Towards a more standardised approach to baselines and additionality under the CDM

Determining nationally appropriate performance standards and default factors

Key issues for policy makers

May 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, standardised approaches to baseline setting and additionality determination have been proposed. This builds upon a trend to introduce standardised elements in approved CDM baseline methodologies. Standardised approaches 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.

Standardised approaches 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. Standardised approaches are derived in a **four-step process**. Firstly, it has to be decided which **performance indicator** is used to determine a performance standard. Secondly, an appropriate **aggregation level** of the performance standard needs to be decided according to production processes, product types, project vintages and geographical area. Thirdly, the **stringency level** of the performance standard 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 performance standard needs to be **updated** at a certain time interval.

We recommend the following for the establishment of modalities and procedures for the development of standardised approaches:

- **Institutionalise holistic baseline setting and additionality testing:** A key strength of a standardised approach 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, standardised approaches need to assess the baseline and additionality in a holistic manner, by conservatively "aggregating" the causality at a system level.
- **Choose appropriate performance indicators:** In principle, standardised approaches shall be established in a product- or service-specific manner (in tCO_2/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 standardised approach 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 standardised approaches for retrofit projects.
- **Regularly update a standardised baseline:** The length of the update interval depends on the speed of technology development but is likely to be several years. Clear processes for updating standardised approaches should be defined upfront.
- **Set up a Standardised Approach Coordinator (SAC):** The SAC would function as a working group or panel reporting to the CDM Executive Board (EB). Its functions would include determining standardised approaches for specific sectors or for specific countries, coordinating data collection and preparing the standardised approaches for approval by the CDM EB.
- **Ensure transparency in decision-making:** It is essential to ensure a transparent process for development of standardised approaches, providing open access to the analysis results and opportunities to give public inputs at key milestones in the process. It would help avoid gaming in the process of standardised approach development, which can often be influenced by industry interests.
- **Provide support for development of standardised approaches:** Introduction of standardised approaches shifts costs from individual project developers to a coordinator of the standardised approaches. 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 standardised approaches should not be underestimated. The development of costs depends strongly on the number of standardised approaches to develop, and whether the additionality test will be done through the standardised approaches 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 standardised approaches.

Standardised approaches 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 standardised approaches will need strong regulatory oversight in order to avoid the risk of capture by industry interests.

An in-depth analysis on a greater use of standardised approaches under the CDM is available at: http://www.perspectives.cc/Publications.971.0.html.