

**CDM-EB78-AA-A06**

## Concept note

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# Selection of standardized baselines vis-à-vis approved methodologies

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

<b>TABLE OF CONTENTS</b>	<b>Page</b>
<b>1. PROCEDURAL BACKGROUND.....</b>	<b>3</b>
<b>2. PURPOSE .....</b>	<b>3</b>
<b>3. KEY ISSUES, PROPOSED SOLUTIONS AND IMPACTS .....</b>	<b>4</b>
3.1. Definition of the issues .....	4
3.2. Interpretation of decision 3/CMP.6.....	5
3.3. Technical analysis by the secretariat in consultation with the Meth Panel and Small-Scale Working Group .....	6
<b>4. PROPOSED WORK AND TIMELINES .....</b>	<b>9</b>
<b>5. RECOMMENDATIONS TO THE BOARD .....</b>	<b>9</b>
<b>APPENDIX. METHODOLOGIES PANEL AND SMALL-SCALE WORKING               GROUP FEEDBACK ON THE DRAFT CONCEPT NOTE.....</b>	<b>10</b>

## 1. Procedural background

1. At the sixth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in Cancun, Mexico, Parties requested the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) to develop standardized baselines, as appropriate, in consultation with relevant designated national authorities (DNAs).
2. In response to the request from the sixth session of the CMP, the Board requested the secretariat to develop a general methodological framework for the development and assessment of standardized baselines.
3. In this context, the Board, at its sixty-second meeting, adopted the “Guidelines for the establishment of sector specific standardized baselines” (the SB guidelines) (EB 62 report, annex 8). At its seventy-third meeting, the Board agreed to revise the SB guidelines based on the road-testing of guidelines and lessons learned from their implementation.
4. While considering the revised draft “Revision of regulatory documents due to the introduction of standardized baselines”, the Board (EB75 report, paragraph 37) at its seventy-fifth meeting discussed instances in which project participants (PPs) are required to select either an approved standardized baseline or an approved methodology, where both are applicable to their proposed CDM project activity at the time of preparation of the project design document (PDD) or at the time of renewal of crediting period. The Board requested the secretariat to prepare a concept note, in consultation with the Methodologies Panel (Meth Panel), for its consideration at a future meeting, providing analysis of the following issues:
  - (a) Whether the selection of a standardized baseline should be mandatory or voluntary, particularly in the context of decision 3/CMP.6;
  - (b) How the decision of the Board on this issue impacts various situations, such as multi-country standardized baselines, application of standardized baselines to programmes of activities (PoAs), environmental integrity, etc.
5. The secretariat prepared the first draft of this concept note and consulted with sixty second meeting of Methodologies Panel and forty-third meeting of small-scale working group. Appendix to this document provides information on how the comments from panel/working group were taken in account.

## 2. Purpose

6. The purpose of this document is to provide an analysis to define requirements for PPs for the selection of an approved standardized baseline (ASB) as against an approved methodology (AM) or approved tool (AT) when both are applicable to a CDM project activity in question. This document has been prepared by taking into account guidance from the Board and inputs from panels, working groups and stakeholders, in addition to the experience gained by the secretariat.

### 3. Key issues, proposed solutions and impacts

#### 3.1. Definition of the issues

7. The key issue is whether the selection of a standardized baseline should be mandatory for PPs if there is both an approved standardized baseline and an approved methodology/tool applicable to a proposed CDM project activity.
8. Decision 3/CMP.6, paragraphs 44 to 52, sets out the rule basis for standardized baselines under the CDM. Paragraph 44 **“Defines a “standardized baseline” as a baseline established for a Party or a group of Parties** to facilitate the calculation of emission reduction and removals and/or the determination of additionality for clean development mechanism project activities, while providing assistance for assuring environmental integrity”. Paragraph 45 decides that **“Parties, project participants, as well as international industry organizations or admitted observer organizations through the host country’s designated national authority, may submit proposals for standardized baselines** applicable to new or existing methodologies, for consideration by the Executive Board”. Paragraph 46 requests **“the Executive Board to develop standardized baselines, as appropriate, in consultation with relevant designated national authorities**, prioritizing methodologies that are applicable to least developed countries, small island developing States, Parties with 10 or fewer registered clean development mechanism project activities as of 31 December 2010 and underrepresented project activity types or regions, inter alia, for energy generation in isolate systems, transport and agriculture [...]”. Paragraph 47 decides that **“the application of the standardized baselines as defined in paragraph 44 above shall be at the discretion of the host countries’ designated national authorities”**.
9. On a related issue the Board already decided on the mandatory application of the approved standardized baseline ASB0001 “Grid emission factor for the Southern African power pool (version 01.0)”, based on the agreement by all the participating DNAs. The underlying issue was that the Board agreed that there could not be two different benchmarks derived from the same method<sup>1</sup> for the same sector at the same time. Similarly, the Board also decided on the mandatory application of the approved standardized baseline ASB0003 “Grid emission factor for the Republic of Uzbekistan”. For the other two approved standardized baselines, i.e. ASB0002 “Fuel switch, technology switch and methane destruction in the charcoal sector of Uganda” and ASB0004 “Technology switch in the rice mill sector of Cambodia”, the Board did not take any decision on their mandatory or voluntary application.
10. In the absence of a decision by the Board on this matter, the CDM project standard (PS), CDM validation and verification standard (VVS), and CDM project cycle procedure (PCP) do not have a requirement for PPs and designated operational entities (DOEs) that governs the selection of ASBs against AMs/ATs that are applicable to the proposed project activities.
11. Without a clear definition of requirements in this regard it will be difficult to ensure the consistency, objectivity, environmental integrity, simplicity, flexibility and predictability of the CDM.

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<sup>1</sup> ASB0001 was developed by using the “Tool to calculate the emission factor for an electricity system (grid tool)”.

### 3.2. Interpretation of decision 3/CMP.6

12. Paragraph 47 of decision 3/CMP.6 is a key provision. The application of the standardized baseline is to be at the discretion of the host countries' DNAs. This has a number of implications, which are set out below.
13. The discretion that the host Party enjoys under paragraph 47 means that a standardized baseline for a Party cannot be adopted by the Board for a Party without the consent of the Party itself. Since the standardized baseline is always developed by the Board in consultation with the DNA, as anticipated by paragraph 46 of decision 3/CMP.6, this would be unlikely to be an issue. If the Board were to adopt a standardized baseline against the wishes of a DNA, the DNA could make clear its refusal to allow for its application, in line with paragraph 47 of decision 3/CMP.6.
14. The second issue is, when a host Party DNA agrees with a standardized baseline for use in its country, whether it also has broad discretion to decide the application of the standardized baseline. The application could include issues such as whether the standardized baseline is applicable to an entire sector or a sub-sector. The discretion of the host Party DNA would also allow the DNA to decide whether the standardized baseline must be used by PPs (i.e. is mandatory) developing project activities or PoAs in that host Party for CDM registration, or whether it is voluntary (i.e. it may be used by PPs, but they are not required to use it).
15. By extension, as each host Party DNA has discretion as to the application of standardized baselines within its country, it may be the outcome of the interpretation of decision 3/CMP.6 paragraphs 44 to 52 that there are no generic principles as to how standardized baselines should be applied throughout the CDM.<sup>2</sup>
16. The discretion of the DNA also implies that the DNA would need to formally communicate to the Board its decision on the application of the standardized baseline, including all relevant aspects, such as its application to particular sectors and whether it is "mandatory" or "voluntary" for PPs. This in turn would need to be communicated to stakeholders by the Board in order to ensure that stakeholders understand the application of the standardized baseline.
17. However, it must also be noted that the Board is the supervisory body for the CDM, under Article 12 of the Kyoto Protocol. Under Article 12 (9), participation under the CDM is subject to whatever guidance may be provided by the Board. This is a "higher order" rule than the CMP decision 3/CMP.6. Equally, the Kyoto Protocol requires that emission reductions can be certified on the basis that those reductions in emissions are real and additional to any that would occur in the absence of the project activity.
18. Taking into account the interpretation above, in a case where a host Party (acting through the DNA) decides and proposes the scope of application of a standardized baseline in its country, and the Board takes a different view as to what the application should be, the Board, as the supervisory body for the CDM, would have the competence to reject the proposed standardized baseline if it deemed it necessary to do so to uphold the requirement that certified emission reductions (CERs) be real and additional. However, this does not mean that the Board would have the competence to make the

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<sup>2</sup> That said, it may be that as experience is gained by the Board, its support structure and DNAs in how standardized baselines can be applied, a form of practice starts to emerge.

decision about the scope of application of the proposed standardized baseline itself; only that it may refuse to adopt the proposed standardized baseline.

19. Therefore given the potential – albeit limited in likelihood – for conflicting views of the Board and the DNA, with each resulting from decisions within their own competence, a number of practical steps could be taken to avoid such a disagreement. These could sensibly include:

- (a) Ensuring that the DNA specifies the application of the proposed standardized baseline in a formal manner (sectors where applicable, whether mandatory or not etc.) before the Board is requested to approve it;
- (b) Supporting the DNA, through the secretariat and the relevant panel/working group, in ensuring that the DNA has sufficient capacity to understand the implications of its decisions as to the application of the standardized baseline;
- (c) Proposing the application of the standardized baseline with explanations and implications and seeking the consent of the DNA before approving it.

### **3.3. Technical analysis by the secretariat in consultation with the Meth Panel and Small-Scale Working Group**

20. Independent of the above interpretation of decision 3/CMP.6, paragraphs 44 to 52, this section contains the options available to the Board on this matter, the impact of each option on key objectives of CDM standards and a recommendation by the secretariat.

21. Where a project activity can apply either an ASB or an AT/AM, on the issue of selection of an applicable ASB vis-à-vis an applicable AM/AT, the Board may wish to consider the following options:

- (a) Option A: Selection of the ASB is mandatory for all eligible project activities taken up by PPs in the host country(ies);
- (b) Option B. Selection of the ASB is mandatory for all eligible project activities taken up by PPs in the host country(ies), only if the application of the ASB to a project activity is more conservative than the application of an AM or AT;
- (c) Option C. Selection of the ASB is mandatory for all eligible project activities taken up by PPs in the host country(ies) only if the AM/AT uses a benchmark approach for the determination of baseline emissions;
- (d) Option D. Selection of the ASB is voluntary for all eligible project activities taken up by PPs in the host country(ies), which means that PPs can select either an applicable ASB or an applicable AM/AT for their project activity;
- (e) Option E. Requirements for the selection of the ASB vis-à-vis applicable AM/AT should be decided by the Board, in agreement with the DNA, at the time of approval of each standardized baseline.

22. The impacts of the proposed options above are analysed per the relevant key objectives of the CDM standards: consistency, objectivity, environmental integrity, simplicity, flexibility and predictability in the CDM. The decision on the issue will not only impact future decision by PPs for selection between an AM/AT and an ASB, but will also impact

the already approved ASBs and associated DNAs/PPs, as some of these ASBs do not explicitly specify their mandatory/voluntary application.

23. The following are the impacts of the different options stated above.

**Table 1. Impacts of different options**

Option	Impact
Option A	The adoption of option A (mandatory application of ASB) by the Board will promote consistency, as a blanket requirement will be developed by the Board for all ASBs and all relevant project activities. The option will promote objectivity, predictability and simplicity as the predetermined requirement will be clearly known to both DNAs and PPs. It is simple for PPs to use in a PDD as compared to an AM/AT and also for the secretariat to assess the PDDs. There are no significant risks to environmental integrity identified for this option. This option prevents PPs from selecting among the available SB and AM/AT, which provides them with more benefits. However, this option does not take into account the DNA's discretion on the application of a standardized baseline and leaves no room for flexibility. This is the simplest and most straightforward option in terms of the implementation for PPs as well as for the secretariat and the Board.
Option B	Option B (selection of the more conservative between an applicable ASB and AM/AT) has been included as a result of the discussions between Board members at the seventy-fifth meeting of the Board. Under this option, the selection of an AM/AT is permitted if it is more conservative than an ASB. Therefore, it cannot be decided at the time of approval of a standardized baseline whether it is mandatory or voluntary. PPs by themselves shall calculate and compare emission reductions using the applicable AM/AT and ASB and shall choose between the ASB and AM/AT depending on which leads to the more conservative outcome. This option is cumbersome for PPs and impractical for implementation. This option will discourage PPs from investing their resources to identify the more conservative approach since they are not likely to gain any additional benefits from the extra investment, as the application of the ASB will prove to be more conservative which practically makes it mandatory for almost all project activities. This option will provide no explicit evidence to promote consistency, objectivity and environmental integrity as compared to other options, while it will lead to negative impacts on the simplicity and predictability of the CDM. It should also be noted that this option will not take into account the DNA's discretion on the application of a standardized baseline.

Option	Impact
Option C	<p>The adoption of Option C (an ASB is mandatory if it overlaps with a benchmark developed using an AM/AT) by the Board will ensure predictability in the CDM as DNAs and PPs know in advance that the application of the ASB is mandatory against the predefined AMs/ATs. This option will ensure the objectivity and simplicity of the CDM because objective and simple criteria will be available to DNAs and PPs while developing or applying a standardized baseline. The option safeguards environmental integrity as the potential risks will be mitigated by not allowing two benchmarks to calculate baseline emissions for the same sector. The option promotes flexibility by allowing PPs to voluntarily select between an ASB and non-benchmark AM/AT. Under this option, the affected AMs/ATs with a benchmark approach shall be identified by the Board, in agreement with DNAs, during the processing of each submission of standardized baselines. There are some AMs (e.g. ACM0013 or AM0070) and ATs (e.g. Tool to calculate emission factor of an electricity system) that adopt a benchmark approach for determination of baseline emissions. If this option is selected, the predefined AMs/ATs that are not allowed to be used further (for the sector and the host country) in the ASB will not be applicable to the PPs and the PPs shall use the ASB only. It should be noted that adopting this option will partially take into account the DNA's discretion on the application of a standardized baseline, as the DNA will not be consulted in advance before this option is adopted, but they will be consulted for agreement on the list of AMs/ATs against which the application of ASBs shall be mandatory, during the approval process of the standardized baseline.</p>
Option D	<p>The adoption of Option D (voluntary selection of ASBs) by the Board will cause no explicit risk to the consistency, objectivity, simplicity and predictability of the CDM. The adoption of this option keeps rules simple and flexible, but may, however, lead to a situation where PPs select between the ASB and AM/AT according to which of them gives them more emission reductions, which could favour the project participants with higher capacity to bear the transaction costs. Such selection can arguably be allowed as an instrument of flexibility and due to the fact that both standardized baselines and methodologies/tools are developed to generate emission reductions which are real and additional. Another argument favouring this option is that if project participants wish to invest more efforts and are prepared to bear the burden of higher transaction costs, they should be allowed to claim relatively higher emission reductions using AMs/ATs. Under this option, the choice can be left to the DNAs on recommending the ASB to be mandatory. The adoption of this option fully takes into account the DNA's discretion on the application of a standardized baseline.</p>
Option E	<p>The adoption of option E (case-by-case consideration) by the Board will allow good room for flexibility for the DNAs and the Board. This option fully takes into account the DNA's discretion on the application of a standardized baseline. The option is practical in the initial phase of standardized baseline submissions, where lessons learned from initial submissions (e.g. 50 submissions) can facilitate the development of objective rules/criteria for decision-making. Afterwards, the Board may formulate the rules/criteria, in consultation with DNAs, which can then be applied at the time of approval of each ASB. The basis for the criteria/rules will be assurance of environmental integrity and simplicity, because the objective rules/criteria will be known to all stakeholders in advance and this option does not result in risk to the consistency, objectivity and predictability of the CDM.</p>



24. The impacts may vary in different situations. The following two situations are considered for further impact analysis:
- (a) *A situation where multiple countries are involved in developing a standardized baseline:* For this situation an option that governs simplicity and consistency will be very important, apart from environmental integrity. A clearly defined rule by the Board, in agreement with DNAs, will have more weight. Options A, C, D and E can be considered for this with their own pros and cons.
  - (b) *A situation where a PoA includes some component project activities (CPAs) that can use both an ASB and an AM/AT and some CPAs that can use an AM/AT only (e.g. in a multi-country PoA where country A has an ASB, while country B does not have an ASB):* Under this situation, for CPAs where both an ASB and an AM/AT are available, the Board may wish to decide all the options described above in the same way as for normal CDM project activities.
25. The Board may wish to consider the following implications:
- (a) The SB guidelines should be revised to take into account the Board's decision;
  - (b) The PS/VVS/PCP should be revised to take into account the Board's decision;
  - (c) Applicable forms may need to be revised to be aligned with the revised PS/VVS.

## 4. Proposed work and timelines

26. Based on the guidance by the Board provided through the consideration of this concept note, the secretariat will incorporate changes in the following documents:
- (a) PS, VVS and PCP are submitted for the consideration by the Board at the same meeting (seventy-eighth meeting), Draft text in these documents includes all the options in line with this concept note. Non-applicable options will be deleted in PS/VVS/PCP based on the decision by the Board during the meeting;
  - (b) Draft revised SB guidelines to be submitted for the consideration of the Board at its seventy-ninth meeting;
  - (c) The "Procedure for development, revision, clarification and update of standardized baselines" (SB procedure) can be revised appropriately for the consideration of the Board at a future meeting.

## 5. Recommendations to the Board

27. The secretariat recommends **Option E** (case-by-case consideration) in view of all the benefits with this option and its consistency with the interpretation of decision 3/CMP.6 outlined in this document.
28. The Board may wish to provide further guidance on the revision of the above-mentioned documents, i.e. the PS/VVS/PCP, the SB procedure and the SB guidelines.

## Appendix. Methodologies Panel and Small-Scale Working Group feedback on the draft concept note

1. The Methodologies Panel (MP) and Small-scale Working Group (SSC-WG) provided feedback during their 62<sup>nd</sup> and 43<sup>rd</sup> meetings respectively, on the draft concept note on "Selection of standardized baselines vis-à-vis approved methodologies".
2. The diverse views on preferred options (Options A to D) expressed by the MP/SSC-WG and the secretariat's response are summarized in the table below.

**Table 1. Comments by MP/SSC WG and secretariat's response**

Comments by MP/SSC WG	Secretariat's response
1. Reasons to support Option A (mandatory) include: (i) Simple. SB gives much better reflection of country situations than AM; (ii) If voluntary, technologies not in the positive list could still receive credits under conventional approach; (iii) Give positive message to market; 2. Support option A although with a caveat that it should not mean that SBs, even if made mandatory, will not lead to gaming, particularly when applied by small group of free riders.	Positive/negative side of Option A has been elaborated.
3. Modified Option A (mandatory) which allows possible application of AM if justified by PPs is also proposed.	Applying modified option is cumbersome for the process. However, Option E, which is included based on panel/WG comments, takes into account the concern.
4. Reasons to support Option D (voluntary) include: (i) Natural incentives for SB; (ii) No experience gained for SB.	Positive/negative side of Option D has been elaborated.
5. A lot of support was expressed for option C as well, to avoid picking and choosing.	Positive/negative side of Option C has been elaborated.
6. A proposal to modified Option D which makes the choice of SB voluntary unless DNAs decide to make the SB mandatory is made.	This is included in option D.
7. New option E (where the Board decides on the nature of SB case by case) is proposed, as we cannot predict for each case which one among two, a methodology or a standardized baseline, is more conservative. However it was recognized that it may lead to a lack of guidance to DNA.	New Option E has been added. A recommendation is made to formulate rules/criteria based on lessons learned to provide guidance to DNAs.

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### Document information

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