

**IN-MEETING**

## Draft Standard

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### Demonstration of additionality in mechanism methodologies

Version In-meeting, 12 February @22:30

DRAFT



**United Nations**  
Framework Convention on  
Climate Change

## COVER NOTE

### 1. Procedural background

1. The Supervisory Body of the Article 6.4 mechanism, at its tenth meeting (SB 010), approved its workplan for 2024 and requested the Methodological Expert Panel (MEP) to develop recommendations on the requirements for the demonstration of additionality in mechanism methodologies.
2. At its first meeting (MEP 001), the MEP initiated its work on additionality and recommended to the Supervisory Body that a standard be developed that contains requirements on how mechanism methodologies may address additionality, including both project-specific and standardized approaches, including through standardized baseline procedures. Supervisory Body, at its eleventh meeting (SBM 011), approved this recommendation.
3. The MEP, at its second meeting (MEP 002), finalized a draft version of a “Standard: Demonstration of additionality in mechanism methodologies” and agreed to seek public input on the standard.
4. At its third meeting (MEP 003), the MEP initiated analysing the public comments received.
5. The Supervisory Body, at its fourteenth meeting (SBM 014), adopted the “Standard: Application of the requirements of Chapter V.B (Methodologies) for the development and assessment of Article 6.4 mechanism methodologies” (hereinafter referred to as “Methodologies Standard”) and made specific recommendations to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA). At that meeting, the Supervisory Body also requested the MEP to continue its work on additionality on the basis of the adopted Methodologies Standard. Subsequently, the CMA endorsed the approach by the Supervisory Body.

### 2. Purpose

6. The purpose of the draft “Standard: Demonstration of additionality in mechanism methodologies” is to address the mandate provided by the SBM 011 to develop recommendations on the requirements for the demonstration of additionality in mechanism methodologies.

### 3. Key issues and proposed solutions

7. This proposed draft standard sets out overarching requirements with regard to the demonstration of additionality in mechanism methodologies.
8. This version of the draft standard has been aligned with the Methodologies Standard and incorporates the input received in response to the call for public input on the draft standard.
9. In elaborating the draft standard, the MEP identified several key issues. In some places, the draft standard presents options for further consideration by the Supervisory Body, indicated with brackets or through alternative text options. In this cover note, the MEP

provides further information on these key issues, including an assessment of advantages and disadvantages of different options.

### 3.1. Applicability and relationship of tests for demonstrating additionality

10. The MEP notes that the Methodologies Standard includes several additionality tests. This draft standard includes specific guidance on each of these tests. Section 5 of this draft standard describes the relationship among these tests, including through a flow chart. The MEP would like to highlight the following key issues on how it addressed the applicability and relationship of the tests:

- (a) According to paragraph 77 of the Methodologies Standard, the investment analysis and the barrier analysis are alternative tests, with the investment analysis being the “default approach”. The MEP has implemented this approach by introducing applicability conditions for the use of the barrier analysis. The MEP notes that for commercial investments, barriers can typically be expressed as costs. Therefore, the MEP recommends applying the barrier analysis for equipment installed at household level or for activities undertaken by small private or public entities that do not have easy access to commercial loans, as observed in some countries. The draft standard also includes a clause that allows proponents of mechanism methodologies to propose the use of the barrier analysis in other instances with due justification. This approach is similar to provisions introduced in the Clean Development Mechanism (CDM) in 2009, where project participants are required to express barriers as costs where this is feasible and integrate these into an investment analysis (see section 6.4.1 of the draft standard);
- (b) Similarly, the MEP notes that performance-based approaches are only feasible in specific circumstances. Complementary to the applicability conditions included in the Methodologies Standard for the permissible baseline approach, the MEP also provided applicability conditions regarding the suitability of performance indicators and the availability of data (see section 6.6.1 of the draft standard);
- (c) The MEP notes that the Methodologies Standard refers to the term “financial additionality”. Paragraph 73 seems to indicate that common practice is a complementary element to financial additionality whereas paragraph 77 seems to indicate that common practice is part of financial additionality. In paragraph 73, the term “financial additionality” appears to encompass the barrier analysis. The MEP has not used the term “financial additionality” in the proposed standard, as it believes that the term is not necessary and might be confusing to the users in the context of barrier and common practice analysis. It should be noted that this only relates to the use of this specific term but does not entail a deviation from the Methodologies Standard.

### 3.2. Application of approaches for demonstrating additionality at different levels

11. This draft standard provides flexibility regarding the level at which approaches for additionality may be demonstrated (see section 5.3). This includes three levels:

- (a) The proponent of a mechanism methodology may demonstrate that an approach is satisfied for all potential Article 6.4 activities that apply the methodology (e.g., it is demonstrated that the technology or practice does not involve a lock-in risk);

- (b) The proponent of a mechanism methodology may set out a methodological procedure in the mechanism methodology that shall be applied by each activity participant (e.g., each activity participant must apply an investment analysis);
  - (c) The proponent of a mechanism methodology may specify which approaches, parameters or conditions may be demonstrated by host countries through the submission of a standardized baseline (e.g., host countries may submit grid emission factors by applying the methodological approach in the methodology).
12. This approach aims to provide flexibility to demonstrate some elements of additionality testing at the level of the mechanism methodology. This reduces transaction costs for activity participants and provides greater clarity and certainty to activity participants.

### **3.3. Regulatory analysis**

#### **3.3.1. Definition of legal requirements**

13. The MEP notes that paragraph 75 the Methodologies Standard refers to “laws and regulations”. The MEP recommends defining this more clearly and included a definition of “legal requirements” in the standard.

#### **3.3.2. Non-enforcement of legal requirements**

14. The MEP notes that paragraph 75 of the Methodologies Standard does not explicitly address whether and how any non-enforcement of legal requirements should be addressed. The MEP included two options in the text and requests the Supervisory Body to consider these options (see paragraph 28 in the draft standard):
- (a) All legal requirements shall be deemed to be enforced (Option A.1 in the draft standard);
  - (b) Legal requirements may be deemed unenforced for some groups of countries and under certain circumstances (Option A.2 in the draft standard with).
15. The MEP notes that there are examples of countries with laws or regulations that have been adopted but not enforced. Capacity constraints are often a key reason for not enforcing laws and regulations. Such circumstances may arise particularly in LDCs but also in low to middle-income countries. The degree of non-enforcement varies strongly among countries. The MEP further notes that if laws and regulations are systematically not enforced, an activity could be additional as it may not be implemented in the absence of the incentives from the mechanism. In some instances, however, considering laws and regulations as non-enforced could create perverse incentives for countries not to enforce laws in order not to forego revenues from carbon crediting. The MEP therefore observes that there is trade-off between not allowing the registration of activities that may be additional and avoiding such potential perverse incentives.
16. The MEP further notes that this issue has been addressed by existing carbon crediting programs in different ways. Most methodologies and tools under the CDM consider non-enforcement and hence allow excluding non-enforced legal requirements in demonstrating additionality. Some CDM methodologies require consideration of legal requirements regardless of their enforcement. Some non-governmental carbon crediting programs, such as the American Carbon Registry (ACR) and the Climate Action Reserve (CAR), do not consider non-enforcement, while some other programs, such as Gold Standard (GS),

commonly consider non-enforcement. The MEP also notes that the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) exclude mitigation activities from eligibility from 2024 onwards where the regulatory analysis has been demonstrated based on laws and regulations that are not enforced.

17. The MEP further notes that Option A.2 includes some sub-options, indicated in brackets, for consideration by the Supervisory Body. These include policy issues, including to which groups of countries the provisions on non-enforcement shall apply.

### 3.3.3. Frequency of updating the analysis

18. The MEP also highlights that it is important to update the regulatory analysis as new legal requirements may be adopted, or enforced, that would lead to the implementation of the activity at a later stage. Where this is the case, the Article 6.4 emission reductions (A6.4ERs) would no longer be additional. The MEP included two options in the document with regard to the frequency of updating the regulatory analysis and requests the Supervisory Body to consider these options (see paragraph 29 in the draft standard):
  - (a) Update of the regulatory analysis at each verification (Option B.1 in the draft standard);
  - (b) Update of the regulatory analysis at each renewal of the crediting period (Option B.2 in the draft standard).
19. The MEP notes that the options involve a trade-off between certainty for activity participants and environmental integrity. Option B.1 avoids the risk that Article 6.4 emissions reductions are issued for emission reductions or net removals are certified when they may no longer be additional but creates more uncertainty for activity participants, as issuance of A6.4ERs would stop for emission reductions or net removals that occur after new legal requirements become applicable. By contrast, Option B.2 provides certainty to activity participants for the duration of a crediting period but could lead to the issuance of A6.4ERs that are not additional.
20. The MEP further notes that this matter is addressed in different ways under existing carbon crediting programs. Under the CDM, most methodologies and tools require updating the analysis at the renewal of the crediting period. Some methodologies require a reassessment at each verification. Some non-governmental carbon crediting programs, such as the ACR and CAR, require reassessment at each verification, while others, such as the GS, commonly require reassessment at the renewal of a crediting period.

### 3.4. Analysis of lock-in risk

21. The MEP notes that paragraph 76 of the Methodologies Standard refers to avoiding locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the rules, modalities and procedures of the Article 6.4 mechanism. The MEP has further operationalized this paragraph in the proposed draft standard through several provisions. One provision allows mechanism methodologies to consider technologies or practices with a lifetime of up to 10 years not to cause any lock-in risk. This simplification aims to reduce transaction costs. It is proposed that this provision initially applies until 2030 and may be prolonged in the future upon a review by the Supervisory Body (see section 6.2 of the draft standard).

### 3.5. Investment analysis

#### 3.5.1. Consideration of revenues from Article 6.4 emission reductions

22. The MEP notes that paragraph 77(a) of the Methodologies Standard requires demonstration that the proposed activity would not have occurred in the absence of the incentives from the mechanism through an investment analysis. Moreover, paragraph 74 requires demonstration of the benefits from the Article 6.4 mechanism as necessary in the decision to implement the activity. The MEP observed that complementary to the provisions in the procedure “Article 6.4 activity cycle procedure for projects” this could be implemented in different ways (see section 6.3 of the draft standard), including by:
- (a) Only requiring demonstrating that an Article 6.4 activity is not financially viable in the absence of revenues from A6.4ERs (Option C.1 in the draft standard);
  - (b) Requiring demonstrating that an Article 6.4 activity is not financially viable in the absence of revenues from A6.4ERs, and that such revenues make the determining difference in increasing the financial performance of the Article 6.4 activity and can make the Article 6.4 activity financially viable (Option C.2 in the draft standard).
23. Option C.1 is consistent with the CDM and the approach traditionally taken by most carbon crediting programs. Option C.2 aligns with a requirement established by the Integrity Council for the Voluntary Carbon Market (ICVCM).<sup>1</sup> Recently, several non-governmental carbon crediting programs, such as Gold Standard and the VCS, have introduced, or are in the process of introducing, the requirement in Option C.2.<sup>2</sup>
24. Option C.2 aims to address situations where activities are not financially viable and revenues from A6.4ERs have little impact and do not raise the financial performance of the activity above the threshold. The concern is that in such cases revenues from A6.4ERs are less likely to cause the implementation of the activity. This may, for example, apply if a proposed Article 6.4 activity has an internal rate of return (IRR) of 2% which increases to 3% with revenues from A6.4ERs, while the required benchmark is 10%.
25. The MEP notes that Option C.2 also raises challenges. Most importantly, the MEP notes that whether A6.4ERs have a determining effect depends on the price for A6.4ERs. As currently observed in the voluntary carbon market, the prices strongly vary between different types of mitigation activities as well as individual activities and change over time. Some buyers are willing to pay very high prices, as they wish to support a specific technology. Any estimate of future prices for A6.4ERs is thus associated with considerable uncertainty and may not be known by the activity participants when requesting the registration of an activity. The VCS aims to address this challenge by allowing to use a wide range of data to determine prices, including existing contracts for comparable projects, actual sale of comparable carbon credits, third-party market reports and studies, published price forecasts, government or regulatory body projections, industry or sector-specific pricing reports and forecasts, or benchmark pricing data from recognized carbon

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<sup>1</sup> ICVCM (2024): Assessment Framework. Version 2, page 76.  
<https://icvcm.org/wp-content/uploads/2024/02/CCP-Section-4-V2-FINAL-6Feb24.pdf>

<sup>2</sup> VCS (2024): VT0008 Additionality Assessment, v1.0. <https://verra.org/methodologies/vt0008-additionality-assessment/>. Gold Standard (2024): Standard Additionality Demonstration. <https://www.goldstandard.org/consultations/standard-additionality-demonstration>

exchanges or trading platforms. The MEP may further explore in the operationalization of this approach how this challenge could be addressed, including through an option where a fixed minimum price should be used for the purpose of the analysis.

### 3.6. Consideration of public funding

26. The MEP notes that the implementation of some mitigation activities is supported through a combination of revenues from carbon crediting and public funding. While such blending of finance can help activities to move ahead, it also raises potential issues.
27. The blending of finance from A6.4ERs and public funding could raise two additionality issues:
  - (a) If a large share of support is provided through public funding (e.g., 90%) and revenues from A6.4ERs only make a small share (e.g., 10%), this raises the issue of whether revenues from A6.4ERs are the determining factor in proceeding with the activity. One possible scenario is that, in the absence of such revenues, the funding gap would be provided through additional public funding. This could, for example, occur where a public funding scheme is designed to pay for the funding gap to make an activity financially viable. To address this issue, the MEP introduced a provision in the section on investment analysis that in the case of a significant share of public funding, expressed in grant equivalents, it shall be demonstrated that the public funding would not have filled the funding gap in the absence of revenues from A6.4ERs. Moreover, this concern is further alleviated if activity participants must demonstrate that revenues from A6.4ERs are a determinant factor in making the activity financially viable. Such a requirement is included as an option in the draft standard (see also section 3.6.1 of the cover note and Option C.2 thereunder);
  - (b) For some type of Article 6.4 activities, the scale of the activity may depend on the total funds available. This may, for example, hold for projects promoting low-carbon technologies or practices at household level. In this case, the activity could have a smaller scale in the absence of the revenues from A6.4ERs (e.g., fewer households may be reached). This would mean that not all emission reductions or removals may be attributable to the A6.4ERs but some may be attributable to the public funding. As this issue is mainly relevant for programmes of activities, the MEP suggests to further explore this issue, including on how to conduct investment analysis in such instances, when amending this standard to cover programmes of activities and in the process of developing the tool for investment analysis.
28. Beyond the demonstration of additionality, the blending of public funding and revenues from A6.4ERs raises other potential issues. One potential concern is that it could indirectly enable using official development assistance (ODA) to support the purchase and use authorised A6.4ERs towards NDCs. This is illustrated through an example of a project that has greenhouse gas abatement costs of 100 USD per tonne of carbon dioxide (tCO<sub>2</sub>). Without supporting the project through ODA, the buyer country would need provide at least 100 USD / tCO<sub>2</sub> to enable the implementation of the project and purchase the A6.4ERs. If 90% of funding were provided through ODA and A6.4ERs were issued for the full amount of emission reductions, the total costs for the buyer country would be the same, but it would only have to spend 10 USD / tCO<sub>2</sub> for purchasing authorized A6.4ERs. Most of the funding could be counted as ODA, and potentially towards internationally established

climate finance goals, while all of the A6.4ERs could be used by the country to achieve its nationally determined contribution (NDC).

29. Another potential issue is that the public funding could reduce the cost of generating A6.4ERs. This could have several implications. One possible implication is that public funding could implicitly subsidize (corporate) buyers of A6.4ERs. Another possible implication is that a country supporting a project through public funding implicitly lowers the cost for another country purchasing the A6.4ERs. More broadly, this might lead to lower overall A6.4ERs prices which may make it more difficult for projects to be feasible that are not supported through public funding.
30. The MEP notes that this issue has been identified in the literature and by climate finance donors. One solution being proposed to address this matter is allocating the emission reductions or net removals from activities proportionally to the share of funding provided.<sup>3</sup> The MEP notes that such an approach, and other possible approaches, may have different advantages and disadvantages, and would affect the number of A6.4ERs being issued and A6.4ERs prices.
31. The MEP also noted that public funding could be critical in certain circumstances, such as enabling low-carbon or negative emission technologies that are not widely deployed and require high capital investments, and for increasing the adoption of low-carbon solutions in certain geographies. The MEP identified factors, such as activity type, funding type and other relevant circumstances may need to be taken into consideration, such that activity participation in the mechanism is not limited while ensuring that the environmental integrity of the issued 6.4ERs is maintained. The MEP recommends the Supervisory Body that the MEP prepares a concept note to further analyze this matter for consideration by the Supervisory Body at a future meeting.

### 3.7. Use of the term “start date”

32. The MEP notes that the “Standard: Article 6.4 activity standard for projects” (A6.4-STAN-AC-002) introduces the concept of the “start date” of projects. These provisions draw on the CDM. The MEP notes that the use of the specific term “start date” is sometimes confusing to stakeholders because it is meant to relate to the point when the investment decision is made but is sometimes misinterpreted to mean the start reducing emissions or enhancing removals. Moreover, other carbon crediting programs use the same term in a different way (e.g., referring to the start of reducing emissions or enhancing removals).
33. The MEP notes that the term “final investment decision” (FID) is a common term used in the industry for large-scale investments to describe what is referred to as “start date” under the “Standard: Article 6.4 activity standard for projects” (A6.4-STAN-AC-002). The MEP therefore suggests the Supervisory Body to possibly change the name of term “start date” to “date of final investment decision” consistently throughout the regulatory framework of

<sup>3</sup> See, for example: Spalding-Fecher et al. (2021) Attribution: A practical guide to navigating the blending of climate finance and carbon markets. Eskilstuna, Sweden: Swedish Energy Agency, <https://www.energimyndigheten.se/4aacfb/globalassets/webb-en/cooperation/attribution-report.pdf>. Fuessler et al. (2019): Blending climate finance and carbon market mechanisms. Options for the attribution of mitigation outcomes. Discussion paper by the Carbon Partnership Facility (CPF) and the Transformative Carbon Asset Facility (TCAF). [https://www.infras.ch/media/filer\\_public/f5/52/f55237be-98d7-4b34-8d03-7cda1d696bcf/blending\\_climate\\_finance\\_and\\_carbon\\_market\\_mechanisms\\_final\\_march2019.pdf](https://www.infras.ch/media/filer_public/f5/52/f55237be-98d7-4b34-8d03-7cda1d696bcf/blending_climate_finance_and_carbon_market_mechanisms_final_march2019.pdf)



the mechanism and to slightly adapt the description in the “Standard: Article 6.4 activity standard for projects” (A6.4-STAN-AC-002). The MEP could provide input on how to best adapt the definition. This could be done as part of developing a glossary for the mechanism. In this proposed draft standard, the MEP kept the term “start date” to ensure consistency within the regulatory framework of the mechanism.

#### **4. Impacts**

34. The “Standard: Demonstration of additionality in mechanism methodologies” will provide clarity on the requirements that mechanism methodologies shall fulfil with regard to the demonstration of additionality.

#### **5. Subsequent work and timelines**

35. The MEP notes that the proposed draft standard is only applicable to activities implemented at the project level. The standard may thus be amended to also cover methodological requirements for mitigation actions implemented at larger scales (e.g., programmes of activities or large-scale crediting programmes).
36. The MEP also notes that the “Standard: Article 6.4 activity standard for projects” (A6.4-STAN-AC-002) requests activity participants to update the section of the PDD relating to additionality at the renewal of the crediting period. The proposed draft standard does not yet include any provisions for the renewal of the crediting period. The standard may thus be amended to also cover this element.
37. Further, the MEP would like to seek a mandate from the Supervisory Body to initiate work on a methodological tool for Common practice analysis.
38. In its work on the standard for demonstrating additionality in Mechanism Methodologies, the MEP identified, in response to public inputs, issues in relation to the possible confidentiality of data needed for the investment analysis. The MEP also took note of the practice of the CDM and other carbon crediting programmes in this regard and noted that confidentiality issues could also arise in the context of quantifying emission reductions in some instances. The MEP would like to seek a mandate from the Supervisory Body to further explore these matters and, where necessary, propose any respective provisions for consideration by the Supervisory Body at a future meeting.

#### **6. Recommendations to the Supervisory Body**

39. The MEP recommends the Supervisory Body to pursue one of the following courses of actions:
- (a) Decide on the options provided by the MEP in the proposed draft standard and adopt the draft standard; or
  - (b) Provide further guidance to the MEP on any necessary revisions or clarifications to the proposed draft standard; and/or
  - (c) Initiate a second round of public inputs and request the MEP to further work on the draft standard based on the input received.
40. Further, the MEP requests mandates from the Supervisory Body to: (i) initiate work on a methodological tool for “Common practice analysis”; (ii) develop a concept note to analyse

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potential issues related to activities that are supported through a combination of public funding and carbon revenues for consideration by the Supervisory Body at a future meeting; and (iii) initiate work to amend the “Draft Standard: Demonstration of additionality in mechanism methodologies” to include methodology requirements for:

- (a) Programmes of activities; and
- (b) Renewal of the crediting period.

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## 1. Introduction

### 1.1. Scope

1. This standard sets out the requirements for mechanism methodologies with regard to demonstrating additionality. It will be applied by proponents of mechanism methodologies in developing methodologies and by the UNFCCC Secretariat, the Methodological Expert Panel (MEP) and the Supervisory Body in assessing and considering mechanism methodologies for approval. The standard is not intended for the preparation of project design documents (PDDs) or monitoring reports.
2. Requirements relating to demonstrating the consideration of the benefits from the Article 6.4 mechanism as necessary in the decision to implement the activity are not addressed in this standard. They are addressed in the “Standard: Article 6.4 activity standard for projects”, the Standard: Article 6.4 activity standard for programmes of activities”, the “Procedure: Article 6.4 activity cycle procedure for projects”, and the “Procedure: Article 6.4 activity cycle procedure for programmes of activities”.

### 1.2. Entry into force

3. The date of entry into force is the date of the publication of the SBM ### meeting report on DD Month YYYY.

## 2. Definitions

4. The following definitions shall apply:

- (a) **Activity participant:** a public or private entity that participates in an Article 6.4 project;
- (b) **Additionality:** An Article 6.4 activity is additional if:
  - (i) It represents mitigation that exceeds any mitigation that is required by law or regulation (see section 5.1 below);
  - (ii) It avoids locking in levels of emissions, technologies or carbon intensive practices that are incompatible with paragraph 33 of the rules, modalities and procedures of the Article 6.4 mechanism for the mechanism (see section 6.2 below); and
  - (iii) It would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation (see section 6.3 below).
- (c) ~~**High income countries:** Countries classified by the World Bank Group as high income countries;<sup>4</sup> (only needed for a sub-option under Option A.2);~~

<sup>4</sup> Latest version available at the start time of the start of validation or verification of an Article 6.4 activity, as applicable: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>.

- (d) **Legal requirements:** Laws, statutes, regulations, court orders, decrees, consent agreements<sup>5</sup>, executive orders, permitting conditions or any other legally binding mandates.

### 3. Applicability

- 5. This version of the standard is applicable to proposed mechanism methodologies for activities undertaken at the project level. The standard may be amended in the future to also cover methodologies addressing mitigation actions at other scales (e.g., programmes of activities, policies, sectoral approaches, etc).
- 6. The standard applies to mechanism methodologies related to both emission reductions and net removals.
- 7. The standard applies to mechanism methodologies and methodological tools. For simplicity, only the term mechanism methodology is used in this standard.

### 4. General principles and requirements

#### 4.1. Principles

- 8. The following principles shall be applied in demonstrating additionality to ensure that information provided is a true and fair account. These principles shall be the basis for and guide the development of mechanism methodologies:
  - (a) **Relevance:** Data, parameters, assumptions, and methods used for the demonstration of additionality shall not be misleading and only verifiable data and parameters that may have an impact on the outcome of assessment of additionality shall be included;
  - (b) **Completeness:** All relevant information to support the assessment of additionality shall be provided;
  - (c) **Consistency:** The application of methods ensures consistent results across similar circumstances;
  - (d) **Accuracy:** Bias and uncertainties in both quantitative and non-quantitative information shall be reduced as far as is practical;
  - (e) **Transparency:** Sufficient and appropriate information shall be disclosed to allow intended users to make decisions with reasonable confidence. Transparency relates to clearly stating all data, parameters, assumptions and methods applied; referencing background material; stating documentation changes and stating and justifying all data, parameters, methods and assumptions made such that the outcomes can be reproduced;
  - (f) **Conservativeness:** In the context of demonstrating additionality, a methodological approach is conservative if the data, parameters, assumptions and methods chosen are more likely to lead to the determination that the Article 6.4 activity is not additional.

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<sup>5</sup> For example, agreements between parties, such as between a private sector entity and a government, to take an action in exchange for avoiding court action.

## 4.2. General requirements

9. Mechanism methodologies shall specify the approach to demonstrating the additionality of an Article 6.4 activity. The approach shall ensure that an Article 6.4 activity would not be implemented without the incentives from the mechanism and that the incentives from the mechanism enable the implementation of the activity.
10. Mechanism methodologies may either use separate approaches to demonstrate additionality and determine the baseline scenario or use a combined approach that both demonstrates additionality and determine the baseline scenario. Where a combined approach is used, both this standard and the standard "Setting the baseline in mechanism methodologies" shall apply.
11. Mechanism methodologies shall ensure conservativeness in the demonstration of additionality. This shall apply to all data, parameters, assumptions, and methods used in the analysis (e.g., operating expenditure used in conducting an investment analysis or data on the market penetration of a technology). The degree of conservativeness shall be based on the level of uncertainty (e.g., in a sensitivity analysis of the investment analysis the selection of the parameters to be varied and the magnitude of variation shall be informed by uncertainty). All sources of uncertainty shall be considered, including uncertainty in data, parameters, assumptions, and methods.
12. Mechanism methodologies shall ensure that the provisions to demonstrate additionality consider all national or sub-national policies that are applicable to the relevant Article 6.4 activity and its alternatives [and that are considered to be enforced as per the provisions in section 6.1 below (Option A.2)]. This shall include legal requirements, subsidies, taxes, fees and relevant other incentives (e.g., incentives from carbon pricing schemes such as emission trading schemes or from guarantees of origin). This shall also include any specific national or sub-national targets for the sector or the type of activity, as long as these are supported by policy frameworks for implementation, but not general goals (e.g., a national emissions target) that are not specific to the sector or type of activity.
13. Mechanism methodologies shall ensure that additionality is demonstrated for an Article 6.4 activity in its entirety (e.g., the capture of landfill gas combined with use of the landfill gas for energy generation) and that additionality is not separately demonstrated for different parts of an Article 6.4 activity (e.g., separately for the landfill gas capture and the use of the landfill gas for energy generation). This provision does not apply if different activities can be separately implemented at one site and do not affect each other (e.g., the implementation of energy efficiency improvements and the catalytic abatement of N<sub>2</sub>O emissions at a nitric acid production plant).

## 5. Approaches to demonstrate additionality

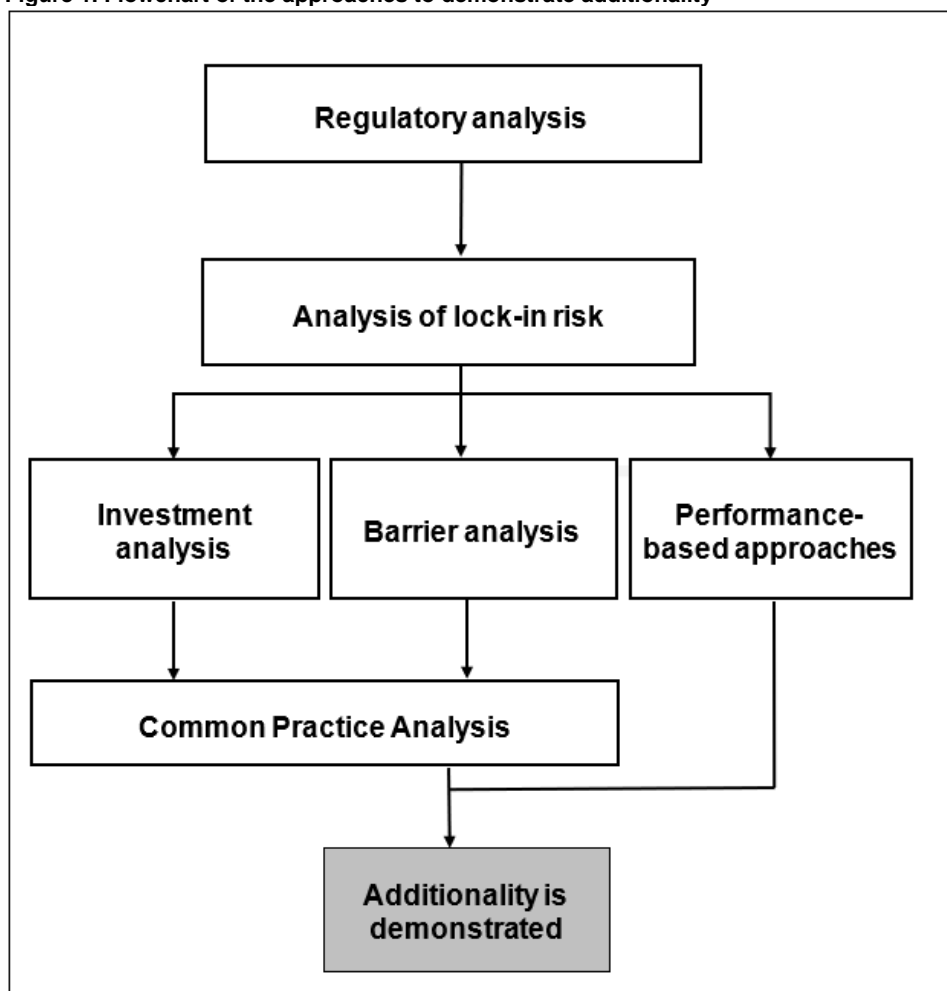
### 5.1. Overview of approaches to demonstrate additionality

14. This standard establishes requirements for the following approaches to demonstrate additionality:
  - (a) **Regulatory analysis:** Demonstration that the emission reductions or net removals resulting from an Article 6.4 activity would not occur as a result of any legal requirements, unless a law or regulation refers to or formally integrates the mechanism as an instrument for implementation;

- (b) **Analysis of lock-in risk:** Demonstration that the implementation of an Article 6.4 activity does not lead to locking in levels of emissions or carbon-intensive technologies or practices that are incompatible with paragraph 33 of the rules, modalities and procedures of the Article 6.4 mechanism;
- (c) **Investment analysis:** Demonstration that an Article 6.4 activity is not financially viable in the absence of revenues from A6.4ERs [and that such revenues make the determining difference in increasing the financial performance of the Article 6.4 activity and can make the Article 6.4 activity financially viable (Option C.2)];
- (d) **Barrier analysis:** Demonstration that an Article 6.4 activity would be prevented by barriers and that the incentives from the mechanism make the determining difference for overcoming the barriers;
- (e) **Common practice analysis:** Demonstration that the relevant technology or practice is not common practice (e.g., it has a low market penetration);
- (f) **Performance-based approach:** Demonstration that an Article 6.4 activity is unlikely to be implemented without the incentives from the mechanism if it outperforms other activities in one or several indicator(s) (e.g., an emissions benchmark) that are a good proxy for the likelihood of additionality for the relevant technology or practice.

## 5.2. Possible combinations of approaches

15. Figure 1 illustrates how mechanism methodologies may combine the approaches referred to in section 5.1 above. Other combinations of approaches are not permitted.

**Figure 1. Flowchart of the approaches to demonstrate additionality**

16. Regulatory analysis and analysis of lock-in risk shall be addressed in all mechanism methodologies.
17. The investment analysis shall be used as the default approach. Where mechanism methodologies do not apply the investment analysis, the methodology proponents shall appropriately explain and justify why an investment analysis is infeasible or inappropriate. In this case, the methodology proponents shall nevertheless include information on the financial viability of eligible Article 6.4 activities [the increase in financial viability through revenues from A6.4ERs, and the financial viability with such revenues (Option C.2)], or require activity participants to provide such information.

**Commented [A1]:** to be deleted if we delete the other options on revenue from 6.4 ER.



18. The barrier analysis may be used as an alternative to the investment analysis, subject to the applicability conditions in section 6.4.1 below and appropriate justification.
19. Where investment analysis or barrier analysis are used, this shall be complemented by a common practice analysis.
20. Performance-based approaches may be used as an alternative to the investment analysis, barrier analysis and common practice analysis, subject to the applicability conditions in section 6.6.1 below and appropriate justification.

### 5.3. Application of the approaches at different levels

21. The approaches for demonstration of additionality, as referred to in section 5.1, may be applied at different levels and by different entities, subject to the provisions in paragraph 22 below:
  - (a) **Proponent of the mechanism methodology:** The proponent of a mechanism methodology may demonstrate that one or several of the approaches referred to in section 5.1 above are satisfied for all, or a subset of, the potential Article 6.4 activities that are eligible under the methodology (see Box 1 for an example). The methodology may specify applicability criteria or conditions under which the approach is deemed to be satisfied for all, or a subset of, the potential Article 6.4 activities (e.g., if activities are implemented in a particular region and/or if the market penetration of the technology is below a certain threshold in the relevant geographical region). The proponent of the mechanism methodology shall provide documented evidence and justifications in the methodology that the approach is satisfied for the relevant activities. The mechanism methodology may then state that the approach is deemed to be satisfied for the relevant activities, as long as the applicability criteria or conditions specified in the methodology are satisfied. The mechanism methodology may need to be regularly revised to update the underlying analysis. The proponent of the mechanism methodology shall therefore specify the duration of the validity of the proposed methodology (e.g., three years);

**Box 1. Example of an investment analysis applied by the proponent of a mechanism methodology**

**Abatement of nitrous oxide (N<sub>2</sub>O) emissions from nitric acid production**

The proponent of a mechanism methodology may demonstrate that abatement of N<sub>2</sub>O emissions from nitric acid production through secondary catalysts does not generate any revenues but involves costs. The proponent may further demonstrate that revenues from A6.4ERs can fully cover the costs for installing secondary catalysts and thus make the determining difference for the implementation of secondary catalysts. The mechanism methodology proponents may conclude that the abatement of N<sub>2</sub>O emissions through secondary catalysts satisfies the requirements of the investment analysis for all projects that are eligible to use the methodology.

- (b) **Activity participants:** The proponent of a mechanism methodology may specify in the methodology a methodological procedure for one or several of the approaches referred to in section 5.1 above. This procedure shall then be applied by each proposed Article 6.4 activity. For example, a methodology may prescribe an investment comparison analysis that must be applied by activity participants to assess the financial attractiveness of a proposed Article 6.4 activity;

- (c) **Host countries:** The proponent of a mechanism methodology may specify in the methodology which approaches, parameters or conditions may or shall be demonstrated through the submission of a proposed standardized baseline by host countries. For example, a methodology may include a methodological procedure for how regulatory analysis is demonstrated and may indicate that this procedure can be applied by host countries through the submission of a standardized baseline.
22. The approaches for demonstration of additionality, as referred to in section 5.1, shall be applied at the following levels:
- (a) Regulatory analysis shall be applied by activity participants or by host countries through the submission of a standardized baseline;
  - (b) Analysis of lock-in risk should preferably be applied by the proponent of the mechanism methodology but may also be applied by activity participants or by host countries through the submission of a standardized baseline;
  - (c) Investment analysis and common practice analysis may be implemented at any of the three levels referred to in paragraph 21 above;
  - (d) Barrier analysis should preferably be applied by the proponent of the mechanism methodology or by the host countries through the submission of a standardized baseline. Where it is proposed to be applied by activity participants, appropriate explanation and justification shall be provided why demonstration by the proponent of the mechanism methodology or by the host country through the submission of a standardized baseline is not appropriate.
23. Mechanism methodologies may apply different approaches for demonstrating additionality at different levels. For example, a mechanism methodology could include a combination of the following approaches: a regulatory analysis and an investment analysis to be applied by the activity participants, combined with an analysis of lock-in risk and a common practice analysis demonstrated by the proponent of the mechanism methodology.

## 6. Requirements for specific approaches

### 6.1. Regulatory analysis

24. Mechanism methodologies shall include provisions to demonstrate that the emission reductions or net removals resulting from an Article 6.4 activity would not occur as a result of any legal requirements, unless a law or regulation refers to or formally integrates the mechanism as an instrument for implementation.
25. The analysis shall confirm that legal requirements, except for those that refer to or formally integrate the mechanism as an instrument for implementation, do not:
- (a) Directly require the implementation of an activity (e.g., a regulation requires capture of landfill gas);
  - (b) Indirectly require the implementation of an activity, by requiring a certain technological, performance or management action or by preventing potential alternative scenarios to the implementation of the activity (e.g., a regulation

establishing air pollution requirements for landfill sites that cannot be met without capturing the landfill gas);

(c) Establish a support scheme that:

- (i) Is designed to achieve a quantitative target or outcome for the relevant technologies or practices;
- (ii) Is applicable to the activity; and
- (iii) Would likely result in the same amount of emission reductions or net removals if the activity would not be implemented (see Box 2 for an example).

**Box 2. Consideration of laws and regulations that establish support scheme to achieve a quantitative target**

**Installing renewable electricity capacity through competitive bidding processes**

Some countries have adopted laws and regulations that establish competitive bidding processes for installing renewable electricity capacity. These laws and regulations often result in the installation of a given amount of renewable electricity capacity, regardless of whether the bidding plants are registered as an Article 6.4 activity. In this case, the emission reductions may also occur if the bidding plants do not register as an Article 6.4 activity.

For example, a project registered as an Article 6.4 activity could bid a lower price due to the expected revenues from the mechanism. In the absence of these revenues, the project would have to offer a higher price. This could have two possible consequences. One possible scenario is that the project would still win the bid with the revenues from the mechanism. In this case, the project would also be implemented in the absence of the incentives from the mechanism and not be additional. Another possible scenario is that the project would not win the bid without the additional revenues from the mechanism. In this case, the specific project would not be implemented in the absence of the incentives from the mechanism. However, another project may win the bid instead, resulting in the same level of emission reductions. This may not apply, however, where a bid is undersubscribed.

26. The analysis shall be based on credible and current evidence and be justified.

27. ~~Option A.1: All legal requirements shall be deemed to be enforced; unless a host Party communicates that while the regulation is not currently enforced, the Party intends to formally integrate the mechanism as an instrument to implement the relevant regulation.~~

28. ~~Option A.2: For [high-income countries] [countries other than LDCs and SIDS], all legal requirements shall be deemed to be enforced. For other countries, legal requirements shall only be deemed to be unenforced if:~~

~~(a) Non-enforcement is widespread (i.e., legal requirements are not enforced in more than 50% of the relevant cases) and can be documented through credible and current evidence; and~~

~~(b) Non-enforcement persists no longer than [5][X] years after the entry into force of the relevant legal requirements.]~~

~~{End of Option A.2}~~

**Commented [A2]:** Para 75 of the Meth Standard- Regulation analysis shall require demonstration that the proposed activity represents mitigation that exceeds any mitigation that is required by law or regulation unless the law or regulation requires to or formally integrates the mechanism as an instrument for implementation. A law or regulation applicable to the proposed activity that may require a certain technological, performance or management action shall be considered, noting that regulatory environments vary

29. The mechanism methodology shall specify the appropriate frequency for updating the analysis, taking into account the context of the type of activity, as follows:
- (a) Where the analysis is applied by activity participants, as referred to in paragraph 27(b) above, the analysis shall be conducted [Option B.1: at each verification of emission reductions or net removals] [Option B.2: at the latest at each renewal of the crediting period];
  - (b) Where the analysis is applied through a standardized baseline, as referred to in 21(c) above, the mechanism methodology shall specify for how long the standardized baseline may be valid (i.e. by when the standardized baseline would need to be updated to confirm that the conclusion of the analysis is still valid).

## 6.2. Analysis of lock-in risk

30. Mechanism methodologies shall ensure that an Article 6.4 activity:
- (a) Does not lead to the adoption or the prolongation of the lifetime of technologies or practices that are incompatible with long term goals of the Paris Agreement that are incompatible with achieving global net zero emissions by mid-century, taking into account different national circumstances by countries;
  - (b) Is consistent with the host country's long-term low-emission development strategy (LT-LEDS), as referred to in Article 4.19 of the Paris Agreement (where the host country has submitted one);
  - (c) For technologies or practices with a long lifetime, relies on a technology or practice that is among those within the lowest greenhouse gas intensity in the relevant region taking into account the lifetime of the technology or practice; and
  - (d) Does not involve a technology or practice that constitutes an inefficient use of a resource that is important for mitigating climate change or achieving other policy objectives (e.g., inefficient use of biomass which could enhance pressure with regard to competing uses of land) { inefficient use of biomass may be covered under leakage}.

### Box 3. Example of lock-in risks

#### New fossil fuel-based plants

A new fossil fuel-based plant which, while using an efficient technology among various available technologies using the same fuel, may nevertheless prevent installation of a less or zero emitting technology for the duration of the lifetime of the plant.

31. The proponent of a mechanism methodology shall either provide appropriate justification that all Article 6.4 activities eligible under the mechanism methodology meet the above requirements, as per paragraph 30(a) above, or include a methodological procedure that activity participants or host countries shall apply to demonstrate the above requirements, as referred to in paragraphs 30(b) and 30(c) above.
32. The analysis shall consider socio-economic contexts, existing infrastructure and any path dependencies (e.g., whether a country intends to decarbonize more strongly based on

electrification or more strongly based hydrogen infrastructure). The analysis shall also consider:

- (a) The technical or operational lifetime of the technologies or practices established as part of an Article 6.4 activity;
- (b) The emissions intensity of these technologies and practices; and
- (c) The scale of the Article 6.4 activity.

33. Where the technologies or practices applicable under the mechanism methodologies have a technical or operational lifetime of no more than 10 years, a mechanism methodology may assume that no lock-in risk exists. Appropriate evidence and justification shall be provided for the estimation of the technical or operational lifetime of the technology or practice. Where this option is used, the validity of the methodology shall be limited to 31 December 2030 and the methodology shall be reviewed by the Supervisory Body prior to its expiry.

**Commented [A3]:** The numbering was updated as there were two paragraphs numbered as 32.

34. The analysis shall be implemented in a conservative manner and be appropriately justified.

### 6.3. Investment analysis

#### 6.3.1. Type of analyses

35. The following types of investment analyses may be used:

- (a) Simple cost analysis: Demonstration that the implementation of an Article 6.4 activity is associated with costs and does not generate any cost savings or revenues other than from A6.4ERs;
- (b) Benchmark analysis: Comparison of the financial attractiveness of an Article 6.4 activity with a financial benchmark; or
- (c) Investment comparison analysis: Comparison of the financial attractiveness of an Article 6.4 activity with alternative options.

36. The type of analysis applied shall be suitable for the context of the type of Article 6.4 activities that are eligible under the methodology. For example, where the type of activity can only be implemented by the activity participants (e.g., energy efficiency improvements at existing plants) and the activity participants face different alternative investment options, the investment comparison analysis is most suitable. The proponent of a mechanism methodology shall justify the choice of analysis.

37. Where the analysis is applied by activity participants, as referred to in paragraph 21(b) above, the mechanism methodology shall specify which of the analysis referred to in paragraph 39 below shall be used by the activity participants. The mechanism methodology shall set out a detailed procedure on how the analysis shall be conducted.

#### 6.3.2. General requirements for conducting the investment analysis

38. The analysis shall include all relevant costs, including capital expenditure (CAPEX) and operational expenditure (OPEX), including any barriers that can be monetized and

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quantified as an additional cost, and all revenues and cost savings, including any public funding such as subsidies, where applicable.

39. All parameters and assumptions used in the analysis shall be internally consistent. For example, cash flows shall be expressed in either real or nominal terms consistently and be determined consistent with the financial indicator used. The assumptions, data and conclusions in the investment analysis shall be transparently documented, appropriately justified and substantiated by evidence.
40. The analysis shall be implemented in a conservative manner. To ensure conservativeness, the analysis shall include a sensitivity analysis to demonstrate that the conclusion of the analysis is robust to reasonable variations in the critical parameters and assumptions, including CAPEX, OPEX, revenues and cost savings, as applicable.
41. The analysis of the financial viability of Article 6.4 activities without revenues from A6.4ERs shall not include any transaction costs associated with generating A6.4ERs (e.g., costs for preparing the PDD, validation and verification, fees to be paid to the UNFCCC).

### 42. Option C.1: No text.

### 43. Option C.2: When considering the revenues from A6.4ERs, this shall only include the net benefit to activity participants, after subtraction of relevant transaction costs.

44. Where the analysis is applied by the proponent of a mechanism methodology or by the host country through the submission of a standardized baseline, as referred to in paragraph 21(c) above, the analysis shall demonstrate that it is very likely that Article 6.4 activities that are eligible under the methodology satisfy the investment analysis. The analysis shall be based on data and information that is representative for the Article 6.4 activities that are eligible under the methodology, reflecting any important variations among activities, such as the geographical region, the size of activities, or variations in the technology or practice. The analysis may be supported by information from the literature or data from a sample of activities. The analysis shall be publicly disclosed with the proposed mechanism methodology.
45. Where the analysis is applied by the activity participants, as referred to in paragraph 21(b) above, the following applies:
  - (a) The analysis shall be based on data and information applicable to the proposed Article 6.4 activity, except otherwise specified in this standard;
  - (b) The analysis shall be based on data and information that is consistent with information presented to the entity's decision-making management and investors/lenders at the start date of the Article 6.4 activity, as defined in the "Standard: Article 6.4 activity standard for projects". Where the project design document (PDD) is submitted for validation prior to the start date of the Article 6.4 activity, the analysis shall be updated through the submission of a request for approval of post-registration changes in accordance with the procedure "Article 6.4 activity cycle procedure for projects" (A6.4-PROC-AC-002) or as part of at the first verification of emission reductions or net removals, based on data and information that was available at the start date;
  - (c) Where public funding for an Article 6.4 activity, expressed in grant equivalents, is larger than the expected revenues from A6.4ERs, mechanism methodologies shall require demonstration that public funding would not have filled the funding gap in

the absence of revenues from A6.4ERs. This may, for example, to public funding schemes that are designed to pay for the funding gap of mitigation activities;

- (d) For transparency purposes, activity participants may specify the abatement costs as part of the PDD or monitoring reports.

### 6.3.3. Requirements applicable to simple cost analysis

46. The simple cost analysis shall demonstrate that:

- (a) The implementation of an Article 6.4 activity is associated with costs and does not generate any cost savings or revenues other than from A6.4ERs;

~~Option C.1: No text.~~

~~Option C.2:~~

- ~~(b) Revenues from A6.4ERs can cover the costs associated with the Article 6.4 activity.~~

~~{End of Option C.2}~~

### 6.3.4. Requirements applicable to benchmark analysis and investment comparison analysis

- 47. A suitable financial indicator for the financial viability of an Article 6.4 activity shall be used, such as the net present value or internal rate of return.
- 48. The period of assessment shall reflect the period of expected operation of the underlying technology or practice and include the residual value of the assets at the end of the assessment period. Other periods and approaches may be proposed by proponents of mechanism methodologies with appropriate justification.

### 6.3.5. Requirements applicable to benchmark analysis

- 49. The financial benchmark shall be derived in a conservative manner.
- 50. Where the benchmark analysis is applied by the proponent of the mechanism methodology or a host country through the submission of a standardized baseline, as referred to in paragraphs 21(c) above, the financial benchmark shall be consistent with the weighted average cost of capital (or the cost of equity, as applicable) that is commonly applicable to the country, sector and type of activity.
- 51. Where the benchmark analysis is applied by activity participants, as referred to in 21(b) above, the following applies:
  - (a) Where the Article 6.4 activity can only be implemented by the activity participants, and not by any other entities, the financial benchmark shall be based on the benchmark used by the entity implementing the Article 6.4 activity. This may apply, for example, to modifications to an existing plant;
  - (b) Where the Article 6.4 activity could also be implemented by other entities, the financial benchmark shall be based on the more conservative value between (i) the benchmark used by the entity implementing the Article 6.4 activity and (ii) the weighted average cost of capital (or the cost of equity, as applicable) that is

commonly applicable to the country, sector and type of activity. This may apply, for example, to the installation of greenfield plants.

52. An Article 6.4 activity shall only be considered additional if the analysis demonstrates that:

- (a) The Article 6.4 activity would not meet the required financial benchmark without revenues from A6.4ERs;

Option ~~CD~~.1: No text.

Option ~~DE~~.2:

- (b) Revenues from A6.4ERs make the determining difference in increasing the financial performance of the Article 6.4 activity; and

- (c) Revenues from A6.4ERs can raise the financial performance at or above the required financial benchmark.

{End of Option ~~CD~~.2}

#### 6.3.6. Requirements applicable to investment comparison analysis

53. In most sectors (e.g. energy, industry, waste), the alternative scenarios considered shall provide the same type and level of products or service as the Article 6.4 activity. This requirement does not apply to some land-use activities, such as afforestation or avoided deforestation, where there could be a change in the type of service between the scenario with the Article 6.4 activity and the baselines scenario.

54. An Article 6.4 activity shall only be considered additional if the analysis demonstrates that:

- (a) The activity would not be the financially most attractive scenario in absence of revenues from A6.4ERs;

Option ~~CE~~.1: No text.

Option ~~CE~~.2:

- (b) Revenues from A6.4ERs make the determining difference in increasing the financial performance of the activity; and

- (c) Revenues from A6.4ERs make the activity the financially most attractive scenario.

{End of Option ~~CE~~.2}

### 6.4. Barrier analysis

#### 6.4.1. Applicability

55. The barrier analysis may be applied for Article 6.4 activities that are:

- (a) Implemented at individual households (e.g., distribution of efficient cookstoves); or
- (b) Undertaken by small public or private entities that typically do not have access to commercial or public third-party finance (e.g., schools, small commercial enterprises that do not have sufficient credit worthiness to access loans).



56. Other cases for the application of the barrier analysis may be proposed by mechanism methodology proponents with due justification and demonstration that such barriers are prohibitive, including examples of relevant barriers.

#### **6.4.2. Requirements for conducting the barrier analysis**

57. The following barriers may be considered:
- (a) Institutional barriers (e.g., the investor not being the beneficiary of cost savings associated with the investment);
  - (b) Information barriers (e.g., lack of awareness in households of the lifecycle costs of energy efficient appliances);
  - (c) Financial barriers (e.g., lack of access to loans by rural households);
  - (d) The activity is first-of-its kind (e.g., no other similar activities have been implemented in the relevant geographical area).
58. Investment barriers (e.g., high interest rates for loans due to high perceived country risks) and other relevant barriers shall be considered as part of an investment analysis.
59. The barrier analysis shall:
- (a) Identify and describe relevant barriers faced by the Article 6.4 activity;
  - (b) Demonstrate that the barriers prevent the Article 6.4 activity from being implemented without the incentives from the mechanism;
  - (c) Demonstrate that there are no other programs or incentives, such as subsidies, that would incentivize the Article 6.4 activity;
  - (d) Demonstrate that the incentives from the mechanism are the determinant element in overcoming the identified barriers (e.g. that the revenues from Article 6.4 emission reductions can overcome the barriers);
  - (e) Demonstrate that at least one plausible alternative to the Article 6.4 activity does not face significant barriers, including the barrier faced by the Article 6.4 activity.
60. The barrier analysis shall take into account:
- (a) All relevant national and sub-national policies, including legislation;
  - (b) Current practices within the sector and geographic area; and
  - (c) Indigenous Traditional Knowledge and customary laws, where applicable.
61. Barriers that are unique to a proposed Article 6.4 activity may only be used if the activity can only be implemented by the activity participants (e.g., energy efficiency improvements in an existing plant).
62. The barrier analysis shall be supported by credible evidence. Such evidence may include independent studies, publicly available surveys, relevant verifiable market data, or data from national or international statistics but shall not include anecdotal evidence. The

evidence shall be interpreted in a conservative manner (i.e., that it is unlikely that the effect of the barrier is overestimated).

## **6.5. Common practice analysis**

63. Mechanism methodologies that use a common practice analysis shall include provisions to demonstrate that Article 6.4 activities are not common practice. This shall include:

- (a) An appropriate definition of a suitable indicator to assess common practice based on the recent uptake or existing stock or diffusion of technologies, services or practices in relation to a realistic maximum market size or potential, taking into account any constraints for the uptake of the relevant technology, service, or practice;
- (b) A definition of the appropriate geographical boundary for assessing common practice for the type of technology, service or practice, taking into account relevant market boundaries, where applicable; and
- (c) The specification of an appropriately conservative threshold that may not be surpassed for an Article 6.4 activity to be deemed additional.

## **6.6. Performance-based approaches**

### **6.6.1. Applicability**

64. A performance-based approach may be applied to types of Article 6.4 activities where all of the following applies:

- (a) The mechanism methodology uses the baseline approach(es) referred to paragraph 36 (i) or (ii) of the rules, modalities and procedures of the Article 6.4 mechanism;
- (b) The type of activity involves the production of a highly homogeneous product or the provision of a highly standardized service (e.g., electricity);
- (c) The performance of the type of activity can be defined through one or several suitable indicator(s);
- (d) Information is available to demonstrate that activities with a better performance in respect to the indicator(s) have a higher likelihood of additionality;
- (e) Data is available or can be collected on the performance of activities with respect to the indicator(s), and the data is robust and representative.

65. The proponent of a mechanism methodology shall demonstrate and justify that these conditions are fulfilled.

**6.6.2. Requirements for conducting performance-based approaches**

66. Mechanism methodologies shall define one or several suitable indicators and thresholds for the performance-based approach and specify the approach to the use or collection of data.

**6.6.2.1. Establishment of indicator(s)**

67. The indicator(s) shall be a good proxy for the likelihood for additionality. This means that activities with a better performance in respect to the indicator(s) shall have a demonstrably higher likelihood of additionality. Indicator(s) may be based on different metrics such as greenhouse gas emissions intensity, market penetration or other unique characteristics of the type of activity.
68. Proponents of mechanism methodologies shall demonstrate and justify the suitability and appropriateness of the proposed indicator(s) for the context of the type of activity and geographical areas to which the methodology is applicable. Where possible, the correlation between the indicator(s) and the likelihood of additionality should be quantified.

**6.6.2.2. Establishment of threshold(s)**

69. The threshold(s) shall be defined such that an Article 6.4 activity is only deemed additional if the indicator(s) pass the threshold(s) (passing may mean being above or below the threshold, depending on the type of indicator).
70. The threshold(s) shall be set ambitiously, by:
- (a) Ensuring that an Article 6.4 activity is very likely (i.e., at least 90% probability) to be additional; and
  - (b) Setting the threshold(s) at least at the level referred to in paragraph 36 (ii) of the rules, modalities and procedures of the Article 6.4 mechanism.
71. It shall be very unlikely (i.e., less than 10% probability) that the threshold(s) are exceeded by an Article 6.4 activity due to other influencing factors that are unrelated to the Article 6.4 activity (e.g., interannual variations in climatic conditions).
72. Mechanism methodologies shall specify the duration of the validity of any threshold(s) provided in the methodology (e.g., three years) and how threshold(s) will be updated.
73. Proponents of mechanism methodologies shall demonstrate and justify the suitability and appropriateness of the proposed threshold(s) for the context of the type of activity and geographical areas to which the methodology is applicable.

**6.6.2.3. Use and collection of data**

74. The mechanism methodology shall specify the approach to data collection, or which existing data shall be used. The data used by the mechanism methodology shall be:
- (a) Representative, reliable, accurate, consistent and transparent;
  - (b) Recent, especially in dynamic technological environments;

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(c) Sufficiently disaggregated, taking into account differences in relevant technologies, geographical or climate conditions, and the political, economic and social environment; and

(d) Verifiable.

75. Uncertainty in the outcome shall be quantified and addressed through conservative approaches (e.g. uncertainty reductions). Where sampling is involved, the sampling approach and any statistical analyses shall be described.

76. Proponents of mechanism methodologies shall demonstrate and justify the suitability and appropriateness of the approach towards using or collecting data in the context of the type of activity and geographical areas to which the methodology is applicable.

### 6.6.2.4. Use of threshold(s) for determining baseline emissions

77. Where a threshold is defined as greenhouse gas emissions per unit of output, it may also be used for determining baseline emissions, as long as the requirements in the “Standard for baseline setting” are fulfilled.

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### Document information

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02.0	3 February 2025	MEP 004, Annex 2. To be considered by the Supervisory Body at SBM 015. This version aligns with the methodologies standard ( <a href="#">A6.4-STAN-METH-001</a> ) endorsed by the CMA and takes into account the inputs received in response to the <a href="#">call for public input</a> on this draft document.
01.0	3 July 2024	MEP 002, Annex 1. A call for input on document A6.4-MEP002-A01 will be open from 3 to 24 July 2024. The feedback received during this period will be considered for further development of the draft standard at MEP 003.

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