



## Submission on modalities and procedures for the development of standardized baselines

By ClimateNet, 22 March 2010

Whilst the Clean Development Mechanism (CDM) has had substantial success in terms of numbers of projects and quantity of emissions reductions it has mobilised, it has also faced criticisms, in particular, for lengthy, costly and subjective procedures for determining baseline emissions and additionality of projects. To facilitate project development, increase the credibility of the CDM and reduce inconsistency of decisions on project registration, standardized approaches to baseline setting and additionality determination have been proposed. This builds upon a trend to introduce standardized elements in approved CDM baseline methodologies. Standardized baselines can address many of the criticisms levelled at the CDM but also need careful implementation and regulatory oversight in order to ensure the environmental integrity of the CDM is maintained.

Standardized baselines can be established by comparing own emission performance against peers. Baseline emissions are derived from a set of similar installations. Project additionality is deemed to exist if a level derived from a set of similar installations is beaten. Standardized baselines are derived in a **four-step process**. Firstly, it has to be decided which **performance indicator** is used to determine a standardized baseline. Secondly, an appropriate **aggregation level** of the standardized baseline needs to be decided. Thirdly, the **stringency level** of the standardized baseline has to be decided, which specifies the baseline and/or the level that has to be beaten to show additionality of a project. Lastly, the standardized baseline needs to be **updated** at a certain time interval.

The key technicalities of standardized baselines are summarized below:

- **Choosing performance indicators:** Given the one-off decision on the indicators, it is hard to agree on indicators because there are a lot of vested interests. Wrong decisions on standardized baselines are more difficult to reverse than wrong decisions on specific projects, as the former cannot be changed very frequently.
- **Setting the aggregation level of a standardized baseline:** This is a key determinant of how effective a standardized baseline is likely to be. Aggregation can be done according to **production processes, product types, project vintages** and **geographical area**. Highly aggregated standardized baselines increase the risk of non-additional projects while not harnessing certain mitigation potentials, as they cannot capture country- or even region-specific differences in project attractiveness. Low levels of aggregation raise issues regarding data confidentiality. The choice of the aggregation level has a strong impact on transaction costs. The EU ETS

experience shows a limited number of standardized baselines, as few as 40, can cover a majority of the most important industrial sectors.

- **Defining the level of stringency of the selected performance indicator:** An overly stringent standardized baseline will restrict uptake of CDM projects in the sector, while an overly lenient one could risk allowing large amounts of CERs from business-as-usual projects. The decision on the stringency level therefore requires a high degree of judgement. However, a large body of objective data is already available that can aid the decision on the stringency level.
- **Updating frequency of standardized baselines:** Standardized baselines need to be updated periodically to reflect changing economic, social, technological, and environmental circumstances. Key issues are the frequency and procedures for updating. The benchmarks can be updated by recollecting the data from the peers, or based on a pre-defined autonomous improvement factor in emission performance.

We recommend the following for the establishment of modalities and procedures for the development of standardized baselines:

- **Institutionalize holistic baseline setting and additionality testing:** A key strength of a standardized baseline lies in its ability to accommodate a series of mitigation measures implemented together. In such a case, it is often challenging to establish clear causality between the overall emission reductions and every single measures implemented as these measures often interact with each other. Accordingly, clear distinction between additional and non-additional measures is often not possible in practice. Therefore, standardized baselines need to assess the baseline and additionality in a holistic manner, by conservatively “aggregating” the causality at a system level.
- **Recognize soft (or management) measures:** A standardized baseline expressed in emissions per output inherently accommodates impacts of any mitigation measure, either hard or soft. Although they have been explicitly excluded from the CDM so far, standardized baselines need to work with soft measures.
- **Choose appropriate performance indicators:** In principle, standardized baselines shall be established in a product- or service-specific manner (in tCO<sub>2</sub>/production or service). The product or service needs to be clearly defined. Furthermore, the choice of performance indicators shall take into account possible differences in regional or local characteristics that influence the emission performance.
- **Balance the level of aggregation:** In order to provide a clear signal for low-carbon investment, a standardized baseline should be developed in a technology-neutral manner. Distinction between greenfield and retrofit projects is essential in providing incentives for improvement to laggards. If appropriate, further differentiation of retrofit projects by vintage classes should be pursued. Disaggregation by product type and geographical area is highly case-specific, thus in-depth analyses are necessary.
- **Determine the right level of stringency:** A universal application of the average emissions of top 20% performers as the stringency level is debatable. The right level

of stringency differs by project type and regional or local circumstances. It is of note that the baseline approach 48.c of the Marrakech Accords, which sets the baseline as the average emissions of similar project activities undertaken in the previous five years and with top 20% performance in the category, is suitable only for greenfield projects. Further guidance is required for the use of standardized baselines for retrofit projects.

- **Regularly update a standardized baseline:** The length of the interval depends on the speed of technology development but is likely to be several years. Clear processes for updating standardized baselines should be defined upfront.
- **Set up a CDM Standardized baseline Coordinator (CSBC):** The CSBC would function as a working group or panel reporting to the CDM Executive Board (EB). Its functions would include calculating the standardized baselines for specific sectors or for specific countries, coordinating data collection and preparing standardized baselines for approval by the CDM EB.
- **Ensure transparency in decision-making:** It is essential to ensure a transparent process for standardized baseline development, providing open access to the standardized baseline study results and opportunities to give public inputs at key milestones in the process. It would help avoid gaming in the standardized baseline development process, which can often be influenced by industry interests.
- **Provide support for standardized baseline development:** Introduction of standardized baselines shifts costs from project developers to public institutions. Involvement of host country institutions is essential in collecting the necessary data, but they often lack of capability to lead the concerted efforts. Therefore, international technical and financial support is indispensable. A high share of the cost accrues up-front, but recurrent costs for updating of standardized baselines should not be underestimated. The development of costs depends strongly on the number of standardized baselines to develop, and whether the additionality test will be done through standardized baselines or will be retained on a project-specific level. Still, it is likely that overall transaction cost will go down, especially if high numbers of projects are developed using the standardized baseline.

Standardized baselines can be a useful instrument to contribute to scaling up the CDM, if developed in a transparent and judicious fashion. They are however no “quick fix” to ensuring additionality. Furthermore, the process of developing standardized baselines will need strong regulatory oversight in order to avoid the risk of capture by industry interests.

An in-depth analysis on a wider use of standardized baselines under the CDM is available at: [http://www.perspectives.cc/home/groups/7/Publications/DFID\\_CDM\\_standardized\\_baselines\\_interim.pdf](http://www.perspectives.cc/home/groups/7/Publications/DFID_CDM_standardized_baselines_interim.pdf). The final report is to be published by May 2010.

**Acknowledgement:** This submission largely benefited from inputs from Perspectives GmbH, a member of ClimateNet. Inquires should be directed to Perspectives Zurich Office (tel. +41 (0)44 820 42 12; fax. +41 (0)44 820 42 06; [info@perspectives.cc](mailto:info@perspectives.cc); [www.perspectives.cc](http://www.perspectives.cc)).