



# SUBMISSION BY SLOVENIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

## Baselines and additionality for the 6.4 mechanism

28 October 2021

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The EU and its member states would like to thank the SBSTA chair for encouraging parties to provide views ahead of the informal technical dialogue on baselines and additionality for the 6.4 mechanism.

### Introduction

We believe that the 6.4 mechanism has the potential to play a crucial role in assisting parties delivering on the long term goals of the Paris Agreement, as expressed in NDCs and LTS, while enabling progression, and higher ambition overall. Therefore we see merit in recalling our submission from 02 of June 2021 regarding *Enabling ambition in Article 6 instruments*<sup>1</sup>, where we have already touched some important elements with regard to the topic of this submission.

We have repeatedly indicated that an ambitious A6.4 mechanism is an essential part of any package on agreement, and that we expect to see a “baseline and additionality” text that replaces the Madrid text and seriously addresses the context within which the mechanism operates, expectation on mechanism ambition and progress, as well as clear guidance on ambitious baseline approaches for it to be an acceptable basis for further discussion.

We need to build a mechanism for the long term and we have an opportunity now to build this mechanism in a way that contributes to delivery of Paris goals by enabling parties to increase mitigation ambition over time. Such a mechanism needs to represent a clear departure from the clean development mechanism which provided offsets from set of parties to meet the mitigation targets of another set of parties, and establish a new and more ambitious mechanism that reflects the overall goals of the agreement and the evolving contributions to these goals of the parties involved. The mechanism will continue to provide a window of opportunity to host parties who might not otherwise have the capacity to participate in markets, but will need to take a more active role in assisting hosts in delivering on their own mitigation ambitions.

Such a mechanism requires a reframing of expectation on part of public and participants through clear guidance to the Supervisory Body (SB) on what and how to credit activities. This

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<sup>1</sup> [202106021558---PT-06-02-2021 EU Submission on Enabling ambition in A6.pdf \(unfccc.int\)](#)

includes particularly the length and levels of allocation to activities credited (Baseline and Crediting Periods), as well as eligibility criteria (Additionality) but also safeguards to minimise the risk of leakage and reversals.

All market instruments, including those pursued bilaterally under Article 6.2 will need to operate within a clear pathway to balancing emissions and removals without double counting. This pathway will require real emission cuts and net removals, implying a shift away from emission reductions towards use of removals to offset residual emissions, while avoiding overreliance on emission removals as a substitute for reducing emissions in the shorter term.

To be ambitious the Mechanism should provide ambitious and dynamic reference levels for crediting, and ensure a sharing of benefits between acquiring parties and hosts. To deliver this it needs to:

- work more specifically in the interest of the host party, and respond to host priorities in respect to its NDC and long term strategy (LTS);
- support host parties in developing mitigation strategies that integrate the use of the mechanism in their mitigation plans;
- clearly identify how the use of the mechanism will contribute to host country mitigation objectives as expressed in their NDC or LTS.
- credit only the best performing activities in respect of clear performance standards - standards that should be fixed in relation to what is objectively already available, rather than with relation to what has happened in the past;
- reflect or strengthen host country LTS;
- be dynamically updated, with reference to key factors, including to defined contributions of the sector to host ambition and apply conservative approaches to address choices or uncertainties in respect to reference levels.

### Addressing the Text

Though in general we consider the 3<sup>rd</sup> iteration of the Presidency text to be a good basis for further discussion in this context. Nonetheless, we must recognize that Article 6.4 text needs an improvement with respect to ambition. When considering the ambition of the mechanism, and specifically the treatment of baselines and additionality it is relatively common ground that:

- the 3<sup>rd</sup> iteration text is inadequate in framing ambition of baselines and additionality;
- guidance needs to send a clear signal as to expectations regarding ambition, and that this is something that is nationally determined;
- need some elaboration of the baseline principles as expressed in para 35;

- need to have some elaboration on applicable baseline approaches.

We acknowledge that guidance cannot be overly prescriptive, and that the SB will need to elaborate and build more detailed rules and criteria, but we are also convinced of the need for clear instructions, so that the SB operates within the boundaries of clear rules and principles, and in concert with host countries, whose interests it needs to protect.

## Key elements

Turning to the different element, as indicated in our submission on transition<sup>2</sup> from 20 of October 2021, there are two key elements in the 3<sup>rd</sup> iteration of the Presidency text that needs further consideration and development, namely:

- Laying out expectations with regard to ambition, and how it is to be applied in the guidance on criteria for establishing baselines and additionality, as well as to crediting periods;
- Laying out processes for the identification and consideration of priorities on the host, allowing for the application of more additional specific criteria at the option of the host.

In practice this means refining and supplementing the substantive and procedural elements sketched out in the 3<sup>rd</sup> iteration of the Presidency text, which falls well short of providing the sort of guidance that is necessary, for example:

- Sections on Principles need to be recast in order to be more general, and clearly identify overall ambition of the agreement, and individual ambition as reflected in national targets and plans are at the centre of the mechanism's preoccupations;
- New text on baseline and additionality approaches, as well as crediting periods introduced so that a clear default standard of ambition is elaborated, and additional host country requirements respected;
- Existing text on rights and responsibilities of Host Parties and the SB need to be strengthened so as to ensure host country interests are identified and respected.

### 1. AMBITION PRINCIPLES (Third iteration text, para 35)

Firstly with regard to methodological principles currently laid out in para 35 of the 3<sup>rd</sup> iteration text, it would be useful to distinguish and separating general principles framing approaches to baselines additionality, and crediting period, from more specific requirements applicable to methodologies:

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<sup>2</sup> [202110201702---SI-10-20-2021 EU submission on CDM transition.pdf \(unfccc.int\)](https://unfccc.int/submissions/2021/10/20/202110201702---SI-10-20-2021%20EU%20submission%20on%20CDM%20transition.pdf)

- General principles are related to the choice and application baseline approaches, additionality assessment, and crediting periods including renewal. Implementation of these elements need to be framed and implemented so as to ensure consistency with:
  - the achievement of the long term goals of the Paris Agreement;
  - the parties nationally determined contributions to those goals as expressed in its NDC and LTS;
  - the equitable sharing of mitigation benefits between host and party using the credits;
  - maintaining space for increasing mitigation ambition over time;
  - more specific principles governing specific methodological choices, including assumptions, approaches and data sources, as well as addressing uncertainty and, leakage.

In our view, the general principles govern a range of methodological choices and approaches, including baseline, additionality and crediting period.

In the context of removals, we will also need to establish a general principle governing the application of the necessary safeguards to minimise and address the risk of reversals and leakage, and also assure environmental integrity, including with respect to crediting periods.

## **2. ENHANCING THE ROLE OF THE HOST PARTIES (Third iteration text, para 27 and 28)**

Secondly, while there is significant text on the role of hosts in defining its participation in the mechanism, we think this text could be refined and simplified.

With this as background, before activities can be considered and credited by the Mechanism, host countries need to have:

- considered the appropriate contribution of Article 6 activities to their mitigation goals, and the achievement of Paris Goals, consistent with their NDC and LTS;
- communicated this mitigation contribution to the SB, including in the form of criteria for eligibility of activities, additionality assessment, determination of baselines and crediting periods.

The role of the host needs to be enhanced, and supported under the new mechanism framework, all hosts will have taken on their own contributions to mitigation, and a commitment to increase their ambition overtime. Commitment to credit and account for specific activities for a period creates obligations for the host that will impact on NDC achievement, and prospects for progression and need to be carefully considered.

## **2.1. ELABORATION OF THE ELEMENTS OF PRIOR COMMUNICATION (Third iteration text, para 27 and 28)**

We consider that the purpose and key elements of host communications should be elaborated in the rules and procedures. The SB should have a key role in providing assistance to host countries in the preparation of these communications so that due diligence is undertaken on their behalf, and that the SB should, in consultation with potential hosts, elaborate further guidance and process with respect to these communications, next year.

In this context, rules and procedures should specify that hosts prior communication (in advance of consideration of activities), shall:

- identify the expected impact and contribution of activities to host emissions and removal levels, and the impact of crediting levels on the achievement of their mitigation strategy, including as expressed in its NDCs and LTS; and
- may include additional criteria for eligibility of activities, additionality assessment, and baseline approaches and methodologies, as well as crediting periods and renewal of crediting periods.

Rules and procedures should also clarify more specifically:

- a. In respect of baselines and additionality → these criteria could include proposals for application and updating of performance benchmarks or discount factors that satisfy defined principles and requirements; (See para 27a)
- b. In respect of crediting period and crediting period renewal → this could include specification on length of the period, and conditions on renewal. (See para 27b and 31f)

We have already proposed that this prior communication may also include potential for host to exercise some of the function of the mechanism under supervision on the SB. (See para 27c)

## **3. RESPONSIBILITIES OF THE SUPERVISORY BODY (Third iteration text, para 24 b.vi – needs upgrading)**

We are of the view that the role and responsibility of the SB, outlined in para 24, needs to be strengthened in respect of ambition.

The SB should have - when implementing its functions - a general responsibility to consider the overall contribution of the mechanism to the goals of the Paris Agreement, and the interests of host parties, including its NDC, LTS and other information that has been communicated to it.

This requirement applies most obviously when developing and implementing baselines and additionality requirements, as well as when considering renewals of crediting period, as per para 24 a.vii.

The Supervisory Body should report to CMA on how the above mentioned requirements have been implemented in its annual report.

#### 4. SPECIFYING BASELINES AND ADDITIONALITY APPROACHES

Turning to approaches to baselines and additionality, we need guidance to spell out explicitly both the application of general principles and specific approaches, namely:

##### 4.2. STANDARDS

- Methodologies Baselines and Additionality should be established on the basis of:
  - performance standards for activities offering equivalent service;
  - application of the general principles;
  - additional criteria as communicated by the host.
- Performance standards should be set at a level that:
  - represents high ambition;
  - is consistent with securing a contribution to overall goals of Paris Agreement and the mitigation strategy as communicated by the host.
- Performance standards should be set with reference to:
  - best available technologies and techniques (BAT), where
    - *best* - relates to emission/removal levels;
    - *technology and technique* - includes management practices or approaches; and
    - *available* - relates to potential deployment in the light of relevant circumstances.
- We have indicated we are open to consider alternative references for performance standard where application of BAT is not possible, and the alternative is demonstrable better in terms of delivering on the general principles.
  - such an alternative approach might include baselines derived from the application of a discount factor to historic or projected emissions;
  - for this to be feasible we would need clarity on how the different elements of such an approach could be combined in a way that delivers on the general principles;

- Additionality should not focus on sifting out projects that have occurred without an incentive, but focus on identifying projects that are transformational and address underlying emission drivers.

Therefore, and whatever the reference adopted, it will need to be demonstrated that the baseline derived from the approach is consistent with the defined host country mitigation benefit over the long term, its potential LTS and that do not prejudice implementation or achievement of the NDC or impede progression. Specific provision should be made for regular or dynamic updating of these reference levels at defined intervals, including renewal of crediting periods, or upon updating of NDCs.

#### **4.3. PROCEDURES**

The process for methodological development and implementation will need to be elaborated by the SB, and address an open and transparent process, engaging independent, technical expertise, where stakeholders including potential host parties are consulted, and:

- A broad range of stakeholders contribute to the identification of the best available technologies, practices and techniques that are applicable for particular scopes of activities and circumstances; and
- Where it is proposed that methodologies are adopted on the basis of discount factors in respect of historic or projected emissions, both the host country and the SB confirm that the discount proposed and adopted is consistent with the general principles (outlined above).