

Towards a more standardized approach to baselines and additionality in the CDM

Determining nationally appropriate performance standards, thresholds and default factors

Key issues for policy makers

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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, a standardization of baseline setting and additionality determination through standardized baselines has been proposed. This builds upon a trend to introduce standardized elements in approved CDM baseline methodologies. Standardized baselines 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.

Standardized baselines are the comparison of 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. Standardized baselines are derived in a **two-step process**. Firstly, it has to be decided **which performance indicators** are used to determine a standardized baseline. Secondly, the **threshold level** for the selected indicators has to be decided, which specifies the baseline and/or the level that has to be beaten to show additionality of a project.

The key issues regarding standardized baselines are:

- **Choosing performance indicators.** Given the one-off decision on the indicators, it is hard to agree on indicators because there is a lot of vested interests. Wrong decisions on standardized baselines are more difficult to reverse than wrong decisions on specific projects, as the former cannot be changed very frequently.
- **Setting the aggregation level of a standardized baseline**, which is a key determinant of how effective it is likely to be. Aggregation can be done according to **production processes, product types, project vintages** and **geographical area**. Highly aggregated standardized baselines increase the risk of non-additional projects while not harnessing certain mitigation potentials, as they cannot capture country- or even region-specific differences in project attractiveness. Low levels of aggregation raise issues regarding data confidentiality. The choice of aggregation level has a strong impact on transaction costs. The EU ETS experience shows a limited number of standardized baselines, as few as 40, can cover a majority of the most important industrial sectors.
- **Defining the level of stringency of the selected performance indicator.** An overly stringent standardized baseline will restrict uptake of the CDM in the sector, while an overly lenient one

could risk allowing large amounts of CERs from business-as-usual projects. The **decision on the stringency level therefore requires a high degree of judgement** even if based on levels of “best available technology” and will inevitably be contested. However, a large body of objective data is already available that can aid the decision on the stringency level.

- **Updating frequency of standardized baselines.** Due to technical progress, standardized baselines need to be **updated at regular intervals**. The length of the interval depends on the speed of technology development but is likely to be several years. Clear processes for updating standardized baselines should be defined upfront.
- Voluntary standardized baselines should **generally generate less CERs for a project than the project would receive when applying a project-specific baseline**. This would mean that the opt-out from the standardized baselines would not always be attractive for the project developer, who will assess whether the reduction in transaction costs is larger than the revenue loss through lower CER generation and decide accordingly.
- **Ensuring transparency of decision-making.** While standardized baselines have been applied in several jurisdictions, including the US and the EU, decision-making on these approaches and stringency has been **opaque** and dominated by industry interests. None of the approaches can be used “off the shelf” for CDM purposes.
- **Allocating costs for determination of standardized baselines.** Introduction of standardized baselines **shifts costs from project developers to public institutions**. A high share of the costs accrues up-front, but recurrent costs for updating of standardized baselines should not be underestimated. The development of costs depends strongly on whether the additionality test will be done through standardized baselines or will be retained on a project-specific level. Standardized baselines cannot be calculated without the collaboration of host country institutions in providing data. Still, it is likely that overall transaction cost will go down, especially if high numbers of projects are submitted.

We recommend:

- **Product-specific** standardized baselines.
- Standardized baselines **differentiated** according to **new** and **existing** installation projects.
- **Regular updates** of standardized baselines, with updating processes defined upfront.
- Setting up a **CDM Standardized Baselines Coordinator** as a working group or panel reporting to the CDM Executive Board. The CBC should consist of 10 industrial experts and be tasked to commission feasibility studies on approaches and stringency levels of standardized baselines. Members should be selected by the EB according to the rules for EB panels and working groups.
- Opening a **public call** regarding the use of standardized baselines for additionality determination and required stringency to increase understanding of different interest group positions on these issues.

Standardized baselines 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 standardized baselines will need strong regulatory oversight in order to avoid the risk of capture by industry interests.