CIBOLA PARTNERS

Paris, April 11, 2023

Inputs submitted to Article 6.4 mechanism Supervisory Body to the United Nations Framework Convention on Climate Change (UNFCCC) in response to the call about the "Requirements for the development and assessment of mechanism methodologies"

Cibola Partners welcomes the Article 6.4 mechanism Supervisory Body's calls for inputs to the requirements for the development and assessment of mechanism methodologies.

As a carbon finance advisory firm aiming at connecting both sides of the regulated carbon market to cut greenhouse gas emissions for almost 20 years, Cibola Partners upholds the scope and reach of the Draft Recommendation on the Requirements for the development and assessment of mechanism methodologies, Version 3.0 (A6.4-SB004-AA-A10), and takes the opportunity to provide hereafter several inputs in response to the agreed questions.

General questions and answers

1. As highlighted in the Draft Recommendation on the Requirements for the development and assessment of mechanism methodologies, Version 3.0 (A6.4-SB004-AA-A10), Section 5 entitled Recommendations to the Supervisory Body. The inputs below intend to review what is missing and what can be improved:

- While it is important to recognize the importance of historical mechanisms and methodologies, such as the baseline and monitoring methodologies in use for the Clean Development Mechanism (Article 12 of the Kyoto Protocol), the Supervisory Body (SB) should provide further guidance on definitions, as per section 2.8 (page 16).
- Cibola Partners having contributed since 2015 to more than 20 Nationally Determined Contributions (NDCs) and Long-term Low Emissions and Development Strategies (LEDS) with different Host Parties, the alignment with mechanism methodologies is essential and welcomed. As a first step, introducing recommendation to Host Parties to consider mechanism methodologies in the future NDCs would be a step forward in the alignment process.
- Many Host Parties have undertaken technology needs assessments (TNAs) to determine their climate technology priorities. It is recommended to align the results of these TNAs with the baseline settings process and the additionality requirements.

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2. The draft recommendation for the development and assessment of methodologies for the mechanism established by Article 6, paragraph 4 of the Paris Agreement provides useful guidance on the requirements for the development and assessment of mechanism methodologies, such as consistency with the Paris Agreement, transparency and clarity, environmental integrity, and sustainable development. However, the draft recommendation could include several additional guidance, when it comes to methodologies, which could be made comprehensible, similar to the Clean Development Mechanism (CDM) methodology booklet, which provides detailed guidance on the development and assessment of CDM methodologies. Such guidelines, which could including information on how to establish baseline scenarios, calculate emission reductions, and monitor and report on project activities, could be useful for implementation purposes, in relation to the mechanism established by Article 6, paragraph 4 of the Paris Agreement, providing stakeholders with clear and consistent guidance on how to develop and assess mechanism methodologies, thereby ensuring consistency and transparency and adherence to the principles of the Paris Agreement.

Additionality

Question 11.

A) Paragraph 33 of the Paris Agreement emphasizes the importance of ensuring environmental integrity, transparency, and avoiding double counting in cooperative approaches to addressing climate change. Paragraph 36 of the Agreement highlights the need for robust accounting systems and clear methodologies for determining baselines and additionality when engaging in cooperative approaches, including the use of market mechanisms.

Paragraph 38 of the RMP on Additionality provides guidance on the additional out requirements for market-based mechanisms under Article 6 of the Paris Agreement, which includes the need for a robust additionality tool to determine whether a proposed activity would be additional to what would have occurred in the absence of the mechanism.

The different elements of the additional requirements should be understood in the context of ensuring environmental integrity and avoiding double counting. In particular, the robust additionality tool should be designed to accurately assess the emissions reductions that would result from a proposed activity, and to account for any existing policies or programmes that may already be incentivizing emissions reductions in the relevant sector or region.

The additional requirements should also take into account the potential for leakage, as robust additionality tools should help to ensure that any emissions reductions are not undermined by the relocation of emissions elsewhere.

Furthermore, the additional requirements should consider the specific context of the proposed activity, including the country, sector, technology, and practice involved. The requirements may need to be adapted to the unique circumstances

of each case, to ensure that the additionality tool is appropriately designed to accurately assess the emissions reductions potential of the activity in question.

Question 12. The Paris Agreement establishes requirements for demonstrating additionality under market-based mechanisms, which are further elaborated in the RMP on Additionality. However, gaps and areas for improvement have been identified in the current approach to demonstrating additionality, which can undermine the credibility and effectiveness of market-based mechanisms.

To address these concerns, the development of standardized additionality tools and methodologies that can be used consistently across different projects and programs could be a solution. This would promote greater transparency, accountability, and comparability of additionality assessments, in line with the principles of transparency and environmental integrity under the Paris Agreement.

Moreover, there is a need to account for emissions reductions in complex value chains and supply chains, requiring a more comprehensive and integrated approach to additionality assessment. This approach would take into account the entire value chain, from production to consumption, and promote the principles of sustainable development under the Paris Agreement.

General Questions on baseline and additionality

Question 20. The application of the elements and approaches for baseline and additionality could vary depending on the country, sector, technology, practice, or implementation scale involved in the mechanism.

1. Country: Different countries may have different levels of ambition for their nationally determined contributions (NDCs), and may also have different policy and regulatory frameworks in place to support emissions reductions. This could affect the level of ambition for emission reductions that can be achieved through the mechanism and could influence the approach to setting baselines and determining additionality.

2. Sector: Different sectors may have different levels of emissions intensity and different technical and economic potentials for emissions reductions. For example, the potential for emissions reductions in the energy sector may be higher than in the agriculture sector, due to the availability of renewable energy technologies and energy efficiency measures.

3. Technology: The choice of technology for emissions reductions may also affect the approach to setting baselines and determining additionality. If a country is using a new and innovative technology that has not been widely adopted, it may be difficult to establish a baseline and determine additionality, as there may be limited data available on the performance of the technology.

4. Practice: The approach to setting baselines and determining additionality may also vary depending on the specific practice being implemented. If a country is implementing a sustainable land management project, the baseline and additionality calculations may need to take into account factors such as changes in land use, soil carbon sequestration, and water conservation.

5. Implementation scale: The scale of implementation may also affect the approach to setting baselines and determining additionality. For example, if a project is being implemented at a small scale, it may be difficult to establish a reliable baseline due to the limited availability of data, whereas if a project is being implemented at a large scale, there may be more data available to establish a baseline, but there may also be greater challenges in ensuring the additionality of emissions reductions.

Question 21. When considering the application of the elements and approaches for baseline and additionality in activities that occur within the boundaries of a large-scale strategy or programme for reducing and removing GHG emissions, there may be some specific considerations. These could include the following:

1. National, sub-national or sectoral context: In a large-scale strategy or programme for reducing and removing GHG emissions, activities may be taking place across different geographic areas or sectors, which could result in variations in the baseline and additionality calculations.

2. Policy and regulatory frameworks: A large-scale strategy or programme for reducing and removing GHG emissions may be supported by specific policy and regulatory frameworks, which could impact the baseline and additionality calculations. For example, if a sub-national government is implementing a low-carbon transport programme, the baseline and additionality calculations may need to take into account the policy and regulatory frameworks that support the implementation of the programme, such as fuel standards, vehicle emissions standards, or road pricing schemes.

3. Scale of implementation: A large-scale strategy or programme for reducing and removing GHG emissions may involve activities at different scales of implementation, ranging from small-scale projects to large-scale programmes. The approach to setting baselines and determining additionality may vary depending on the scale of implementation.

4. Additionality: In a large-scale strategy or programme for reducing and removing GHG emissions, it may be difficult to establish the additionality of emission reductions, as it may be challenging to distinguish between emissions reductions that would have occurred anyway (business-as-usual scenario) and those that are additional to that scenario. Thus, if a sectoral programme is designed to improve the energy efficiency of a specific industry, it may be difficult to establish the additionality of the emissions reductions, as it may be challenging to distinguish between emissions reductions that would have occurred anyway due to technological advancements and those that are additional to that scenario.

Question 22. Assessments conducted by organizations such as the Intergovernmental Panel on Climate Change (IPCC), International Energy Agency (IEA), or Food and Agriculture Organization (FAO) can inform the development and assessment of mechanism methodologies by providing information on specific sectors, technologies, or practices, as well as on the latest scientific and technical knowledge on climate change and mitigation.

For example, the IPCC's Assessment Reports provide a comprehensive and up-to-date assessment of the scientific, technical, and socio-economic aspects of climate change, including the potential mitigation options for different sectors. This information can be used to inform the baseline and additionality calculations for activities within the boundaries of a large-scale strategy or program for reducing and removing GHG emissions.

Similarly, the IEA provides detailed assessments of different energy technologies and their potential for reducing GHG emissions, as well as policy recommendations to accelerate their deployment. This information can be used to inform the selection of appropriate methodologies and approaches for activities related to the energy sector.

The FAO conducts assessments on a range of issues related to agriculture, forestry, and other land-use practices, including their potential for reducing GHG emissions. These assessments can inform the development and assessment of mechanism methodologies related to these sectors.

Overall, assessments conducted by these organizations can provide valuable information on the latest scientific and technical knowledge, as well as on specific sectors, technologies, or practices. This information can be used to inform the selection of appropriate methodologies and approaches, as well as to improve the accuracy and effectiveness of the baseline and additionality calculations for activities within the boundaries of a large-scale strategy or program for reducing and removing GHG emissions.

Question 23. The development and assessment of mechanism methodologies can also be informed by host countries' standards or policies, particularly those related to the implementation of the Paris Agreement and the Nationally Determined Contributions (NDCs).

Host countries may have their own standards or policies for measuring, reporting, and verifying GHG emissions, which can be used to inform the development of baseline methodologies and the calculation of additionality.

Furthermore, host countries' policies and regulations related to the implementation of the Paris Agreement, such as the establishment of mitigation targets and the implementation of emissions trading schemes, can also inform the development and assessment of mechanism methodologies. For instance, if a host country has established a domestic emissions trading scheme, the methodologies used for the verification and reporting of GHG emissions under this scheme can be used to inform the development of methodologies for the Paris Agreement mechanism.

In addition, host countries' policies and standards related to sustainable development and environmental protection can also inform the development and assessment of mechanism methodologies. Policies and standards for sustainable agriculture established by host

countries can thus be used to inform the development of methodologies for the agricultural sector.

Leakage

Question 24. Leakage occurs when a project or activity undertaken in one country under a market mechanism leads to an increase in greenhouse gas (GHG) emissions in another country, thereby offsetting or cancelling out the emission reductions achieved by the project or activity.

Question 25. Leakage occurs when efforts to reduce greenhouse gas (GHG) emissions in one country or sector lead to an increase in emissions in another country or sector. This can happen, for example, if a country imposes a tax on carbon emissions, which leads to the relocation of carbon-intensive industries to countries with less stringent regulations. In this case, the emissions reduction achieved in the country that imposed the tax is offset by the emissions increase in the country where the industries have relocated.

The greatest risks of leakage occur when mitigation policies are implemented in a way that is not globally coordinated or when there is a lack of global cooperation on climate change. For example, if a group of countries agree to reduce their emissions under the Paris Agreement, but other countries do not follow suit, the emissions reductions achieved by the first group of countries could be offset by emissions increases in the non-participating countries.

Another risk of leakage occurs when mitigation policies are not comprehensive and do not cover all sectors of the economy or all types of emissions. For example, if a country imposes a tax on carbon emissions from electricity generation but does not regulate emissions from transportation or agriculture, emissions reductions in the electricity sector may be offset by emissions increases in the other sectors.