach towards baseline setting and downwards adjustment

- a. The MEP notes that the Methodologies Standard does not explicitly specify what should be used as basis for comparison when determining the downward adjustment as per paragraphs 45 to 47 (to align with paragraph 33 of the RMPs).

The MEP interprets that this downward adjustment should be determined in relation to BAU emissions or removals.

1. Approach towards baseline setting and downwards adjustment

- b. The MEP further notes that the comparisons included in paragraphs 29 and 44 of the Methodologies Standard, ultimately imply that the lower emissions baseline (or higher removals baselines) is selected between
- A crediting baseline derived from paragraph 36 (i) to (iii) of the RMPs, and
 - A crediting baseline aligned with paragraph 33 of the RMPs, while ensuring that the selected baseline is below BAU

The MEP has put forward a simplified diagram to illustrate this (see *“Simplified stepwise approach for setting the baseline and applying downward adjustments”*)

2. Approaches at different levels of aggregation

- a. The draft standard provides flexibility regarding the level of aggregation at which baseline approaches are applied
 - Proponent of the mechanism methodology
 - Activity participants
 - Host countries
- b. The MEP notes that this approach aims to provide flexibility. This reduces transaction costs for activity participants.

3. Alignment with the long-term temperature goal of the Paris Agreement

a) The “methodologies standard” specifies in paragraph 36:

*36. Mechanism methodologies shall require demonstration that **the activity**, does not constrain, but **aligns with** the policies, options and implementation plans of the host Party with regard to the latest nationally determined contribution (NDC) of the host Party, if applicable, its long-term low greenhouse gas emission development strategies (LT-LEDS), if it has submitted one, and **the long-term temperature goal of the Paris Agreement and long-term goals of the Paris Agreement.***

3. Alignment with the long-term temperature goal of the Paris Agreement

a) Proposed solution for alignment with paragraph 36

- Option A.1: Implementation of a whitelist which includes activities that are considered to be aligned with the long-term temperature goal of the Paris Agreement.
 - The list of activities are those defined under paragraphs 28, 29, and 33 of decision 1/CMA.5 (global stocktake).
 - The list of activities can be defined by the Supervisory Body and be updated regularly
 - The list of activities can be defined by each host Party and approved by the Supervisory Body

3. Alignment with the long-term temperature goal of the Paris Agreement

a) Proposed solution for alignment with paragraph 36

- Option A.2: Implementation of a blacklist which includes activities that are considered not to be not aligned with the long-term temperature goal of the Paris Agreement.
 - The blacklist could be based on lists of excluded activities, as defined by third-party entities such as Multilateral Development Banks (MDBs), Common Principles or the Integrity Council of the Voluntary Carbon Market (ICVCM)
 - The blacklist can be defined by the Supervisory Body and be updated regularly.

3. Alignment with the long-term temperature goal of the Paris Agreement

b) The “methodologies standard” specifies in paragraph 46:

*46. The **downward adjustment** shall be undertaken in a manner that considers economic viability of critical mitigation activities, large-scale transformation and decarbonization technologies, negative emission approaches **while ensuring that methodologies are aligned with the long-term temperature goal of the Paris Agreement.***



3. Alignment with the long-term temperature goal of the Paris Agreement

a) Proposed solution for alignment with paragraph 46

- Option B.1: Paragraph 46 of the methodology standard only requires methodologies to demonstrate the alignment of Article 6.4 **activities** with the long-term temperature goal of the Paris Agreement, for example using options A.1 or A.2 above.
- Option B.2: The consideration of the long-term temperature goal of the Paris Agreement is also required in the context of **quantifying the downward adjustment**, or
- Option B.3: Downward adjustment primarily relates to the requirement in paragraph 33 of the RMP related to **ensuring below BAU and encouraging ambition over time**.

The Standard: Setting the baseline in mechanism methodologies will provide further clarity on the requirements that mechanism methodologies shall fulfil with regard to setting the baseline.

Subsequent work and timelines

The MEP notes that the draft standard is only applicable to activities implemented at project level.

- The standard may be amended to also cover methodological requirements for mitigation actions implemented at larger scales (e.g., programmes of activities or large-scale crediting programmes).



Subsequent work and timelines

The MEP also notes that this standard needs to be further elaborated. This holds in particular for:

- a) Additional elements for activities involving removals (e.g. with respect to the ambitious benchmark approach)
- b) More detailed requirements and guidance for standardized baselines
- c) Detailed guidance for determining the factors or quantitative methods for downward adjustment;
- d) Consideration of legal requirements, policies and targets in determining BAU; and
- e) Consideration of the need for mechanism methodologies to be regularly revised.



Recommendations to the Supervisory Body

The MEP recommends the SBM to pursue the following courses of actions:

- a. Decide or provide guidance on the options provided by the MEP in the proposed draft standard and explained in the cover note; and
- b. Provide any guidance to the MEP on its further elaboration; and
- c. Request proponents of mechanism methodologies to use and test this version of the draft standard for any submission of new proposed mechanism methodologies; and/or
- d. Initiate a second round of public inputs.

