



Annex 3

INFORMATION NOTE ON THE TREATMENT OF INCREASE IN FUTURE ANTHROPOGENIC EMISSIONS OF A HOST COUNTRY

I. Background and scope of the note

1. At the fifth meeting of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in Copenhagen, Parties agreed in decision 2/CMP.5 to encourage the Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM) to further explore the possibility of including in baseline and monitoring methodologies, as appropriate, a scenario where future anthropogenic emissions by sources are projected to rise above current levels due to specific circumstances of the host Party.
2. The 2010 CDM management plan approved by the Board at its fifty-fourth meeting identified the following activities regarding this issue:
 - (a) Prepare and present to the Methodologies Panel an option paper to identify and address scenarios (in methodologies that allow for it) where future anthropogenic emissions by sources are projected to rise above current levels due to specific circumstances of the host Party;
 - (b) Consider a framework for development of a tool or guidelines to account for scenarios where future anthropogenic emissions by sources are projected to rise above current levels.
3. At its fifty-sixth meeting the Board considered a recommendation by the Small-Scale Working Group (SSC WG) as contained in annex 7 of the twenty-seventh meeting report of the SSC WG. The Board agreed that the SSC WG should continue to address the issue where relevant in specific new methodologies and revisions of methodologies taking into account relevant approaches found in the methodologies approved by the Board.
4. At the sixth meeting of the CMP in Cancun, Parties agreed in decision 3/CMP.6 to reiterate its encouragement to the Board to further explore the possibility of including in baseline and monitoring methodologies, as appropriate, a scenario in which future anthropogenic emissions by sources are projected to rise above current levels owing to the specific circumstances of the host Party.
5. This note provides an overview of the issue of treatment of increase in future anthropogenic emissions of a host country with a view to get to a common understanding on the issue as well as on the future steps. The note also recommends the Board that the secretariat prepares a single standard applicable both to small scale and large scale methodologies to address the issue, to ensure consistency in the overall approach and to address the issue in a more systematic manner.

II. Definitions and examples

6. The issue of treatment of increase in future anthropogenic emissions of a host country is more widely known as suppressed demand. It is an issue of baseline identification under specific conditions.

7. Baselines are established based on a counterfactual scenario. In most cases, the level of service a baseline would provide is well defined and is equal to the level of service provided by the CDM project. This level of service could be higher than the level of service of the pre project scenario. However, in the situations where the pre project scenario is identified as baseline, its level of service might be limited below the level of service of the project. For example, if kerosene lamps are displaced with light-emitting diodes (LEDs), the number of kerosene lamps that are to be used to obtain the same level of service than the LEDs is too high and this is not realistic to use such large number of kerosene lamps. This is the only situation where the CDM project might provide a level of service higher than the baseline scenario. **The definition of the appropriate level of service the baseline would provide is one of the key issues to be addressed when discussing the treatment of suppressed demand.**

8. There were, in the past, some cases of methodologies rejected because the underlying project was providing a service in a region where in the pre project scenario, such type of service was not provided or was provided at a much lower level (e.g. electrification of a region not or poorly supplied with electricity). Other cases of suppressed demand cover situation such as (i) Waste Water Treatment Plants projects in regions where under the pre project scenario, there was no treatment applied and the wastewater was just dumped, (ii) landfill projects in regions where under the pre project scenario waste was not disposed at a landfill and (iii) displacement of dung with solar cookers. In these three cases, there are no emissions in the pre project scenario. Considering the pre project level of service as baseline level of service under such conditions ignore suppressed demand particularly in the context of least developed countries/small island developing states as indicated by some recent reports¹. It is also noted that an assumption of continued supply of low/poor quality services throughout the 7 or 10 years of crediting period, as these countries/regions develop, may not align well with the development objectives of the CDM. In addition, such low baseline levels may result in insignificant emission reduction and carbon credit revenue with marginal or negligible impact. For these reasons, the level of service of the baseline should be the level of service of the project and the pre project scenario should not be the baseline. **Here, the identification of the baseline for a service that was not or was provided at a much lower level under the pre project scenario is the key issue to be addressed when discussing the treatment of suppressed demand.**

9. ‘Specific circumstances of the host Party’ needs interpretation. It might include infrastructure constraints (infrastructure underdevelopment) and income constraints (poverty) of the households and communities targeted for CDM intervention.²

10. Two types of situations where rise of future anthropogenic emissions by sources above current levels may merit consideration in determining baselines are :

- (a) Where services to meet the basic human needs (e.g. basic housing, lighting, cooking, transport, or waste treatment) were completely unavailable under the pre project scenario or were provided with an inadequate level of quality resulting in both cases in zero emission;
- (b) Where a service was available under the pre project scenario to an inadequate level but with emissions intensity higher than under the project scenario (e.g. as

¹ For example ‘10 Years of Experience in Carbon Finance-Insights from working with carbon markets for development & global greenhouse gas mitigation’ by the World Bank.

² That is energy or other services are in a state where current levels of access—before CDM intervention—are inadequate because of income or infrastructure constraints, thus not reflecting real demand for energy or other services by energy poor households.



in the situation where due to low income, inefficient kerosene lamps in inadequate numbers are used for curtailed duration of hours in households to only partially meet the lighting demands, non renewable biomass is used to purify water through heating).

In the two cases, the issue related to the treatment of suppressed demand is how to identify the baseline activities as well as the baseline level of service that would have been provided.

11. A selected number of CDM methodologies (e.g. methodologies for grid connected zero emission renewables such as AMS-I.D and ACM0002, methodologies for off grid standalone renewables such as AMS-I.A, and methodologies for building energy efficiency such as AMS-III.AE) include the consideration of increase in future anthropogenic emissions.

12. Grid connected renewable energy generation methodologies include a simplified combined margin³ approach for the grid emission factor to balance many aspects (e.g. accuracy, feasibility, consistency, transparency and credibility) in addition to treatment of increase in future anthropogenic emissions i.e. baseline is determined by considering the choice and/or timing of new power plants that would be added to the grid (build margin) and the operation of the existing power plants in the grid (operating margin) with which grid electricity would have been generated in the absence of the project activity.

III. Next Steps

13. The Board may request the secretariat to:

- (a) Draft a standard for addressing the situation of suppressed demand in baseline and monitoring methodologies;
- (b) Prepare a workplan on how to implement the identified solutions in the methodologies.

³ Combined margin is an umbrella term for any method that accounts for project's effects on both what is built and what operates in the future.