

Agenda item 3.4 (a)

Paragraph 24 of the annotated agenda, Annex 2

Standard: Demonstration of additionality 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 the demonstration of additionality in mechanism methodologies.
- At its 1st meeting, the MEP initiated its work on additionality and recommended that a standard be developed containing requirements for mechanism methodologies to meet for the demonstration of additionality. At SBM011, the Supervisory Body approved this recommendation.
- At MEP002, the Panel finalized a first draft and agreed to seek public input on the standard.
- At MEP003, the Panel initiated analyzing the public comments received.
- At MEP004, the Panel continued addressing public comments and agreed to recommend the draft standard for approval by the SBM.



Purpose

The purpose of the draft “Standard: Demonstration of additionality in mechanism methodologies” is to address the mandate provided by the SBM at its 11th meeting to develop recommendations on the requirements for the demonstration of additionality 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 these key issues, including an assessment of advantages and disadvantages of different options.

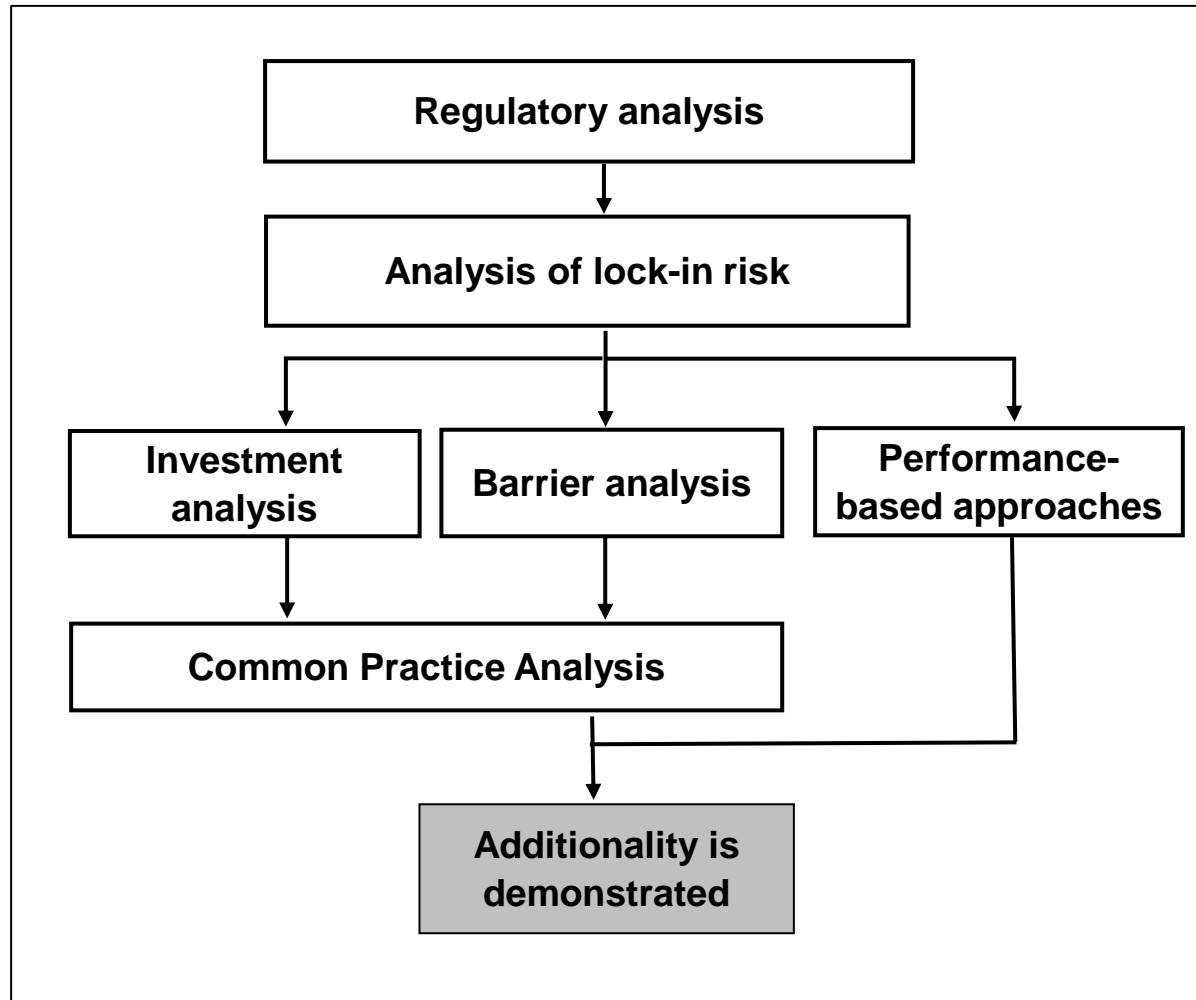


1. Applicability and relationship of tests

The “methodologies standard” includes a series of additionality tests. The MEP would like to highlight the following issues:

- a. In the methodologies standard, investment analysis and barrier analysis are alternative tests, being investment analysis the “default approach”. The MEP introduced applicability conditions for the use of the barrier analysis.
- b. Performance-based approaches are only feasible in specific circumstances. The MEP also provided applicability conditions with regard to the suitability of indicators and the availability of data.
- c. The MEP notes that the methodologies standard refers to “financial additionality”. Para 73 seems to indicate that common practice is a complementary element to financial additionality whereas para 77 seems to indicate that common practice is part of financial additionality.

1. Applicability and relationship of tests (flowchart)



2. Demonstrating additionality at different levels

This draft standard provides flexibility regarding the level at which approaches for additionality may be demonstrated:

- 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;
- 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;
- c. The proponent of a mechanism methodology may specify which approaches, parameters or conditions may be demonstrated by host countries while submitting a standardized baseline.

3. Regulatory analysis

- a. The MEP notes that paragraph 75 refers to “laws and regulations”. The MEP recommends defining this more clearly and included a definition of “legal requirements” in the standard.
- b. 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 (options A.1/A.2 in the draft standard).
- c. 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 (options B.1/B.2)

4. Analysis of lock-in risk

- a. 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 RMPs.
- b. The MEP has further operationalized this paragraph in the proposed draft standard through several provisions (see section 6.2 of the draft standard).
- c. One provision allows mechanism methodologies to consider that 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.

5. Investment analysis

Para 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. This could be implemented in different ways (see section 6.3 of the draft standard).

- a. Requiring demonstration that an Article 6.4 activity is not financially viable in the absence of revenues from A6.4ERs (Option C.1);
- b. Requiring demonstration that an Article 6.4 activity is not financially viable in the absence of revenues from A6.4ERs, and that such revenues make a decisive difference in increasing the financial viability of the activity (Option C.2).

6. Consideration of public funding

Some activities may be supported through a combination of certified ERs revenues and public funding. This raises potential issues:

- a. **Additionality:** If large shares are provided through public funding (e.g., 90%) and A6.4ERs make a smaller share (e.g., 10%), this raises the question whether A6.4 ERs revenues are a determinant factor for the activity.
- b. For some activities, the scale may depend on the total funds available (activities could have a smaller scale in the absence of A6.4ERs, so not all emission reductions may be attributable to the A6.4ERs).
- c. Use of official development assistance (ODA) to purchase authorized A6.4ERs and potential double counting of efforts.
- d. **Market distortions:** As highlighted above, public funding can reduce the costs of generating A6.4ERs, implicitly subsidizing the buyers.



7. Use of the term “start date”

The “Standard: Article 6.4 activity standard for projects” introduces the concept of the “start date” of projects.

- a. The MEP notes that the use of the specific term “start date” may be confusing to stakeholders;
- b. The MEP notes that the term “final investment decision” (FID) is a common term used to describe what is referred to as “start date” in the “Standard: Article 6.4 activity standard for projects”. The MEP suggests the SBM to possibly change the term “start date” to “date of final investment decision” consistently throughout the regulatory framework of the mechanism.

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.

Subsequent work and timelines

The MEP identified the following areas for further work on the Standard:

- Amendment to include methodological requirements for mitigation actions implemented at larger scales (e.g., programmes of activities or large-scale crediting programmes);
- To include provisions to update the section of the PDD on additionality at the renewal of the crediting period.

Further, the MEP would like to seek a mandate from the SBM to:

- Initiate work on a methodological tool for Common practice analysis;
- Further explore issues related to the possible confidentiality of data needed for the investment analysis;
- Prepare a concept note on potential issues from the financing of activities through public funding.



Recommendations to the Supervisory Body

The MEP recommends the SBM to pursue one of the following:

- a. Decide on the options provided by the MEP in the proposed draft standard and adopt the standard; or
- b. Provide further guidance to the MEP and 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 standard as per the input received.

If the standard is adopted, the MEP further recommends the SBM to provide the mandate to amend the standard to cover:

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

