



**University of
Zurich^{UZH}**

Institute of Political Science - Center for Comparative and International Studies

Why additionality testing is indispensable for Article 6

Axel Michaelowa

axel.michaelowa@pw.uzh.ch



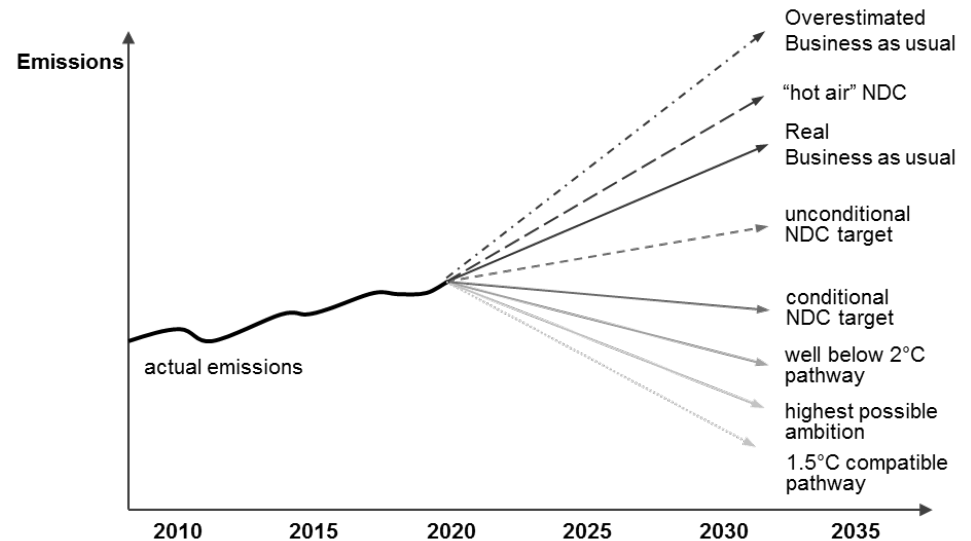
**UNFCCC COP 25 Side Event: Generating trust in
carbon markets: Insights from academic research
December 3, 2019**



“Shades” of additionality under Paris Agreement

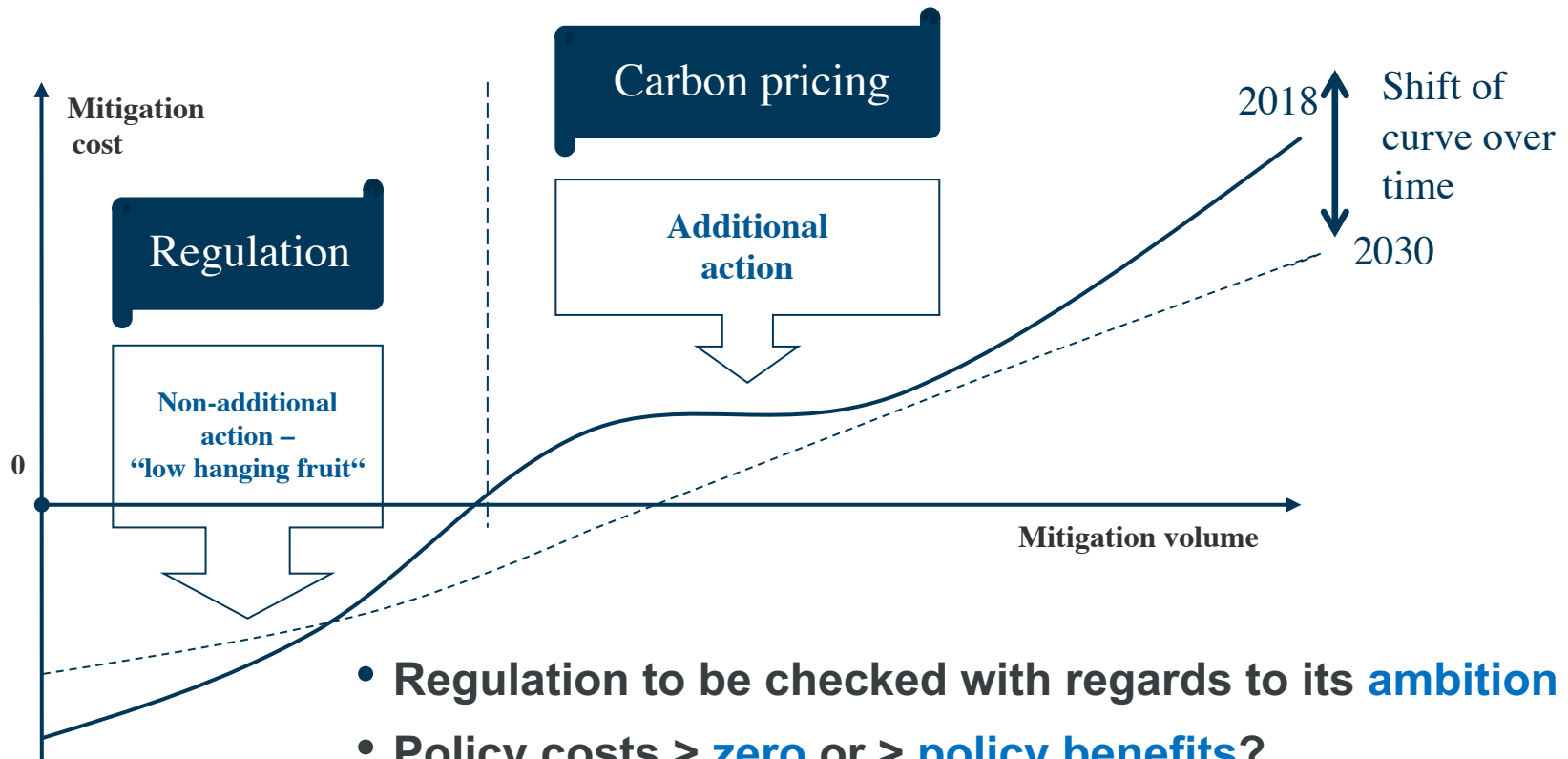
Institute of Political Science - Center for Comparative and International Studies

- **Additionality I: Classic interpretation**
 - is activity **different from business as usual?**
- **“Additionality” II: Interpretation of some Parties in COP 25 negotiation text**
 - which mitigation outcomes can be considered as “**complementary**” to or “**going beyond**” seller countries’ own NDC commitments?
- **Additionality III: Possible, future very stringent interpretation**
 - does the mitigation intervention go beyond the emissions reduction required to **be in line with the long-term PA target?**





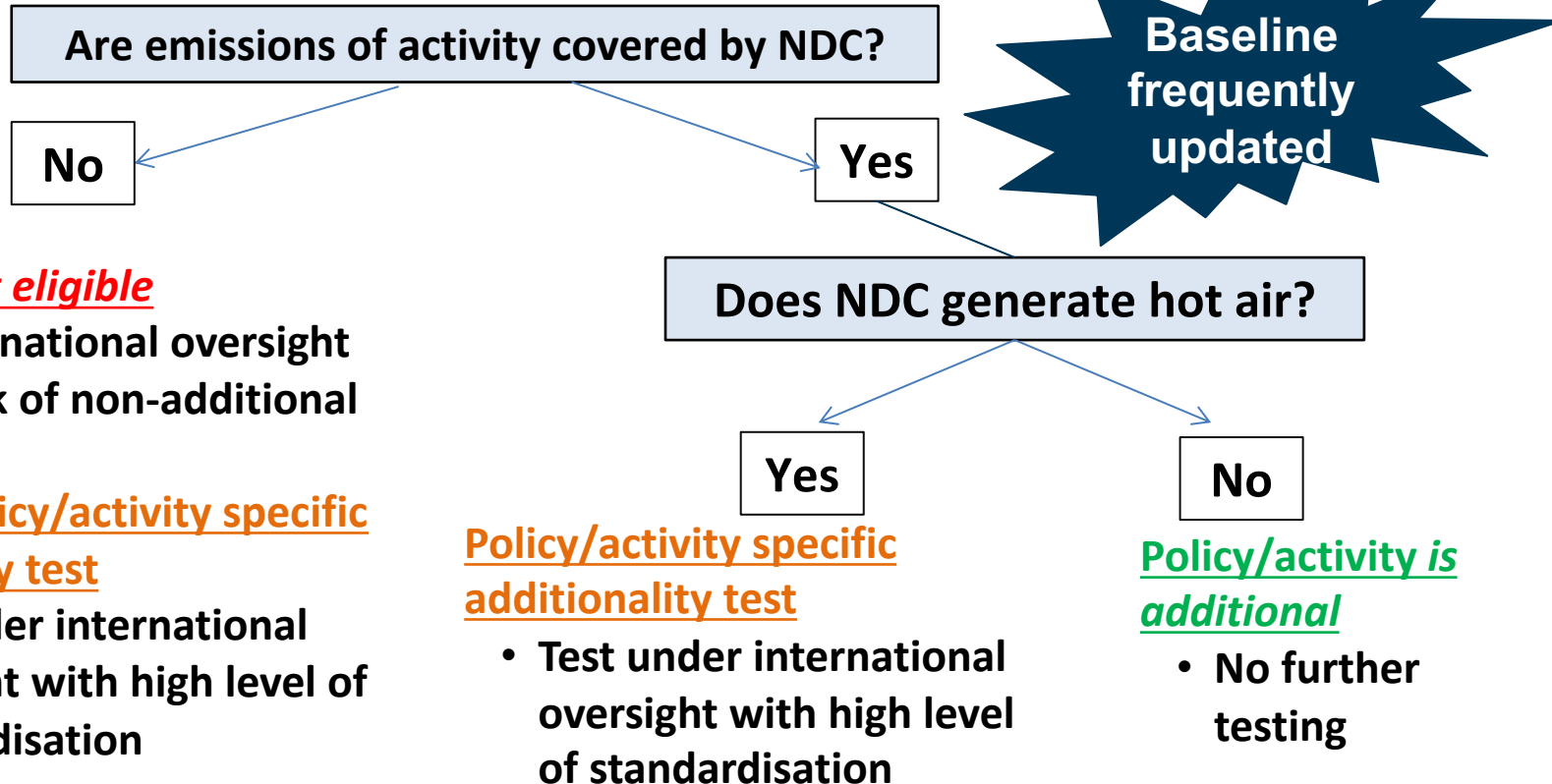
- **Stringent baseline** setting does **not automatically guarantee additionality** of activities
 - Theoretically, a non-additional activity should **not generate any emission credits at all**
 - many stakeholders argue that any activity should generate credits if its emissions are **below those of the baseline**
- **Positive lists** for additionality determination can create loopholes for non-additional activities
- Involved entities are incentivized to “**game**” additionality test parameters based on their self-interest
 - **Understatement** of the **financial attractiveness** of an activity
- An error in an additionality test is more relevant if the test is applied by a **large number of activities**

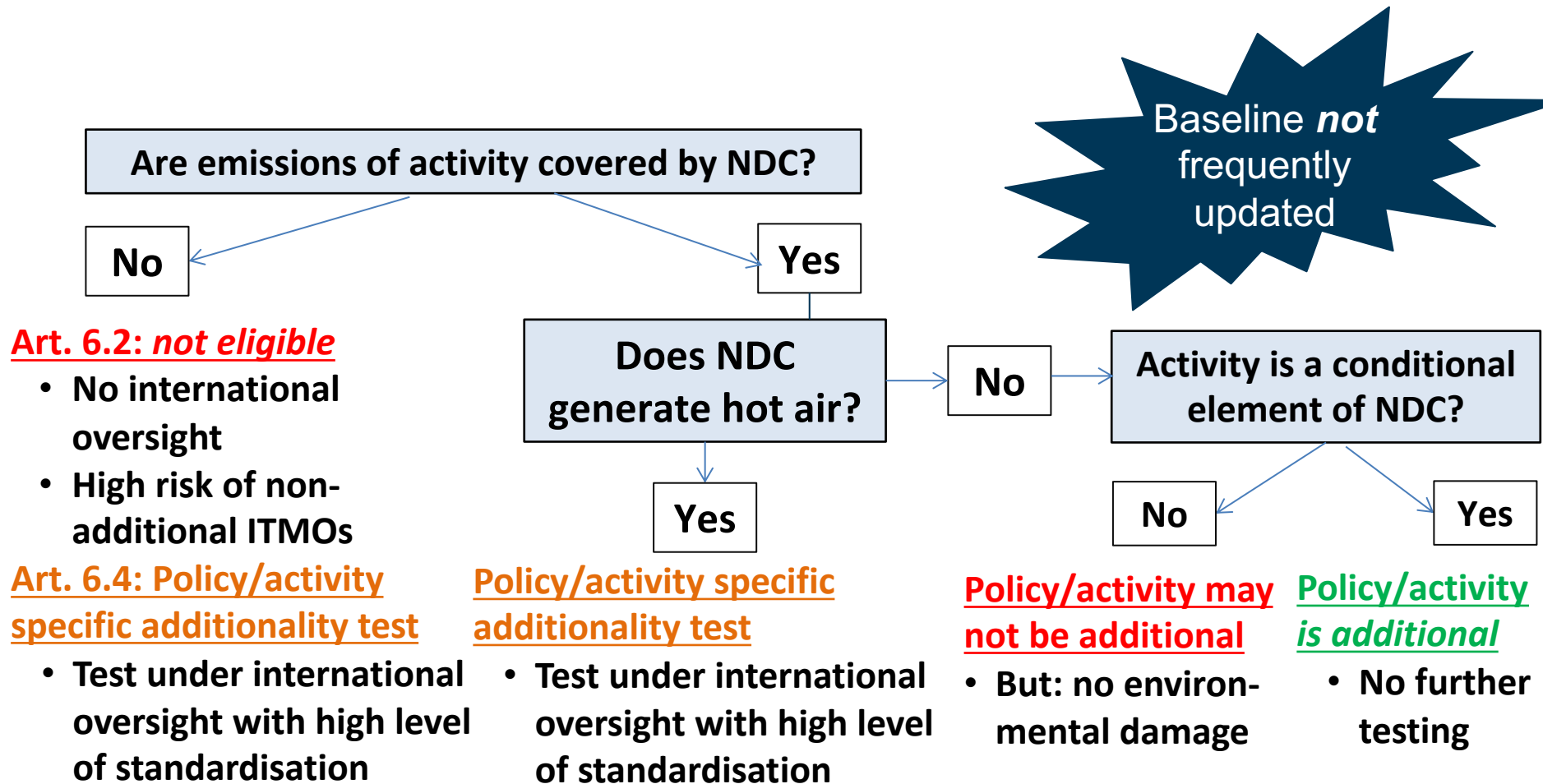


- Regulation to be checked with regards to its **ambition**
- Policy costs > **zero** or > **policy benefits**?
 - Theoretically, the **latter approach** should be used
 - However, this would probably exclude **most** policies
- **Carbon pricing** instruments additional “**per se**”?



- **Positive list of policies**
- **Fiscal policies and market mechanisms:** Carbon price threshold: policy is deemed additional if it generates a **carbon price exceeding a pre-defined benchmark**
 - Theoretical: at level of **social cost of carbon**, ~ 10 - ~50 €/t CO₂
 - Differentiation according to **country development status**? 5 €/t CO₂/ 10 €/t CO₂?
 - A **significant number of middle income countries** has introduced carbon pricing at that level
- **Regulation:** additional if **payback period** of mandated technologies generally exceeds a level of [x] years
 - $3 < [x] < 5$ years
- **Subsidies for mitigation technologies:** no excess subsidization / benchmarking







Key suggestions for additionality testing under Art 6

Institute of Political Science - Center for Comparative and International Studies

- Upscaled crediting can only achieve **credible** outcomes if additionality is taken seriously
- Apply **investment tests** for projects and programmes
- NDCs can **generate hot air** which increases the relevance of additionality tests for policy instruments
 - Apply **dynamic baselines** with **pre-determined** calculation approaches and **updates** of parameter values every **3 years**
 - **Carbon pricing**: Minimum price level
 - **Regulation**: Maximum payback period for regulated technologies
- **Pilot activities for upscaled crediting need to develop additionality testing very carefully**
 - **TCAF / Swiss pilots** will be watched by many stakeholders
 - TCAF assumption that **policy baseline automatically captures additionality of policy is problematic**: policy instrument should be tested for whether it actually mobilizes **positive cost mitigation**
 - **Host countries** can make a difference!



- How to assure a **level playing field** between Art. 6.2 and 6.4 through the application of **common approaches** for additionality determination
 - The **ambition of the NDC** of the transferring country and related consequences for the **need to test additionality**
- How to **transition additionality** tools from the CDM
 - Applicability of CDM additionality tools in the context of Art. 6
- How to **apply positive lists** in a way that reduces transaction costs while preserving environmental integrity
 - **Sector and technology specific aspects** of positive lists
- **Updating frequency** and **procedures** for dynamic baselines