

**DRAFT****Annex 7****GUIDELINES ON THE TREATMENT OF NATIONAL AND SECTORAL POLICIES IN THE DEMONSTRATION AND ASSESSMENT OF ADDITIONALITY****A. Background**

1. The CDM modalities and procedures require that national/sectoral policies be taken into account in the establishment of a baseline. However noting that this may create perverse incentives for the adoption of policies which contribute to the ultimate goal of the Convention the Board, at its twenty-second meeting (Annex 3), adopted clarifications which defined two forms of national/sectoral policies.
2. The first form of policies are those which give comparative advantage to more emissions intensive technologies or fuels (E+). These policies can only be accounted for in establishing the baseline scenario if they were in place prior to the adoption of the Kyoto Protocol (11/12/1997). The rationale for this is to prevent Host Parties adopting policies which create artificial baseline scenarios for proposed CDM project activities.
3. The second form of policies are those which give comparative advantage to less emissions intensive technologies or fuels (E-). The impacts of these policies can be excluded in establishing a baseline scenario if they have been implemented since the adoption of the Marrakesh Accords (11/11/2001). The rationale for this is to ensure that the CDM does not create a perverse incentive for Host Parties not to introduce policies which would contribute to emission reductions.
4. The “Tool for the demonstration and assessment of additionality” requires that the inclusion of subsidies as revenues in investment analysis be subject to the Board’s guidance on E+/E- policies (EB22, Annex 3).
5. These guidelines provide additional detail regarding how project participants and DOEs can comply with these requirements in the demonstration of additionality and apply also to cases where investment analysis is conducted in the context of the “Combined tool to identify the baseline scenario and demonstrate additionality” or in demonstrating additionality for proposed small-scale CDM project activities.

B. Definition

A policy is a set of decisions which are oriented towards a long-term purpose or to a particular problem that has arisen. Such decisions by governments are often embodied in legislation and usually apply to a country as a whole rather than to one part of it. However, the way they are applied might change from one region of a country to another.

C. Determination of a policy impact on the calculation of a financial indicator for the proposed CDM project activity

6. For each parameter applied in the investment analysis, the validating designated operational entity (DOE) shall assess whether or not the parameter is directly determined by a policy. Parameters that are policy instruments such as subsidies, taxes and charges and other financial incentives shall be considered by the DOE as directly determined by policy. Other parameters that are not specifically policy instruments shall be considered by the DOE to be directly determined by a policy in cases where the investment analysis reflects cost or revenue above or below the market prices.

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7. In case where the DOE considers that a parameter is directly determined by a policy the DOE shall determine whether this policy can be considered either an E+ policy or an E- policy, as defined by EB22 Annex 3.
8. In case where a parameter has been identified to be directly determined by an E- policy (e.g. increase in tariff for renewable energy), the DOE shall assess whether the policy has been changed after 11 November 2001. If the policy has not changed after 11 November 2001, then the current value of the parameter is to be used in the investment analysis and the DOE may assess the parameter based on usual validation practices. If the policy has been changed after 11 November 2001, then the DOE shall accept any proposal made by the project proponent to have the parameter amended to reflect the policy which was in place as at 11 November 2001. In case the project proponent want to reflect the policy which was in place before the change, all the relevant evidences to ensure that the value proposed for the parameter represent what it would be currently if the policy before 11 November 2001 was currently in place shall be provided. The difference between the actual value and this counterfactual value of the determined parameter should be related only to the difference between the currently prevailing policy and the policy that was in place before 11 November 2001
9. In case where a parameter has been identified to be directly determined by an E+ policy (e.g. decrease in tariff for renewable energy), the DOE shall assess whether the policy has been changed after 11 December 1997. If the policy has not changed after 11 December 1997 the DOE may accept the parameter based on usual validation practices. If the policy has been changed the DOE shall raise a corrective action request to have the parameter amended to reflect the policy which was in place as at 11 December 1997. The project proponent shall provide to the DOE all the relevant evidences to ensure that the value proposed for the determined parameter represent what it would be currently if policy before 11 December 1997 was currently in place. The difference between the actual value and this counterfactual value of the determined parameter should be related only to the difference between the currently prevailing policy and the policy that was in place before 11 December 1997.

D. Determination of a policy impact on the credibility of alternatives to the project activity

10. The credibility test (step 1 of the tool for the demonstration and assessment of additionality) shall assess the consistency of the identified alternatives with only laws and regulations that are not related to E+ policy introduced after 11 December 1997 or E- policy introduced after 11 November 2001. The project proponents shall confirm whether or not the law(s) and/or regulation(s) with which an alternative is not consistent is (are) related to a policy and if yes shall provide all information that allow the DOE to assess whether or not the policy is an E+ policy introduced after 11 December 1997 or an E- policy introduced after 11 November 2001
