



# Development of standardised baselines

## Submission August 2010

*Climate Action Network – International is a coalition of roughly 500 environmental and development non-governmental organizations worldwide committed to limiting human-induced climate change to ecologically sustainable levels.*

The SBSTA 32 conclusions agenda item 8 (c) Methodological issues under the Kyoto Protocol on standardized baselines under the clean development mechanism invited admitted observer organizations to make submissions to the UNFCCC secretariat, by 16 August 2010, on its views to several detailed issues. The Climate Action Network (CAN) International welcomes the opportunity to submit its views on this important issue.

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.

The CAN-International submission of 22 March 2010 indicated some of the essential elements and key principles that must be taken into account in the modalities and procedures' to be drawn up on this issue for agreement at the next meeting of Parties to the Kyoto Protocol (CMP 6) in Mexico in December 2010. Most importantly:

- A. Industrialised countries should support climate change mitigation efforts and sustainable development in developing countries as outlined in the Bali Action Plan. Industrialised countries must make much deeper cuts in their domestic emissions than those currently pledged and must 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. They is no "quick fix" to ensuring additionality. The process of developing standardized baselines will need strong regulatory oversight in order to avoid the risk of capture by industry interests.

This submission sets out to address some of the issues raised during SBSTA 32 which are dealt with here below.

### **(a) The scope of the development of standardized baselines (SBLs)**

SBLs can be defined as baselines based on uniform methods and procedures applicable to multiple projects, such as standardised parameters, including benchmarks and default factors. Additionality testing determines whether a project is registered at all while the baseline determines how many credits can be issued in that project. However, SBLs cannot be used to determine the baseline and additionality at the same time.

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 establishment of the scope 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 should it 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.
- Lower administrative thresholds for the approval of CDM project methodologies through the use of SBLs should not in any way compromise stringent additionality testing.
- The application of SBLs must not 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).

### **(b) The mandatory or optional nature of the use of standardized baselines**

Assuming that SBLs will be sufficiently stringent to lead to increased emission reductions and to rule out business as usual projects, SBLs are likely to generate less CERs compared to project based methodologies. Therefore, voluntary standardised approaches would only provide carrots to project developers if the cost savings due to a simplified registration process would outweigh the loss of fewer issuances of CERs.

Generally, the current practice under the CDM to avoid the co-existence of several methodologies for the same project type should continue to be applied. This avoids project participants “picking and choosing” the methodology which gives them most CERs, thereby compromising the environmental integrity.

Moreover, where the development of SBLs would depend on the willingness of project participants to make public essential data that is necessary for the establishment of SBLs, an optional approach would significantly delay the development of SBLs.

With SBLs aiming at a harmonized approach, it is essential that project-specific baselines be phased out. Therefore where SBLs exist, the application shall be mandatory for new projects and projects requesting renewal of the crediting period.

### **(c) The procedural requirements for the development of standardized baselines, including the involvement of designated national authorities**

When designing SBLs, the host country DNA could play an important role in gathering the data required to develop SBLs. However, recent experience with the calculation of electricity grid emission factors has shown a lack of willingness on the part of DNAs to have their data verified by a third party.

We believe it is important for the transparency and integrity of the mechanism that all data collected 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.

Such an independent entity could function as a working group or panel reporting to the CDM Executive Board (EB).

It is essential to ensure a transparent process for SBL development, providing open access to the standardized baseline study results and opportunities to give public inputs at key milestones in the process. This would help avoid gaming in the standardized baseline development process, which may be influenced by industry interests.

Therefore, all methodologies, baselines and data collected, must be made available to the public. The assessments should be peer-reviewed if required.

## **(d) The priorities for developing standardized baselines**

When developing SBLs, CAN-International believes that priorities shall be given to SBLs that aim at improving the **environmental integrity of the CDM**. Given this priority, the following should be noted for the **power generation sector** where CAN International considers the use of SBLs more problematic as compared to other sectors:

- It is inappropriate for coal to be subsidised under the carbon markets. For example, in China, ultra-supercritical coal power plants are already being built without the CDM, and this trend can be expected to continue;
- 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 their additionality;
- Using a standardized baseline emission factor for grid power for additionality testing would imply that all zero emission technologies are considered additional. This would result in a very large number of free-riding projects, given that renewable power generation is already an important pillar in many developing countries.

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 to not forego major and cheap mitigation options. These baselines must include an annual improvement to take into account business-as-usual efficiency improvements as they occur in the sector. Every five years the baseline must be reassessed and CDM projects (both ‘conventional’ CDM as well as projects credited against SBLs) must be included in these baseline curves.

For **renewable energy sources** the current problems with additionality testing can be (partially) resolved by moving away from the project by project approach. It is possible that an effective way to support renewable energy is a universal feed-in tariff, paid for in part by industrialised countries.

We believe that energy efficient appliances could potentially be an interesting sector for SBLs. These projects are currently underrepresented in the CDM and SBLs could build on existing energy labels.

## **(e) Access by underrepresented regions, subregions, sectors and least developed countries to the CDM**

In order to avoid an unfair distribution, performance standards must be set taking into account the local conditions of LDCs. However, many host countries currently lack the capability to set up appropriate performance standards and the necessary data is often not available. Therefore, increased financial and technical assistance is needed to develop capacity to monitor, report and verify emissions and activity data for the relevant sector and its installations.

## **(f) The level of aggregation and the boundaries**

The level of aggregation is a key determinant of how effective SBLs are likely to be. Highly aggregated SBLs increase the risk of non-additional projects. Low levels of aggregation have been criticized for raising issues regarding confidential data. But an overly lenient performance indicator could risk allowing large amounts of CERs from business-as-usual projects.

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.

Once the baseline curves are determined, a 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 Marrakesh 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-International believes that the above examples of SBLs 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) 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.
- 3) Requirements must apply for both retrofit as well as greenfield projects.

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. For Greenfield projects this should only include plants constructed in the past five years, for brownfield projects this should include all plants. 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 baseline curve. Every five years the baselines and crediting thresholds must be re-assessed to include new technological developments.

### **(g) Data quality, availability, collection and confidentiality**

Any data collection with the aim of establishing SBLs 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 (see (c) above). 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.

CAN-International states that the quality of SBLs 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 SBLs in their sectors, must be excluded from participation in the CDM (both as buyer or generator of credits).

SBL need to be updated periodically to reflect changing economic, social, technological, and environmental circumstances. CAN-International believes that the crediting thresholds need to be strengthened for each year. Every five years the baselines and crediting thresholds must be re-assessed to include new technological developments.