Annex 3

Recommendations by the methodologies panel to the executive board on national and/or sectoral policies and regulations (paragraph 45 (e) of the CDM Modalities and Procedures)

1. The Meth Panel recommends to differentiate ways to address the following four (4) types of national and/or sectoral policies:

   (a) Type E+: Existing national and/or sectoral policies or regulations that create policy driven market distortions which give comparative advantages to more emissions intensive technologies or fuels against less emissions intensive technologies or fuels.

   (b) Type E: national and/or sectoral policies or regulations that create positive comparative advantages to less emissions intensive technologies against more emissions intensive technologies (for instance: public subsidies to promote the diffusion of renewable energy, or to finance energy efficiency programs).

   (c) Type L+: sectoral mandatory regulations taken by local or national public authorities motivated by the reduction of local negatives environmental externalities and which incidentally reduce GHG emissions.

   (d) Type L: sectoral mandatory regulations taken by local or national public authorities motivated by the reduction of local negatives environmental externalities and which incidentally prevent the adoption/diffusion of less emitting technology.

2. If at the validation stage “Type E+” Policies or Regulations are implemented, or are to be implemented during the crediting period, they may be taken into account when developing a baseline scenario.

3. If at the validation stage public authorities of a non-Annex I Party have decided to achieve part of the effort that is necessary for projects activities to adopt less emissions intensive technologies by implementing “Type E –” national and/or sectoral policies, a baseline methodology can aim at determining what would have occurred in the absence of both CDM and the considered national and/or sectoral E – policies.

4. Only “Type E –” national and/or sectoral policies that have been implemented since [the adoption by the COP of the CDM M&P (decision 17/CP.7, 11 November 2001)] [adoption of the Kyoto Protocol by the COP (decision 1/CP.3, 11 December 1997)] or less at the time the CDM activity is proposed for validation can be taken into account.

(Note: The Meth Panel will continue to consider possible additional recommendations regarding L- and L+ policies and regulations.)

1 In this recommendation the following terms are defined as:

- Policies and regulations: Are policies and regulations decided and published by local and/or national authorities of the host Party(ies).

- Policy driven market distortions: Are market distortions that result from decisions taken by local or national public authorities of the host Party(ies).