



**CAN-International submission on
the development of standardised baselines
March 2010**

The draft decision -/CMP.5 on further guidance relating to the CDM invited Parties and observers to make submissions to the secretariat, by 22 March 2010, on its views on development of standardised baselines.

The Climate Action Network International (CAN) welcomes the opportunity to submit its views on this important issue. CAN-International is a coalition of more than 500 environmental and development non-governmental organisations worldwide, committed to limiting human-induced climate change to ecologically sustainable levels.

In CAN's view, discussions about the future of the flexible mechanisms and/or CDM reform should be firmly grounded in an analysis of their performance so far. In particular, the Clean Development Mechanism (CDM) has failed to meet its dual objectives of supporting cost-effective climate change mitigation and sustainable development in developing countries. Any possible new market mechanisms or CDM reform would need to build on lessons learned.

Most importantly:

A. Industrialised countries should support climate change mitigation efforts and sustainable development in developing countries as outlined in the Bali Action Plan. From 2013 onwards, industrialised countries must make much deeper cuts in their domestic emissions than the currently pledged and also provide financial flows independent of carbon crediting to support decarbonisation, adaptation and tropical forest protection in developing countries. **Credited actions in developing countries cannot replace ambitious domestic emission reductions in industrialised countries.**

B. Current additionality testing is inherently subjective and inaccurate, resulting in the generation of large numbers of spurious credits. Furthermore, it adds unnecessary uncertainties to the CDM process, undermining its effectiveness in supporting projects that *do* need additional support to go forward. Therefore, **any post-2012 instrument crediting emissions reductions in non-Annex I countries must involve a much more effective means for filtering business-as-usual projects.**

Any instrument used to support climate change mitigation in developing countries under the post-2012 regime must avoid these two fundamental problems with the current CDM.

Standardised baselines in particular, according to CAN-International, can only be used as a tool to address these problems and must by no means be used to water-down or side-track (some already deficient) standards and methodologies.

1. Principles for Standardised Baselines (SBLs)

One can define a standardised baseline as a baseline which is based on uniform methods and procedures applicable to multiple projects, such as standardised parameters, including benchmarks and default factors.

While CAN-International sees the administrative benefit of the use of SBLs, such administrative simplification cannot be the guiding principle or goal for the development of SBLs.

The following principles should guide the development of SBLs:

- SBLs cannot de-facto replace the current additionality testing. If SBLs were considered to replace the current additionality test(s) in approved methodologies, extensive empirical evidence, meeting the highest possible scientific standards, must first be provided that the standardised approach leads to a better result with regard to proving project additionality. Only if a SBL is proven to lead to a better additionality test they can be accepted as a methodology for this purpose.
- SBLs can be considered to be a useful tool which can be used in conjunction with the current methods for additionality testing.
- SBLs cannot be a compromise towards less stringent additional testing by having the goal of lowering administrative thresholds for the approval of CDM project methodologies;
- The application of SBLs cannot harm the Sustainable Development of parties not included in Annex I of the UNFCCC;
- The application of SBLs must be constructed in a way that they positively and transparently contribute, to a global climate regime which enhances accurate net atmospheric benefits, in contrast to the current deficiencies of some CDM-projects and methodologies;
- The application of SBLs must avoid the unnecessary promotion of low cost mitigation from domestic policies and measures into the CDM (e.g. HFC23 destruction);
- SBLs are not acceptable in the form of "production-volume based baselines". This can lead to credit-oversupply in case of over-estimation of future production volumes (or economic growth) and hence to gaming by project developers.

2. Construction of SBLs and crediting thresholds

2.1. General principles

To find a SBL for a specific sector or product, data needs to be gathered from a "significant and representative share" of installations in this sector. The result will be, once ordered, a curve representing the GHG-efficiency of those installations in the sector, which we refer to as the "baseline curve". Collecting the necessary data to build the baseline curves for sectors will be one of the most important steps in establishing qualitative SBLs (see part 2.3).

Once the baseline curves are determined specific GHG efficiency level has to be determined which can become the crediting threshold. This is the level of efficiency above which project credits will be generated. The current CDM methodologies already apply examples of such thresholds:

- Paragraph 48 (c) of the CDM's modalities and procedures (contained in the Marrakech Accords) gives the option to use the performance of the top 20% of similar activities conducted in the previous five years as basis for establishing a baseline.
- Methodology ACM 0013 for highly efficient fossil-fuel fired power plants establishes the baseline using a benchmark which is based on the 15% most efficient plants in the host country using the same fossil fuel.

However, CAN-I states that the above examples of standardised baselines have shown to be problematic or incomplete and suggests the following improvements:

First of all there need to be general rules for the construction of "baseline curves". We suggest the following criteria as the **default** approach:

1. There can be no discrimination or exclusion of specific technologies used in the manufacturing industry.
2. There can be no correction applied for material quality, climatic and national circumstances.
3. the SBL shall be based on the greenhouse gas efficiency of the most GHG efficient installations globally.
4. If more than 80% of the production in a sector or sub-sector can be covered with a single baseline such baseline shall be applied.

Furthermore the SBL curves must take into account:

5. the most efficient technologies and methods;
6. substitutes in the production process (e.g. replacing clinker in cement production);
7. alternative production processes leading to lower greenhouse gas emissions;
8. high efficient cogeneration;
9. efficient energy recovery of waste gases.

Exceptions to the above general rules based on national or regional circumstances or the availability of raw materials can only be accepted, based on a rigorous set of specific criteria. All exceptions must be based on exhaustive empirical reports which are peer reviewed and verified by company and country independent entities.

For **manufacturing industries with global coverage using standardised production methods** (e.g. steel, cement and refineries), the above default approach can most likely be applied without exceptions.

We advise to set the crediting threshold at the average (GHG efficiency) performance of the top 15% of production installations within a sector or sub-sector in the years 2007 and 2008. However, ongoing technological improvements must be reflected in the crediting threshold over time. Therefore the crediting thresholds needs to be strengthened for each year after the establishment of the curve. Every 5 years the baselines and crediting thresholds must be re-assessed to include new technological developments.

2.2. Power sector

For the power sector the use of standardised baselines is more problematic based on the following observations and principles of CAN-International:

- it is inappropriate for coal to be subsidised under the carbon markets. For example, in China, ultra-supercritical coal is already being built without the CDM, and is expected to be built more in the future;
- it is inappropriate for large hydropower to be subsidised under the carbon markets, since large hydropower is common practice wherever there are hydropower resources;
- in many emerging economies wind and biomass power technologies are already cost effective and being built at the tariffs offered. Therefore standardised baselines cannot be used as a substitute for additionality testing. Although renewable energy projects always have lower GHG emissions than the grid emission factor, this does not allow for any conclusions about its additionality.

If standardised baselines are (continued) to be used for **fossil-fuel power** production the “baseline curve” must include all types of installations using different fossil fuels to not discriminate against fossil fuels with a higher GHG-efficiency (such as natural gas) and not forego major and cheap mitigation options. These baselines must include an annual improvement to include generic efficiency improvements as they occur in the sector. Every 5 years the baseline must be re-assessed and CDM projects (both ‘conventional’ CDM as well as projects credited against SBLs) must be part of these curves.

For **renewable energy sources** the current problems with additionality testing can be (partially) resolved by moving away from the project by project approach. A standardised baseline at a national level based on a share of particular¹ renewable energy sources in the total energy production, to be (over-)achieved, seems a more effective way to deal with non-additionality. Alternatively it is possible that an effective way to support renewable energy is a universal feed-in tariff, paid for in part by industrialised countries.

2.3. Data collection and MRV

Any data collection with the aim of establishing standardised baselines has to meet the highest quality standards. This requires first of all transparent and unambiguous rules with regard to the collection of data leading to results which can be reproduced independently. Secondly, all data collected must be checked by an independent verifier which has specific technical and technological knowledge of the (sub-)sector concerned. Those verifiers must prove to be free of conflicts of interest.

All methodologies, baselines and data collected, must be made available to the public with the possibility to have these assessments peer-reviewed, if required.

¹ Restating the principle as mentioned above that it is inappropriate to finance large hydropower under the carbon market since it is common practice wherever there are hydropower resources.

CAN-I states that the quality of standardised baselines strongly depends on the data made available by sectors, companies and/or installations. Companies or installations which refuse to share the necessary data for establishing the standardised baselines in their sectors, must be excluded from participation in the CDM (both as buyer or generator of credits).

Projects and sectors for which a standardised baseline is applied must, over time but as soon as reasonably possible, apply monitoring, reporting and verification standards in accordance with the provisions of articles 5, 7 and 8 of the Kyoto Protocol.