Carbon Markets & Investors Association

Promoting efficient solutions to climate change

Standardized Baselines





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Who we are

CMIA is an international trade association representing firms that finance, invest in, and provide enabling support to activities that reduce emissions. Our international membership accounts for an estimated 75% of the global carbon market, valued at USD 130 billion in 2009.

Our effectiveness and credibility as a voice in the policy-making arena is founded on our unique profile - an **international, emitter-free association, representing the entire value chain of climate finance**. This results in a unique advocacy platform with emphasis on the environmental integrity of market mechanisms and climate change policies.

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Summary

- Objectives of standardized baselines
- Basic concepts of:
  - Baseline and additionality
  - Benchmarks
  - Emission factors
- Realistic short term / long term expectations for the scope of standardized baselines

Objectives of Standardized Baselines

- Swiss submission to SBSTA
  - Reduce / remove transaction barriers
  - Increase efficiency and simplify procedures
  - Scale up mitigation actions
  - Increase regional distribution
- EU submission
  - Streamlining and simplifying the CDM
- CMIA sees an important distinction between what can be achieved immediately / in the short term and what can be achieved over the longer term through systemic changes in the CDM

Key terms

- Baseline – anthropogenic emissions that would occur in the absence of the project activity. The concept of additionality is fundamentally linked to the definition of a baseline – to show that the baseline is not BAU.
  - A baseline can be defined for a single technology, but it is not easy to define a baseline for multiple technologies – because (a) the technologies may interact and (b) it is difficult to implement to the original project design (which means financial additionality needs to be re-assessed). Barrier analysis is more robust

Key terms

- A Benchmark is a performance standard, expressed in t CO2 per unit of activity / output. In order to motivate action it must be set below existing performance (i.e. act to improve performance). There is no additionality test required for a benchmark because in achieving the benchmark, the facility is meeting a target and in exceeding the benchmark, the facility is acting beyond BAU.
  - A benchmark does not restrict activity to a single technology
  - A benchmark requires data from peers – plants of similar scale / technology / social / environmental setting
  - A benchmark incorporates an element of “domestic” action – lowering existing performance to the benchmark and “additional” performance beneath the benchmark

Key terms

- An Emission Factor is also expressed in t CO2 per unit of activity / output but this is not set as a target; it is a measure of existing performance and is used as a key input in determining baseline or project emissions

- A Default Factor is a value to be used in absence of something better

Implications for the CDM

- Benchmarks – in the short term will NOT fulfil all of the objectives of standardization

- Defining and managing a benchmark is difficult; requires data and institutional infrastructure which typically exists in advanced developing counties
  - Thus benchmarks are likely to enhance CDM in China and other advanced DCs, whilst creating further barriers to CDM in LDCs, SIDS and under represented sectors in DCs

Implications for the CDM

- Benchmarks will not simplify / streamline or speed up the process:
  - Methodologies / rules and guidance will be required
  - Agreeing a benchmark will not be straightforward (national / regional / provincial; leakage; uncertainty; level of ambition; verification)
  - Procedures for validation and verification – verifying total CO2 emissions and total output without an additionality test (more similar to EU ETS verification) – new PDD; new DOE skills / new accreditation requirements; new meths; new VVM; treatment of uncertainty

Implications for the CDM

- Benchmarks will scale up CDM but likely in the same sectors (e.g. renewable energy because of the relative simplicity of defining the benchmark)

- If the intention of standardizing baselines is to simplify the process, make it more efficient, expand into under-represented sectors and countries…. a benchmark approach is not the short term answer

What should a standardized baseline look like?

- A standardized baseline which achieves these objectives is comprised of 3 elements:
  - A qualified description of the baseline e.g. Section B4 of PDD would read "According to the standardized baseline and as accepted by the EB and host country DNA, the baseline for energy use for cooking within the project boundary is the use of unsustainably sourced biomass."
  - Conservatively quantified baseline emissions associated with the existing technology e.g. Section B6 of the PDD would read "According to the standardized baseline and the study approved by the EB and the host country DNA, the baseline emissions amount to [3] tonnes of CO2 per household per year."
  - A positive list of technologies / project activities which are considered additional e.g. Section B5 of the PDD would read "According to the list of positive technologies approved by the CDM EB and the host country DNA, the supply of biomass fired cooking stoves and biomass briquettes within the project boundary is considered additional."

What should a standardized baseline look like?

- These 3 components may be proposed by the EB and accepted partially or in full by host country DNAs
- Simplifying sections B4, B5 and B6 of the PDD would significantly reduce the transaction burden

What sectors/technologies?

- Examples of sectors / technologies that would be suitable for partial or complete standardization include:
  - Household consumption of unsustainable biomass / charcoal / fossil fuel for cooking, heating, lighting
  - Off-grid renewable energy (of any capacity); possibly on-grid renewable energy?
  - Biodiesel
  - Industrial fuel switching from fossil fuels to biomass
  - Methane capture

What sectors/technologies?

- **Energy Efficient appliances (CFLs, coolers, street lighting, VFD etc) should be addressed via deemed savings approach, but not just limited to small scale CDM**
- **Energy efficiency programs (i.e. multiple technology applications) rely on benchmarks and are not practical under CDM in its current form**
- **Procedures for the application of benchmarks need to be developed over a period of several years**
- **Standardized baselines as described above could be implemented relatively quickly and would achieve almost all objectives – simplify, speed up, re-distribute….**
- **They would lead to scale up after some time**

China's success in the CDM

- China is so successful in the CDM because the have effectively standardized the CDM already
- The investment benchmarks set by Govt authorities, combined with the institution of the Feasibility Study Report, is effectively a positive list – it is a proven means of demonstrating additionality.
  - Proving financial additionality in other countries is hampered by the need to determine an investment threshold (Weighted Average Cost of Capital / WACC) / or by conservative WACC set in the methodology.
- The publication of the data required to determine the grid emission factor effectively quantifies the baseline for most projects (other baselines are measured – such as methane emissions, industrial gases, waste heat etc)
  - Accessing and verifying despatch data or power plant data is not easy in many countries

Conclusion

- Standardized baselines have the capacity to:
  - Make CDM successful (faster, simpler, more transparent, cheaper)
  - In many more countries - particularly in LDCs and SIDS
  - And under-represented sectors – households / rural / village / urban / municipal
  - In the short term
  - With scale up over time

Conclusion

- Benchmarks will scale up the CDM in the advanced developing countries and the same sectors (power, heavy industry) but will not come with simplification, or in the short term
- It is time the CMP directed the EB to implement standardized baselines and CMIA believes that the scope described in this presentation would provide a workable solution.
- “CMP…. Directs the CDM EB to implement standardized baselines to simplify the CDM processes and encourage the development of CDM in under-represented countries and sectors, incorporating as necessary qualitative and quantitative descriptions of pre-approved baselines and positive lists of technologies which DNAs may accept as additional”