



Baseline setting in Article 6 negotiations

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Agenda

- Baseline setting in the context of PA market-based cooperation
- Methodology principles in Art. 6.4 negotiations
- Baseline setting approaches in Art. 6.4 negotiations
- Key issues left to resolve

Baseline setting in the context of PA markets (Art. 6)

- **The (crediting) baseline is the reference scenario that determines the amount of credits issued.**
 - Baseline calculation has direct impact on the **environmental integrity** of the mitigation outcome (together with **additionality testing** and **safeguards** against host country overselling)
- **Crediting baselines should reflect host country NDC characteristics**
 - Unconditional vs. conditional targets
- **Crediting baselines can be calculated in a (conservative) way that they raise mitigation ambition in the host country**
 - This is one option of operationalizing the OMGE principle
- **The characteristics of crediting baselines need to differ depending on the aggregation level of the mitigation action**
 - Projects, programmes, policy instruments, entire sectors
- **Art. 6 should learn from the experiences of the Kyoto Mechanisms**

Baseline setting in the context of the Kyoto Mechanisms

- **Eligible baseline setting approaches in the CDM (Marrakech Accords), trying to define what would happen under “business as usual” (BAU)**
 1. Based on existing actual or historical emissions
 2. Based on emissions from a technology that represents an economically attractive course of action, taking into account barriers for investment
 3. Based on average emissions of similar project activities undertaken in the previous 5 years, in similar circumstance and whose performance is among the top-20% of their category
- **In practice, often a mix of these approaches was applied in CDM methodologies**
- **Main difference of Art.6 baseline setting compared to CDM**
 - All countries must communicate and implement NDCs
 - Collective commitment to limit global warming to well below 2°C that can only be achieved through rapid transformation and decarbonisation of the global economy

Methodology principles in Art. 6.4 negotiations

- List of generic principles to guide methodology development/approval by A6.4 Supervisory Body
- Clear and mandatory link to NDCs and LEDS is pushed for by EU, AOSIS, AILAC and others, but rejected by LMDC and Arab Group

Provision:	Related to:	Questions:
Shall	Transparency, Conservativeness	
Should	Encourage increase in ambition over time	<i>Within the same activity? In the host country?</i>
Should take into account, as appropriate	Uncertainty , any leakage, relevant policy , consistency with NDC, any contribution to reducing emissions in host Party, LEDS of the Party, long-term PA target	<i>Who determines the “appropriateness”?</i>

UNFCCC (2019): Draft Art.6.4 text, version 15.12.20

Baseline setting approaches in Art. 6.4 negotiations

- **Wild list of different approaches (BAU, historic emissions, BAT, performance-based benchmarks, any other)**
 - Full list was taken out of last iteration of Presidency text proposals.
 - Key crunch issue of last days of negotiations.
- **LMDC and Arab Group insist on BAU approaches to be part of “menu” of approaches**
 - Compromise proposal: “projected emissions below BAU”, *“if another approach is not considered economically and technologically viable”*
- **LMDC, Arab Group, India reject BAT**
 - Compromise proposal: approach “taking into account BAT that represent an *economically feasible and/or environmentally sound* course of action”
 - Economically feasible is known from CDM but how to define an environmentally sound course of action?

Baseline setting approaches in Art. 6.4 negotiations

- **In the last days of negotiations: AILAC, Japan and EU proposed a performance-based approach that combines benchmarks and BAT.**
 - *Baseline set at least at the average emission level of the best performing comparable activities (...) in the past 3 years*
 - Compromise proposal re-introducing de-facto a menu of approaches: where performance/BAT approach not applicable, other approach approved by host country in line with general principles
- **Not disputed: technical assessment of necessary updates to baselines at the point of renewal of crediting period**
- **Standardized baselines may be developed by A6.4SB at the request of the host Party/ developed by host Party and approved by A6.4SB “at the highest applicable level of aggregation”**
- **Indirect recognition of suppressed demand through special circumstances of LDCs/SIDS (?)**

Key issues to resolve

- **Formulate clear and robust rules in line with PA that are flexible enough for the application to different types and scales of activities and country contexts**
- **Operationalization of overarching principles in the context of baseline setting → *increase ambition, consistency with NDC/PA targets, etc.***
- **Identify steps forward and formulate guidance to orient the revision of existing methodologies (CDM, voluntary standards) and the development of new methodologies**
- **Efficient and robust methodology development/revision process is a necessary condition for the rapid (or at least not further stalled) implementation of Article 6.4 mechanism**



Thank You!

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