ARTICLE 6.4 MECHANISM

A6.4-STAN-METH-001

Standard

Application of the requirements of Chapter V.B (Methodologies) for the development and assessment of Article 6.4 mechanism methodologies

Version 01.0

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1. Introduction

1.1. Background

1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), at its third session, requested the Supervisory Body of the mechanism established by Article 6, paragraph 4, of the Paris Agreement (Article 6.4 mechanism) to elaborate and further develop recommendations on the application of the requirements referred to in chapter V.B (titled Methodologies) of the rules, modalities and procedures for the Article 6.4 mechanism (RMPs)[1] for consideration and adoption by the CMA at its fourth session (November 2022).

2. The CMA, at its fourth session, requested the Supervisory Body to elaborate and further develop recommendations for consideration and adoption by the CMA at its fifth session (November–December 2023). It further requested the Supervisory Body, while developing the recommendations, to consider broader inputs from stakeholders provided in a structured public consultation process.[2]

1.2. Objectives

3. The objective of the standard is to set out the requirements for the development and assessment of Article 6.4 mechanism methodologies.

2. Entry into force

4. This version of this standard enters into force on 9 October 2024.

3. Normative references

5. The “shall” requirements in this document are those that the user of this document (i.e., activity participants, host Parties, stakeholders, or the Supervisory Body) is obliged to meet in order to claim conformance to this document. Other types of provisions in this document include recommendations (“should”), permissions (“may”), possibilities and capabilities (“can”) and items for inclusion in the work plan of the Supervisory Body (“will”). Besides prescriptive recommendations, explanatory information is also included in this document (e.g., summarizing the basis for or reasoning behind a requirement).

6. Reductions in emissions, increases in removals, as well as mitigation co-benefits of adaptation actions and/or economic diversification plans, are each and collectively referred to as ‘emission reductions or removals’ (A6.4 ERs) in this document.

7. Mechanism projects, programmes of activities and component projects are collectively referred to as “activity” or “activities” in this document.

[1] See decision 3/CMA.3, paragraph 6(d), for the request, available at https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf#page_26 (English language version), and the annex to 3/CMA.3 for the RMPs, contained in document FCCC/PA/CMA/2021/10/Add.1. English version available at https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf#page_29.

[2] See decision 7/CMA.4, paras. 21 and 22, for the request, contained in document FCCC/PA/CMA/2022/10/Add.2, available in all UN languages at https://unfccc.int/documents/626570.

8. The terms “technologies”, “measures” and “practices” are interchangeably used in this document and refer to technologies, measures, and practices across all sectors.

9. Where scientific information is relied upon for methodologies, IPCC publications should be considered as default source, if applicable and appropriate and unless more accurate scientific information is available.

4. Methodology principles

10. Mechanism methodologies are intended to provide the basis for claim and assessment of creditable emission reductions or removals, and whether activities satisfy additionality requirements, and all relevant RMP and guidance from the SBM.

11. Paragraph 33 of the RMP applies to methodologies, and it is relevant to, inter alia, baseline-setting, the avoidance of leakage, and the demonstration of additionality of activities.

12. Paragraph 34 of the RMP sets out additional requirements, including with respect to policies, national circumstances and reversals.

13. Paragraph 35 of the RMP frames the basic procedures for the development of methodologies by host Parties, the Supervisory Body and activity participants.

14. Paragraph 36 of the RMP provides a choice of approaches for the baseline-setting and requires the justification of the choice(s) made, including demonstration of consistency with paragraph 33 of the RMP.

15. Paragraph 37 provides for host Parties and the Supervisory Body to develop standardized baselines consistent with paragraph 33 of the RMP.

16. Paragraph 38 of the RMP applies to the demonstration of additionality of activities and identifies specific tests.

4.1. Encouraging ambition over time

17. Paragraph 33 of the RMP states that *“Mechanism methodologies shall encourage ambition over time (…)”.*

18. Mechanism methodologies shall apply increasingly ambitious baselines to encourage ambition of activities over time, while taking into account host Party circumstances. and should facilitate the deployment of low carbon solutions and technologies as described in paragraphs 19 and 20 below.

19. Mechanism methodologies should facilitate the deployment of technologies or measures that are not widely used or available in specific locations, to facilitate knowledge transfer and encourage deployment of technologies or measures that reduce the cost of decarbonization and unlock investment in low-carbon solutions.

20. Mechanism methodologies should contain provisions that facilitate the inclusion of progressively more efficient and less greenhouse gas (GHG)-intensive technologies, replicable and scalable mitigation activities, expanding the user base, broader geographic coverage, and greater penetration of low-carbon solutions after initial deployment.

4.2. Being real, transparent, conservative, credible

21. Paragraph 33 of the RMP states that *"Mechanism methodologies shall (…) be real, transparent, conservative, credible (…)".*

22. Mechanism methodologies shall contain credible methods for estimating emission reductions or removals to ensure that the results of Article 6.4 activities represent actual tonnes of GHG emissions reduced or removed. Such estimations shall be based on up-to-date scientific information and reliable data.

23. Mechanism methodologies shall contain provisions that require transparent descriptions of the sources of data used, the assumptions made, the references used and the steps followed in the estimation of the results of Article 6.4 activities, including equations where necessary.

24. Mechanism methodologies shall contain provisions that ensure conservative estimation of emission reductions or removals from the measures applied, options chosen, or assumptions made, and which should result in conservative estimates of the emission reductions or removals from Article 6.4 activities.

25. Mechanism methodologies shall contain provisions that require that Article 6.4 activities have a robust monitoring, data capture and reporting system to ensure credibility. Where secondary data is used, mechanism methodologies shall contain provisions that require activity participants to provide justification that the source of data is appropriate, and the data are conservative.

26. Mechanism methodologies shall contain provisions to ensure that all emission reductions or removals, are real, transparent, conservative, and credible by:

    (a) Including robust, transparent and user-friendly measurement, reporting and independent third-party verification systems;

    (b) Requiring the use of technical performance standards that are data driven;

    (c) Requiring transparent demonstration of changes in GHG emissions showing each step in calculations and the results, and ensuring that calculated emission reductions or removals are uniquely achieved by and attributable to the activity;

    (d) Adopting life cycle approaches and considering emissions embodied in materials and products, where relevant and practicable;

    (e) Ensuring that information, including data sources and calculations are real, transparent, conservative, accessible and credible;

    (f) Choosing a conservative emissions baseline when multiple sources of data and parameters are available to set the baseline;

    (g) Including, where appropriate, the use of remote sensing and digital technologies to enable transparent, accurate and credible calculation and estimation of emission reductions and removals.

4.3. Establishing that the selected baseline is below business-as-usual

27. Paragraph 33 of the RMP states that *"Mechanism methodologies shall (…) be below 'business as usual' (…)".*

28. Mechanism methodologies shall contain provisions that require that the baseline selected for an emission reduction activity in accordance with paragraph 36 of the RMP shall be demonstrated as being below 'business-as-usual' (BAU). BAU emissions are plausible reference benchmarks or scenarios for GHG emissions prior to or in the absence of the implementation of the activity. For that purpose, mechanism methodologies shall require the identification of the BAU scenario or reference benchmark emissions and provide an approach for their estimation.

29. Mechanism methodologies shall contain provisions that require activity participants to calculate the difference between the baseline emissions estimated as per the requirements in section 4.6 below and BAU emissions estimated as per paragraph 28 above as an annual and total amount with respect to the crediting period. This shall be demonstrated in the project design document and at each renewal of the crediting period.

4.4. Contributing to the equitable sharing of mitigation benefits between participating Parties

30. Paragraph 33 of the RMP states that *"Mechanism methodologies shall…contribute to the equitable sharing of mitigation benefits between the participating Parties…".*

31. Mechanism methodologies shall contain provisions for contributing to the equitable sharing of mitigation benefits between participating Parties, including the application of conditions specified by the Designated National Authorities (DNAs) of the host Party. These may also include one or more of the provisions below:

    (a) Conditions to ensure that the total length of the crediting period(s) of activities is shorter than the lifetime of the technology implemented including any replacements undertaken during the crediting period, where there is very high confidence that emission reductions from the technology continue to be achieved beyond the end of crediting period(s);

    (b) Other approaches to fulfil the demonstration of equitable sharing of mitigation benefits.

32. Mechanism methodologies shall include provisions that ensure that the sharing of mitigation benefits between participating Parties tangibly supports the sustainable development objectives of host Parties, such as through the use of the SD Tool in the activity design and implementation.

33. Mechanism methodologies shall require the estimation of the mitigation benefits to the host Party, taking into account the relevant provisions in paragraph 31 above.

4.5. Aligning with the NDC of each participating Party, if applicable, its LT-LEDS, if it has submitted one, the long-term temperature goal of the Paris Agreement and the long-term goals of the Paris Agreement

34. Paragraph 33 of the RMP states that *"Mechanism methodologies shall (…) in respect of each participating Party, contribute to reducing emission levels in the host Party, and align with its NDC, if applicable, its long-term low GHG emission development strategy, if it has submitted one, and the long-term goals of the Paris Agreement".*

35. Paragraph 33 of the RMP states that *"Mechanism methodologies shall (…) align with the long-term temperature goal of the Paris Agreement (…)".*

36. Mechanism methodologies shall require demonstration that the activity, does not constrain, but aligns with the policies, options and implementation plans of the host Party with regard to the latest nationally determined contribution (NDC) of the host Party, if applicable, its long-term low greenhouse gas emission development strategies (LT-LEDS), if it has submitted one, and the long-term temperature goal of the Paris Agreement and long-term goals of the Paris Agreement.

4.6. Approaches to set the baseline

37. Paragraph 36 of the RMP states that: *"Each mechanism methodology shall require the application of one of the approach(es) below to setting the baseline, while taking into account any guidance by the Supervisory Body, and with justification for the appropriateness of the choices, including information on how the proposed baseline approach is consistent with paragraphs 33 and 35 in the RMP and recognizing that a host Party may determine a more ambitious level at its discretion*:

A performance-based approach, taking into account:

(i) Best available technologies that represent an economically feasible and environmentally sound course of action, where appropriate;

(ii) An ambitious benchmark approach where the baseline is set at least at the average emission level of the best performing comparable activities providing similar outputs and services in a defined scope in similar social, economic, environmental and technological circumstances;

(iii) An approach based on existing actual or historical emissions, adjusted downwards to ensure alignment with paragraph 33 of the RMP."

38. Paragraph 27 of the RMP states that *"A host Party may specify to the Supervisory Body, prior to participating in the mechanism: (a) Baseline approaches and other methodological requirements…".*

39. Mechanism methodologies shall contain provisions that require justification of the appropriateness of the choice of approach(es) identified in paragraph 36 of the RMP for setting the baseline, with reference to the requirements of paragraphs 33 and 35 of the RMP.

40. With regard to setting the baseline for emission reduction activities, factors affecting the appropriateness of the choice may include:

    (a) Similarity of emission sources with respect to technologies and measures applied, or sectors covered by the methodology which may allow the use of an ambitious benchmark covered under paragraph 36 (ii) of the RMP;

    (b) Availability of data required for a conservative and reliable estimation of the baseline.

41. For the approaches identified in paragraph 36 of the RMP, mechanism methodologies shall contain provisions to apply the method detailed in section 4.7 below to adjust the baseline emissions downwards and to ensure consistency with paragraph 33 of the RMP.

42. A host Party may determine a more ambitious baseline requirement at its discretion and specify it to the Supervisory Body for approval.

4.7. Addressing elements of paragraph 33 and paragraph 36 of the RMP

43. Mechanism methodologies shall address consistency of implementation of paragraph 36 of the RMP with the requirements of paragraph 33 of the RMP through the appropriate application of:

    (a) Downward adjustment to the baseline as per paragraph 36 (iii) of the RMP; and/or

    (b) Downward adjustment to the baseline resulting from or applied to the approaches in paragraph 36 (i) and (ii) of the RMP, unless otherwise decided by the Supervisory Body.

44. If the calculated difference in paragraph 29 above demonstrates a downward adjustment that is greater than the adjustment calculated as per paragraphs 45 to 47 below, no further adjustment is required. Where the calculated difference in paragraph 29 above is less than the adjustment calculated as per paragraphs 45 to 47 below, further adjustment is required to align with the result of paragraphs 45 to 47 below to ensure consistency with the requirements of paragraph 33 of the RMP.

45. Factors or quantitative methods for downward adjustment of baselines shall be included in the project design document and updated at each renewal of the crediting period, in accordance with paragraphs 46 to 47 below. Host Parties may decide to apply more stringent factors or quantitative methods for downward adjustment, according to their circumstances.

46. The downward adjustment shall be undertaken in a manner that considers economic viability of critical mitigation activities, large-scale transformation and decarbonization technologies, negative emission approaches while ensuring that methodologies are aligned with the long-term temperature goal of the Paris Agreement.

47. The downward adjustment to the baseline referred to above may be operationalized through:

    (a) Factors or quantitative methods for activities included in methodologies approved by the Supervisory Body. These may be developed by all participants covered in decision 3/CMA.3 paragraph 35. Activity participants or stakeholders may propose factors or quantitative methods for the consideration of the Supervisory Body in consultation with a relevant DNA should it indicate an interest in being involved. If a country specific factor or quantitative method is to be developed, the procedures for the standardized baselines shall be applied;

    (b) Development of factors or quantitative methods, jointly by the Supervisory Body and the host Party, with the provision for the host Party to make a request to the Supervisory Body to initiate the development of the factors or quantitative methods. The procedures for the standardized baselines may be used for this purpose; or

    (c) Development of factors or quantitative methods by the host Party that are specified to the Supervisory Body for approval. The procedures for the standardized baselines may be used for this purpose.

4.8. Encouraging broad participation

48. Paragraph 33 of the RMP states that *"Mechanism methodologies shall (…) encourage broad participation (…)".*

49. The Supervisory Body shall encourage development of methodologies covering a wide range of emission reduction and removal activities with broad sectoral and geographic coverage.

50. The Supervisory Body shall encourage participation of a broad range of stakeholders during the methodology development process and the methodology application by enabling informed consultation as described in the "Procedure: Development, revision and clarification of baseline and monitoring methodologies and methodological tools".

51. Mechanism methodologies shall:

    (a) Contain provisions that uphold stringency and encourage broad participation by being accurate, simple, clear, and avoiding complexity such that a wide range of activity participants and host Parties can apply the methodology requirements irrespective of a Party's scientific infrastructure, financial and national circumstances;

    (b) Contain provisions that take into account the context on the ground in host Parties, particularly in least developed countries and small island developing States.

    (c) Contain provisions that take into account the knowledge and practices of local communities and Indigenous Peoples.

    (d) Permit the use of multiple data sources to address data gaps, and the use of conservative default values and/or use of benchmarked data from comparable regions to the extent they can be applicable;

    (e) Use simple language that is inclusive, gender-sensitive, and accessible to a wide range of stakeholders, including local communities and Indigenous Peoples to the extent possible.

4.9. Including data sources, accounting for uncertainty and monitoring requirements

52. Paragraph 34 of the RMP states that *"Mechanism methodologies shall include relevant assumptions, parameters, data sources and key factors (…)".*

53. The Supervisory Body shall ensure that mechanism methodologies are transparent and comprehensible with respect to included assumptions, parameters, data sources and key factors.

54. Mechanism methodologies shall contain or reference provisions that require the accounting of uncertainty associated with emission factors, activity data and other estimation parameters applied in the calculation of emission reductions or removals consistent with relevant IPCC guidelines.

55. Mechanism methodologies shall contain provisions requiring a listing of data parameters that need to be monitored throughout the crediting period. This may include the data that are directly measured where necessary on a sample basis, and the data that are collected from other sources such as official statistics, expert judgment, IPCC guidelines, and scientific literature. In this regard, methodologies shall contain provisions on monitoring plans related to the collection, open publication and storing of all relevant data needed to estimate baseline, project and leakage emissions, including provisions related to quality assurance and quality control.

4.10. Recognizing suppressed demand

56. Paragraph 33 of the RMP states that *"Mechanism methodologies shall (…) recognize suppressed demand (…)".*

57. Suppressed demand in the context of an Article 6.4 activity is a situation where services provided to a population are insufficient to meet the basic human needs such as minimum amount of electricity for lighting, heating or cooling due to barriers, including low income or lack of infrastructure, and where the growth of emissions resulting from meeting such needs requires special consideration in the assessment of Article 6.4 baseline scenarios.

58. The Supervisory Body will recognize suppressed demand under a situation where the BAU cannot realistically provide the level of service required of the Article 6.4 activity by considering that the baseline scenario is not set based on the historical and continuation of the current condition, but rather based on an alternative that provides a level of service comparable to that provided by the Article 6.4 activity.

59. The Supervisory Body shall recognize suppressed demand by including benchmarks and default factors in specific methodologies that may not be below BAU.

4.11. Taking into account policies and measures and relevant circumstances

60. Paragraph 34 of the RMP states *that "Mechanism methodologies shall (…) take into account (…) policies and measures, and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances (…)".*

61. Mechanism methodologies shall contain provisions to take into account relevant circumstances, including national, regional, or local, social, economic, environmental and technological, based on robust data and verifiable information. In this regard, the type of data and information that would be necessary to meet the above provisions shall be specified in the methodologies, particularly with regard to eligibility conditions, setting the baseline, and demonstrating additionality.

4.12. Standardized baselines

62. Paragraph 37 of the RMP states *that "Standardized baselines may be developed by the Supervisory Body at the request of the host Party or may be developed by the host Party and approved by the Supervisory Body. Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party and be consistent with paragraph 33 of the RMP."*

63. A standardized baseline is a baseline developed at the request of or by a host Party or a group of host Parties on a subnational, national, or group-of-Parties basis rather than on an activity basis to facilitate the determination of the baseline, calculation of the GHG emission reductions or removals and/or the determination of additionality for Article 6.4 activities, while ensuring environmental integrity within the scope of the standardized baseline.

64. The application of standardized baselines is not mandatory unless explicitly stated in an approved standardized baseline or in another standard approved by the Supervisory Body. When the application of a standardized baseline is not mandatory, activity participants may establish additionality or baseline emissions for their activity using other approved approaches as an alternative to applying a standardized baseline.

65. A host Party may specify the application of a standardized baseline as a mandatory requirement for the activities implemented in the host Party. The Supervisory Body may also specify the application of a standardized baseline as a mandatory requirement for certain cases such as when the standardized baseline is being used to address leakage emissions of an activity, as further detailed in section 6 below. The provisions in this paragraph may also apply to standardized baselines developed by or for a group of host Parties.

66. The approaches for setting the baselines referred to in section 4.6 above shall also be applied for the development of standardized baselines.

67. The host Party and the Supervisory Body should determine the level of aggregation taking into account the following:

    (a) A default level of aggregation shall comprise the facilities or equipment producing a similar type of output within the geographical boundaries of one Party or a specific subregion determined by the Party. The level of aggregation may be expanded to a group of Parties with similar circumstances relating to the output;

    (b) A default group of facilities should be disaggregated when significant dissimilarities exist in the performance of facilities or groups of facilities in the country/region. In this case, the disaggregation shall be carried out according to relevant criteria, such as scale of production, installed capacity or age of the facilities. Standardized baseline values should be determined for each group of similar facilities in this case;

    (a) Disaggregation should not result in standardized baselines with overlapping applicability.

68. Standardized baselines shall include a default validity period of three years, starting from the date of approval by the Supervisory Body. A host Party may propose a shorter or longer validity period, taking into account the specificity of sectors in which activities are undertaken, and by providing justification for the consideration of the Supervisory Body.

69. After the validity of a standardized baseline has expired, the updated standardized baseline can be submitted by the host Party for the consideration of the Supervisory Body for approval. An updated standardized baseline shall not impact registered activities applying the previous version up to the end of their current crediting period.

70. Standardized baselines may be developed by the host Party and approved by the Supervisory Body following an assessment against the “Procedure: Development, revision, clarification and update of standardized baselines”.

5. Additionality demonstration

71. Paragraph 38 of the RMP states that *“Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. Additionality shall be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation, and taking a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the RMP”.*

72. Paragraph 39 of the RMP states that *"The Supervisory Body may apply simplified approaches for demonstration of additionality for any least developed country or small island developing State at the request of that Party, in accordance with requirements developed by the Supervisory Body".*

73. Mechanism methodologies shall contain provisions to demonstrate additionality through; prior consideration of the benefits of the mechanism, regulatory analysis, the avoidance of lock-in as well as through financial additionality complemented with a common practice analysis. Performance-based approaches may be used as an alternative to provisions in paragraph 77 below.

74. Demonstration of the consideration of the benefits from the Article 6.4 mechanism as necessary in the decision to implement the activity shall be performed in accordance with the Procedure: Article 6.4 activity cycle procedure for projects.

75. Regulatory analysis shall require demonstration that the proposed activity represents mitigation that exceeds any mitigation that is required by law or regulation unless the law or regulation refers to or formally integrates the mechanism as an instrument for implementation. A law or regulation applicable to the proposed activity that may require a certain technological, performance or management action shall be considered, noting that regulatory environments vary.

76. Avoidance of lock-in shall require demonstration that the proposed activity avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the RMP, including through an assessment of the scale, lifetime, and emissions intensity of the activity;

77. Financial additionality can be proved either by:

    (a) Demonstration that the proposed activity would not have occurred in the absence of the incentives from the mechanism through an investment analysis (default approach); or

    (b) Assessment of barriers to the implementation of the activity, such as financial and institutional barriers, first of its kind, taking into account all relevant national policies, including legislation and current practices within the activity sector and geographic area including Indigenous Traditional Knowledge and customary laws. To demonstrate additionality for their activity, through barrier analysis, activity participants shall:

        (i) Describe the barriers, including the reasons why investment analysis is not sufficient; and

        (ii) Evidence the barriers and how the mechanism will help overcome the barriers; and

    (c) A common practice analysis to complement the investment and barrier analysis by demonstrating that the measure or technology is not already widespread through an analysis of the extent to which the proposed project type (e.g. technology or practice) has already diffused in the relevant sector and region.

78. Performance-based approaches may be used as an alternative to provisions in paragraph 77 above, subject to applicability conditions. The use of such approaches by an activity shall require demonstration of the following, inter alia:

    (a) the use of baseline approach(es) in paragraph 36 (i) or (ii) of the RMPs;

(b) that the technologies or practices applied in the activity outperform an ambitious threshold for emissions or emissions reductions, market penetration, or other unique characteristics, set at least at the level referred to in paragraph 36 (ii) of the RMPs;

79. When formulating an approach to demonstrate the additionality, the Supervisory Body shall take into account any communication from the host Party regarding paragraph 80 below.

80. When formulating an approach to the demonstration of additionality, including for paragraph 78 above, mechanism methodologies should consider the relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances, in line with paragraphs 60 and 61 above, including Party-led identification of activities that may be transformative.

6. Leakage

81. Paragraph 33 of the RMP states that *"Mechanism methodologies shall (…) avoid leakage, where applicable (…)".*

82. Leakage refers to anthropogenic emissions by sources of GHGs that occur outside the activity boundary which are attributable to the Article 6.4 activity.

83. Mechanism methodologies shall contain provisions to:

(a) Ensure that the potential sources of leakage in activities covered by a mechanism methodology are identified, including, but not limited to, any sources referred to in paragraph 84 below;

(b) Require activities to avoid or minimize all sources of leakage by applying the appropriate approach(es) referred to in paragraph 85 below, including addressing any remaining leakage by discounting credited volumes as described in paragraph 85(a) below;

(c) Require that activity participants list all potential sources of leakage that may reasonably be attributable to the activity and describe how each is being addressed. If the activity participant excludes any source of leakage from consideration, they shall justify its exclusion;

(d) Include provisions for robust, transparent and user-friendly measurement, reporting and independent third-party verification systems that encompass specific sources of potential leakage identified;

(e) Include, where necessary, life cycle analysis of products or material in relation to the source indicated in paragraph 84(d) below;

(f) Require the activity participant to take into account relevant information from the DNA of the host Party on leakage, where available and as per the application of the tool developed by the Supervisory Body.

84. Leakage may occur due to, inter alia:

(a) Continued use of baseline equipment being transferred beyond the activity boundary;

(b) Use of resources that have competing uses from activities outside the activity boundary that lead to a net change in emissions outside the boundary or shifts of pre-project activities that lead to a net change in emissions outside the boundary;

(c) Diversion of existing production processes or services accounted for in the baseline, inter alia through relocation and continuation of baseline activities outside the activity boundary;

(d) Impacts on upstream and downstream processes associated with the materials and services used by the activity, and/or products or services provided by the activity, relative to the baseline, unless they are accounted as activity emissions.

85. Leakage shall be avoided and, where not possible, minimized, or addressed, by, inter alia:

(a) **Discounting credited volumes**: deducting emission reductions from credited volumes taking into account equipment lifetime, where applicable;

(b) **Scrapping of baseline equipment**: undertaking and evidencing the destruction/decommissioning/disposal of baseline equipment;

(c) **Application of higher-level elements:** applying a standardized baseline at a higher level of aggregation (or equivalent) that is regularly updated and any associated higher-level monitoring information and/or system;

(d) **Nesting:** Aligning relevant aspects of activity design and implementing activities together with an existing higher-level crediting programme;

(e) **Upscaling implementation:** implementing activities at a higher level (e.g. sectoral, subnational, or national).

86. For some types of activities, monitoring and use of a standardized baseline (or equivalent) at national scale or jurisdictional level is necessary to quantify and account for leakage.

87. For those activities falling under the scope of Article 5, paragraph 2, of the Paris Agreement, mechanism methodologies shall require, in addition to all relevant requirements adopted by the Supervisory Body[3], demonstration that the activity is included in all the elements required of the host Party as per decision 1/CP.16, paragraph 71, noting this is consistent with the application of the approaches described in paragraph 85 (c) and (e).

7. Non-permanence and reversals

88. Paragraph 34 of the RMP states *that "Mechanism methodologies shall (…) address reversals, where applicable".*

89. Mechanism methodologies shall address reversals of removals and emission reductions using an approach consistent with the standard on requirements for activities involving removals under the Article 6.4 mechanism.

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[3] See also document Article 6.4 activity standard for projects (A6.4-STAN-AC-002) available at https://unfccc.int/sites/default/files/resource/A6.4-STAN-AC-002.pdf.

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