



### Annex 3

#### **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**

1. The Executive Board agreed to differentiate ways to address the following four (4) types of national and/or sectoral policies<sup>1</sup> in determining a baseline scenario:
  - (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 over less emissions-intensive technologies or fuels.
  - (b) Type E-: National and/or sectoral policies or regulations that give positive 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).
  - (c) Type L-: Sectoral mandatory regulations adopted by a local or national public authority motivated by the reduction of negative local environmental externalities and/or energy conservation and which would incidentally also reduce GHG emissions.
  - (d) Type L+: Sectoral mandatory regulations adopted by a local or national public authority motivated by the reduction of negative local environmental externalities and which incidentally prevent the adoption/diffusion of less GHG emitting technology.
2. Only “Type E+” national and/or sectoral policies or regulations 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 “Type E+” 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.
3. “Type E-” national and/or sectoral policies or regulations that have been implemented since the adoption by the COP of the CDM M&P (decision 17/CP.7, 11 November 2001) may not be taken into account in developing a baseline scenario (i.e. the baseline scenario should refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place).

*(Note: The Executive Board noted that the Meth Panel is to continue to consider possible additional recommendations regarding national and/or sectoral policies or regulations of types L- and L+.)*

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<sup>1</sup> In this document the following terms are defined as:

- Policies and regulations: are decided and published by local and/or national authorities of the host Party(ies).
- Policy driven market distortions: are those that result from decisions taken by local or national public authorities of the host Party(ies).