



Annex 3

CLARIFICATIONS ON THE CONSIDERATION OF NATIONAL AND/OR SECTORAL POLICIES AND CIRCUMSTANCES IN BASELINE SCENARIOS (Version 02)

Background:

1. At its thirteen meeting the Board agreed to clarify that national and/or sectoral policies and circumstances are to be taken into account on the establishment of a baseline scenario, without creating perverse incentives that may impact host Parties' contributions to the ultimate objective of the Convention.
2. At its sixteenth meeting the Board agreed on clarifications on the treatment of national and/or sectoral policies and regulations (paragraph 45 (e) of the CDM Modalities and Procedures) in determining a baseline scenario. The Board acknowledged that there should be differentiated ways to address types of national and/or sectoral policies in determining a baseline scenario and had agreed to a number of definitions.

Clarifications and revision:

3. *At its twenty-second meeting the Board further considered the clarifications provided at its sixteenth meeting and agreed to revise them as outlined below.*
4. A baseline scenario shall be established taking into account relevant national and/or sectoral policies and circumstances, such as sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector.
5. As a general principle, national and/or sectoral policies and circumstances are to be taken into account on the establishment of a baseline scenario, without creating perverse incentives that may impact host Parties' contributions to the ultimate objective of the Convention.
6. The Board agreed to differentiate the following two (2) types of national and/or sectoral policies that are to be taken into account when establishing baseline scenarios:
 - (a) National and/or sectoral policies or regulations that give comparative advantages to more emissions-intensive technologies or fuels over less emissions-intensive technologies or fuels¹;
 - (b) National and/or sectoral policies or regulations that give comparative advantages to less emissions-intensive technologies over more emissions-intensive technologies (e.g. public subsidies to promote the diffusion of renewable energy or to finance energy efficiency programs)².

¹ So called type E+, policy that increase GHG emissions

² So called type E-, policy that decrease GHG emissions



7. The Board agreed that these two (2) types of policies shall be addressed as follows:

(a) Only national and/or sectoral policies or regulations under paragraph 6 (a) that have been implemented before adoption of the Kyoto Protocol by the COP (decision 1/CP.3, 11 December 1997) shall be taken into account when developing a baseline scenario. If such national and/or sectoral policies were implemented since the adoption of the Kyoto Protocol, the baseline scenario should refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place.

(b) National and/or sectoral policies or regulations under paragraph 6 (b) that have been implemented since the adoption by the COP of the CDM M&P (decision 17/CP.7, 11 November 2001) need not be taken into account in developing a baseline scenario (i.e. the baseline scenario could refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place).
