

TOOL01



TOOL FOR THE DEMONSTRATION AND ASSESSMENT OF ADDITIONALITY



Perspectives Climate Research
Hugstetter Str. 7
79106 Freiburg, Germany
info@perspectives.cc
www.perspectives.cc

REVISED TOOL

International Initiative for Development
of Article 6 Methodology Tools

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International Initiative for Development of Article 6 Methodology Tools (II-AMT)

In January 2022, the II-AMT was launched with the aim of developing methodological tools that guide the revision of existing carbon market methodologies when applied to mitigation activities implemented in the context of Article 6 of the Paris Agreement. These tools cover additionality determination, baseline setting and monitoring, reporting and verification (MRV) of emissions, reductions and removals, while a guidance document covers aspects related to Nationally Determined Contributions (NDCs). Perspectives Climate Research convened an international team of leading baseline and monitoring methodology experts from different regions to develop the set of “Article 6 methodology tools”.

The following experts have led the development of this tool:

- Derik Broekhoff, Stockholm Environment Institute, United States
- Axel Michaelowa, Perspectives Climate Research, Switzerland
- Randall Spalding-Fecher, Carbon Limits, Norway
- Jessica Wade-Murphy, Atmosphere Alternative, Colombia

The following experts supported the development of this tool:

- Clayton Munnings, Munnings Consulting, United States
- Martha Ntabadde Kasozi, member of the CDM Methodology Panel, Uganda
- Ximena Samaniego, Perspectives Climate Research, Germany
- Juliana Keßler, Perspectives Climate Research, Germany

Design and layout

Beatrice King, Perspectives Climate Research

Perspectives Climate Research
Hugstetter Str. 7
79106 Freiburg, Germany
info@perspectives.cc
www.perspectives.cc

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Table of Contents

Introduction	1
Background	1
Objectives	1
Scope and Applicability	2
Terms and Definitions	5
Methodology Procedure	6
Eligibility Pre-Check	6
Stepwise Determination of Additionality	7
Guidance for the Development of Positive Lists	10
Guidance for the Development of Positive Lists for Financial Additionality	10
Guidance for Crediting Period Length and Renewal	11
Stepwise Approach for Consideration of Financial Additionality for Crediting Period Renewal	11
Rules and Principles	11
References	13

Introduction

Background

1. Additionality testing aims to ensure that only mitigation outcomes that require carbon market support are credited under baseline-and-credit systems, so that carbon finance is not spent on mitigation that would have been achieved anyway. If carbon finance is directed toward such non-additional activities and redirects resources from where additional mitigation would occur, the efficiency of global efforts to address climate change will be undermined. If a host country has an ambitious Nationally Determined Contribution (NDC) and is committed to achieve its targets, a non-additional mitigation outcome may be compensated for by additional action to achieve the NDC. However, that would still lead to an inefficient allocation of resources within the country and could make it difficult for the host country to achieve its NDC. If non-additional mitigation outcomes are transferred and not compensated for by more action in the host country, which could be the case if the NDC has an unambitious target, then offsetting emissions with such non-additional mitigation outcomes leads to an increase in global emissions, compared to a scenario without such transfers. Therefore, a robust assessment of additionality is key to ensuring the quality of the mitigation outcomes and the efficiency and environmental integrity of carbon market mechanisms.
2. As a criterion, additionality is known already from the Kyoto Protocol flexibility mechanisms - Joint Implementation (JI) and the Clean Development Mechanism (CDM). Under the CDM, methodologies included steps to determine additionality, and later these approaches were summarised in tools¹.
3. With the implementation of the Paris Agreement, determining additionality must be done in the context of the obligation of Parties to implement their NDCs and to increase ambition in mitigation and adaptation action to contribute to achieving the long-term objectives of the agreement. The Article 6 rulebook - in particular the rules, modalities, and procedures (RMP) of the Article 6.4 mechanism - clarifies new principles and requirements for the demonstration and assessment of additionality.

Objectives

4. This TOOL01 provides a robust approach and guidance for mitigation activity developers to demonstrate that their proposed mitigation activities can be considered additional in the context of Article 6 of the Paris Agreement. TOOL01 has been developed based on experience with and lessons learned from the application of the CDM additionality tool and other approaches to additionality assessment applied in international carbon markets. It is a stand-alone tool for additionality under Article 6 for **project** and **programme**-level mitigation activities and does not cover sectoral or policy level interventions. A combined tool for baseline setting and additionality is not presented at this time.

¹ The most widely applied CDM tools for additionality are the "Tool for the demonstration and assessment of additional-ity" with its latest version (version 7) adopted in November 2012 and the "Combined tool to identify the baseline sce-nario and demonstrate additionality" with the latest version (version 7) from September 2017. These tools refer to separate tools for common practice analysis, currently in version 3.1 from June 2015, and for investment analysis. The latter has been revised frequently, with the current version 13 adopted in November 2023.

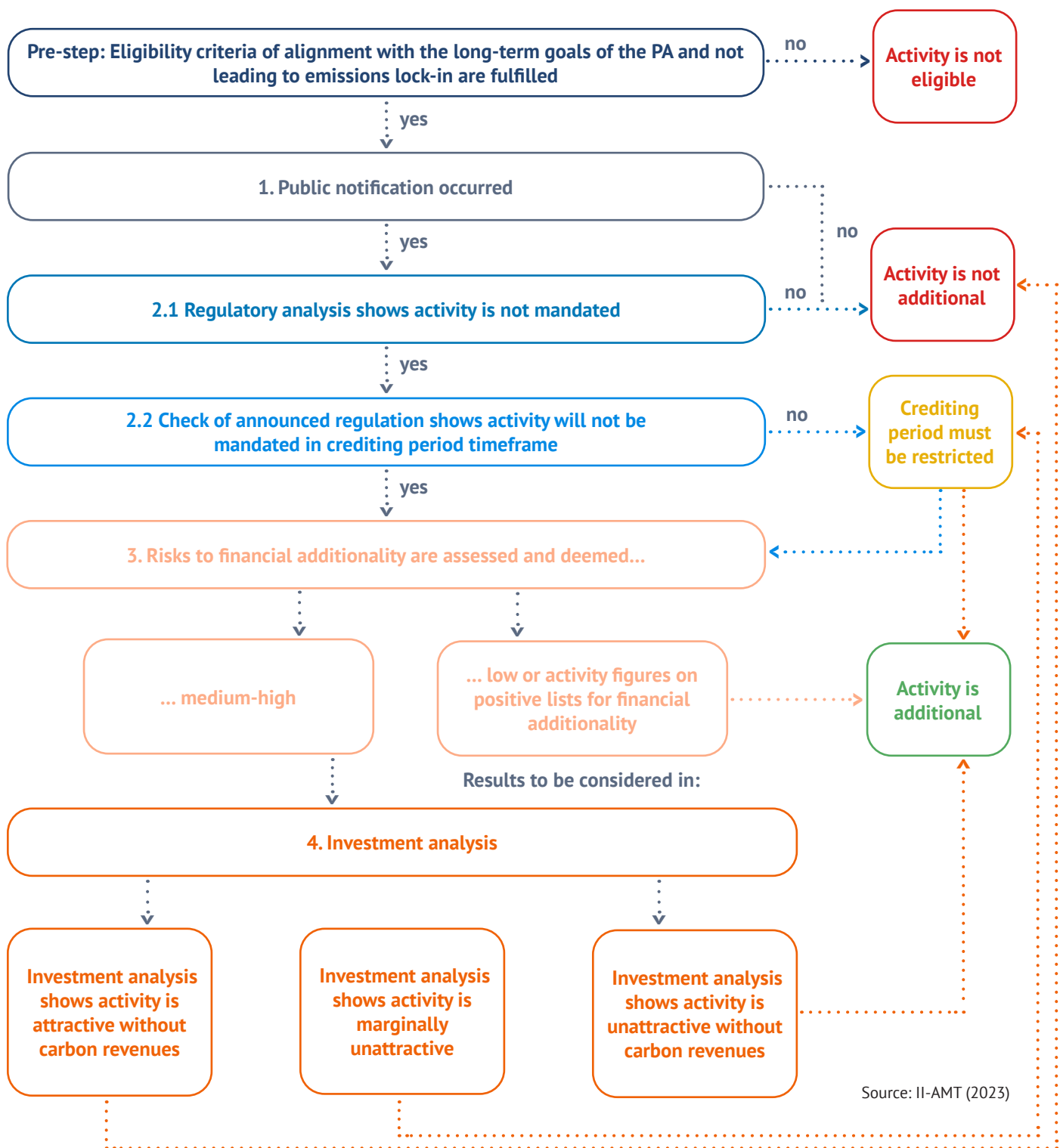
Scope and Applicability

5. This tool provides a general framework for demonstrating and assessing additionality of activities implemented in cooperative approaches under Article 6.2 of the Paris Agreement, subject to approval by participating Parties, and aims to inform the development of more detailed rules by the Supervisory Body of the Article 6.4 mechanism. The relevant rules and principles referred to in the development of this tool are presented in the final section.
6. This tool provides for a **stepwise approach** to assess and demonstrate the additionality of **projects** and **programmatic** approaches (collectively called “mitigation activities”) in an applicable geographic area that is both in line with the Article 6.2 guidance and the RMPs of the Article 6.4 mechanism, the latter offering more detail on how to robustly determine additionality under Article 6. It is not applicable to mitigation activities on a higher level of aggregation such as sectoral approaches or mitigation policies. This tool does not replace the need for baseline methodologies to provide a stepwise approach to identify the baseline scenario for a mitigation activity. Activity participants shall ensure consistency between the determination of additionality of an activity and the determination of a baseline scenario (see II-AMT TOOL02).
7. In validating the application of this tool, independent designated operational entities shall carefully assess and verify the reliability and credibility of all data, assumptions underlying calculation of parameters and assessment of qualitative information, justifications of choices between different sources of data, and documentation provided by activity participants to support the demonstration of additionality. In this context, they shall also **identify and cross-check independent sources and documentation** for the data, assumptions and information critical to the outcome of the additionality testing. The information checked during this assessment and the conclusions shall be documented transparently². The host country NDC shall be one of the sources assessed during this process (see II-AMT TOOL03, paragraphs 99-103). In addition, designated operational entities should ensure that any comments received during the global public consultation for a mitigation activity related to the data assumptions and justifications used to demonstrate additionality are properly addressed.
8. TOOL01 includes detailed guidance for a stepwise approach to determine additionality by considering the elements of an “eligibility pre-check”, “**prior consideration**”, “**regulatory analysis**”, and “**financial additionality**”, summarised in Figure 1 and detailed in paragraphs 13-18. The different steps entail³:
 - a. Checking the **eligibility of activities** regarding their alignment with the Paris Agreement’s long-term goals.
 - b. Checking for **public notification** of the intent to earn carbon credits prior to the start of the activity (“prior consideration”).
 - c. Determining that the activity is **neither mandated by law**, nor is the mitigation it achieves **effectively required by regulation**. This step also includes a check of whether existing and promulgated regulations would mandate the activity at any point during the crediting period.
 - d. Evaluating the risk that the activity type is **financially attractive without carbon revenue**, to decide if an investment analysis is required.
 - e. Determining **financial additionality** of the activity based on an investment analysis and potentially limiting the crediting period.

² The II-AMT experts recommend exploiting the benefits of digitisation in Article 6 cooperation in this context. Governments participating in cooperative approaches could agree to keep information on data, assumptions and benchmarks in a database that designated operational entities can access to cross-check information provided in mitigation activity design documentation.

³ The tool does not include a step for common practice analysis. While the principle is important, there has been no robust operationalisation so far that provides added value for the determination of additionality, mostly given difficulties in accessing the necessary data.

FIGURE 1: FLOWCHART OF PROPOSED STEPWISE PROCESS FOR DEMONSTRATION OF ADDITIONALITY

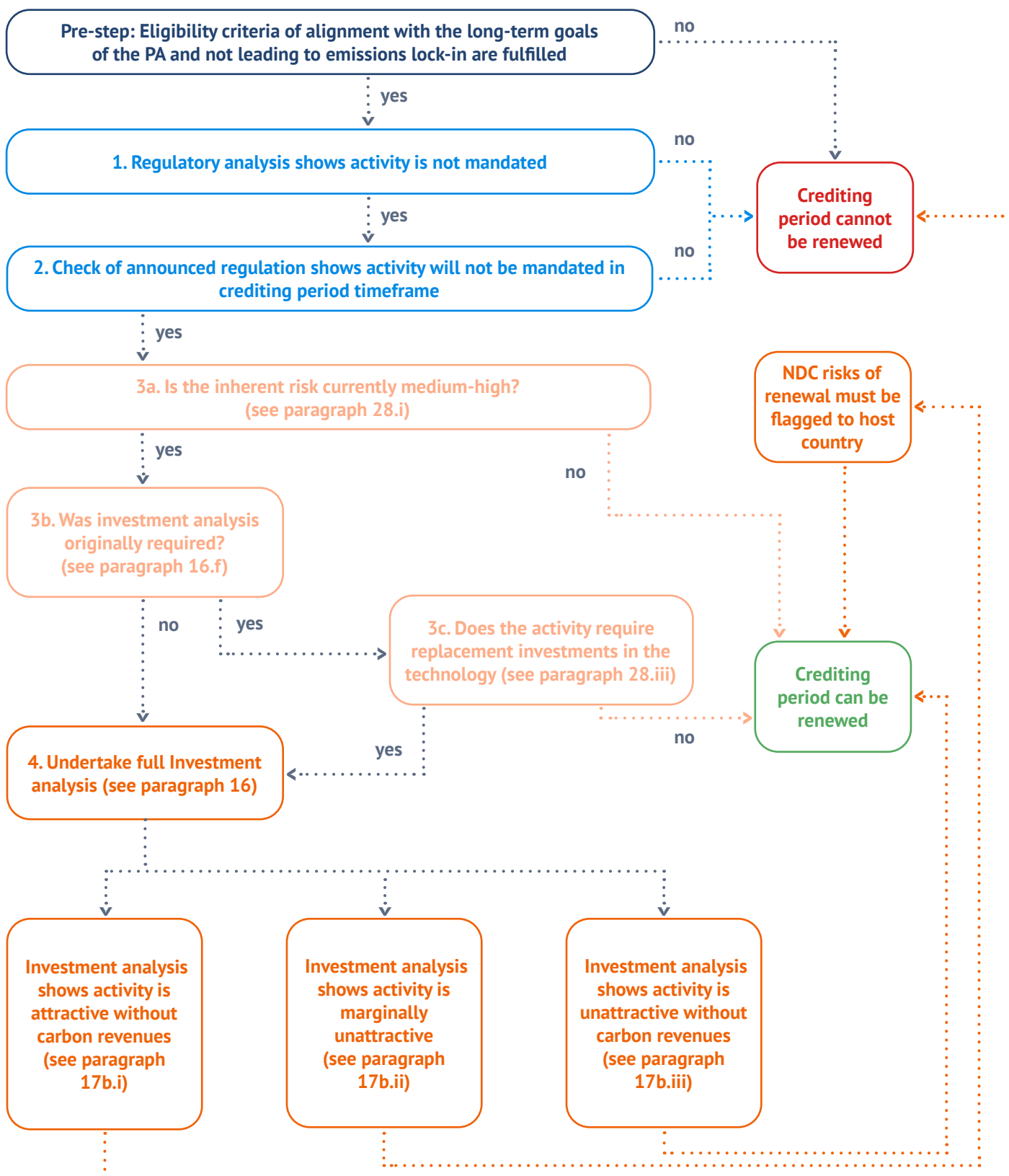


9. TOOL01 also includes guidance on the development of **positive lists** for financial additionality at different levels of aggregation. The guidance includes necessary requirements for elaborating and regularly updating positive lists. Details are provided in paragraphs 19-25.

10. TOOL01 includes guidance on potential **restrictions of the crediting period length** based on financial and implementation characteristics of the mitigation activity. Longer crediting periods are required for mitigation activities with high up-front investments, long technical lifetimes and relatively low annual credit revenues. Further details are provided in paragraphs 26-27.

11. TOOL01 furthermore includes guidance on re-assessing additionality of the activity when applicable at **crediting period renewal** in a stepwise approach as depicted in Figure 2, with further details provided in paragraph 28.

FIGURE 2: FLOWCHART OF PROPOSED STEPWISE APPROACH TO RE-ASSESS ADDITIONALITY AT CREDITING PERIOD RENEWAL



Terms and Definitions

12. The following terms and definitions are applied.

- a. **Applicable geographic area:** The geographic area within which an alternative scenario is valid. The default should be the national level; smaller areas may be required where there is significant subnational variation. For activity types significantly influenced by climatic or topographical variables, non-jurisdictional boundaries can be applied but need to be justified by activity developers.
- b. **Barrier analysis:** A check whether **prohibitive, non-monetary barriers** exist that cannot be considered in an investment analysis. It must demonstrate that these barriers would not be faced by alternatives to the mitigation activity and that the expectation of carbon credit revenues is decisive for overcoming these barriers. The identification of the barriers shall be **specific** and, where possible, **quantified**. The analysis shall include clear, objective and verifiable evidence to demonstrate the prohibitive character of an identified barrier or their combination. Finally, the analysis must indicate how carbon revenues will be applied to overcome the identified barriers and demonstrate that expected revenues will be sufficient to do so.
- c. **Emissions intensive practice/technology⁴:** A technology/technique that has a GHG emissions intensity per unit of production/consumption that exceeds the intensity of the lowest emitting, technically feasible and commercially available⁵ production pathway for the product, service, or output delivered.
- d. **Financially attractive activity:** A mitigation activity for which, under a realistic sensitivity analysis, confidence intervals for the selected financial parameter such as an internal rate of return (IRR) or payback period shows higher attractiveness compared to a viable alternative, with those confidence intervals not overlapping the parameter values of the viable alternative, for a reasonably well managed company operating it. This does not mean that it needs to be financially viable for all companies under all circumstances. Financially attractive activities are those that would likely be undertaken without revenues from carbon markets.
- e. **Financially marginally unattractive activity:** A mitigation activity for which, under a realistic sensitivity analysis, confidence intervals for the selected financial parameter such as IRR or payback period⁶ shows lower attractiveness compared to a viable alternative, but those confidence intervals overlap with the parameter values of the viable alternative. The selected parameter should reflect the values of a reasonably well managed company operating it and not the specifics of of the targeted organisation.
- f. **Financially unattractive activity:** A mitigation activity for which, under a realistic sensitivity analysis, confidence intervals for the selected financial parameter such as IRR or payback period shows lower attractiveness compared to a viable alternative, with those confidence intervals not overlapping the parameter values of the viable alternative, for a reasonably well managed company operating it.
- g. **Host country approval list:** an activity on a host country approval list is deemed eligible for approval and authorisation by a host country government (definition of the term as used in the context of the II-AMT).
- h. **Lifetime of technology:** Total time for which the equipment is technically designed to operate from its first commissioning.
- i. **Lock-in of emission levels:** The proposed activity leads to the adoption or the **prolongation** of the lifetime, of an emissions intensive practice/technology.

⁴ Note that this definition seeks to exclude the lock-in of incremental improvements in emissions intensity where an alternative technology or technique is available that provides the deep emission reductions required to meet the goals of the Paris Agreement.

⁵ "Commercially available" means it can be obtained in the country where the mitigation activity takes place, either off-the-shelf or via a bidding process or direct contracting process.

⁶ Regardless of the parameter the activity developer chooses, the parameter should reflect the same underlying dynamics of the market.

- j. **Negative list:** A list that comprises activities that are not eligible for Article 6 authorisation by a host country.
- k. **Payback period:** Amount of time required to recover the discounted cost of an investment.
- l. **Positive list:** An activity on a positive list is **deemed automatically additional** in relation to all or specific aspects (e.g., financial additionality, regulatory analysis).
- m. **Relevant Law / Mandate / Regulation / Policy:** Regardless of the exact terminology used in the respective national context, any legally binding laws, rules, mandates, regulations, statutes, agreements, or other legal requirements in force at national, subnational, or local levels requiring implementation of the proposed mitigation activity or motivating management actions leading to changes in the technology applied in the activity or an improvement of the performance of the currently used technology.
- n. **Similar economic and social context:** key economic (e.g., GDP per capita) and social (e.g., Gini coefficient) parameters are in the range of $\pm 50\%$.
- o. **Start date:** The date on which the activity participants **commit to making expenditures** for the undertaking of the activity, or for the construction or modification of the main equipment or facility associated with the activity, or for the provision or modification of a service associated with the activity. Where a contract is signed for such expenditures, it is the date on which the contract is signed. In other cases, it is the date on which such expenditures are incurred. Activities incurring minor pre-activity expenses (e.g., feasibility studies, and preliminary surveys) are not considered in the determination of the start date.

Methodology Procedure

This section explains the step-by-step process to implement the tool. These steps are to be undertaken prior to registration and at each renewal of a crediting period.

Eligibility Pre-Check

13. Mandatory pre-step: Each Article 6 activity must fulfil the eligibility criteria of alignment with the long-term goals of the Paris Agreement and not lead to emissions lock-in.

Alignment means that a given activity is consistent with the long-term goal of the Paris Agreement i.e., it does not make it more difficult to achieve the transformation required for a global emissions pathway to achieve a balance of emissions and sinks in the second half of the century in line with the “well below 2°C” temperature goal.

- a. The proposed Article 6 activity must pass this eligibility assessment, to robustly show that it will not lead to a lock-in of emissions levels incompatible with reaching the Paris Agreement long-term goals. Evidence must be provided to robustly justify that **all** of the following proxies are met:
 - i. The activity does not feature on any relevant negative list adopted including such a list adopted by the Article 6.4 Supervisory Body or the respective host country⁷. The list may include technologies deemed as incompatible with below 2°C pathways in the latest Assessment Report of the Intergovernmental Panel on Climate Change (IPCC).
 - ii. Either:
 - 1. If the host country has communicated a long-term low-emission development strategy (LT-

⁷ Activity types that lead to a lock-in of current emissions levels or the continuation of carbon intensive practice under all possible circumstances should be put on a negative list of ineligible activity types by the Article 6.4 Supervisory Body and governments hosting Article 6 activities. The development of such a negative list by the Supervisory Body lies in the future, meaning it is currently not clear whether or not a negative list will be put in place.

LEDS), then the proposed activity and its emissions scenario are in line with the host country's LT-LEDS scenario for the entire duration of their crediting period; or

2. If the host country has not communicated a LT-LEDS, then the proposed activity does not lead to a lock-in of current emission levels or continuation of emissions intensive practices by prolonging the lifetime of installations using emissions intensive technologies or by constructing new installations using emissions intensive technologies.
- iii. For activities that lead to the replacement of technologies the emissions intensity of the new technology is aligned with the generally accepted (IPCC/IEA) emissions scenarios for reaching the long-term goal of the Paris Agreement.

Stepwise Determination of Additionality

14. Step 1 - MANDATORY: Public notification of intent to earn carbon revenue prior to start date of the activity

For this step it is required to demonstrate that **carbon market revenues were considered** by the activity participants **in the investment decision** of the activity by undertaking a public notification of the intent to earn carbon revenue **prior to the start date of the activity** (i.e. financial commitment and not the start of operation – see definition above). This notification shall include the mitigation activity title, location, brief description, actual or planned start date, estimated annual average amount of emission reductions or net removals, and identification of at least one activity participant. The notification shall provide evidence of prior notification, which may take the forms of:

- a. The A6.4M Prior Consideration procedure shall be applied for activities planning to register with the A6.4M.
- b. For activities implemented in cooperative approaches under Article 6.2, the same A6.4M prior consideration procedure may be applied, or otherwise:
 - i. A letter, fax or email with date stamp from the activity participant to the host country government, the UNFCCC Secretariat, and/or the participating Parties of a cooperative approach.
 - ii. Publication in a medium with date stamp, including a newspaper, magazine, newsletter, or social media post.
 - iii. For pilot activities having their starting date between 01/01/2020 and 14/01/2024, an executed contract with a third-party service provider, development agency or bank for developing carbon credits, or notification using the CDM Prior Consideration procedure.

15. Step 2 - MANDATORY: Regulatory Analysis

- a. For this step, the **applicable jurisdictional boundaries** include regional/supra-national, national, subnational, and local jurisdictions pertinent to the mitigation activity. All relevant levels need to be covered.
- b. Only **legally binding and widely enforced requirements** are considered; overarching policy targets or generic plans without specified instruments or means of implementation are not considered.
- c. Sub-step 2.1- MANDATORY: Regulatory analysis to determine that the proposed activity is **neither directly mandated by law nor otherwise triggered by legal requirements** (e.g., laws, ordinances, decrees, any other forms of regulation or permitting conditions and decisions of courts).
- d. Sub-step 2.2- MANDATORY: Regulatory analysis to determine that there are **no legal requirements**, either in effect or set to take effect, that would require or motivate implementation of the activity during the activity's forthcoming crediting period. If such legal requirements are identified, then crediting for the activity shall only be allowed until the date the legal requirements would take effect.

16. Step 3 - MANDATORY: Evaluation of inherent additionality risks of the specific activity type within the applicable geographic area

- a. This is a pre-step for the determination of financial additionality to ensure realistic assumptions are provided by the activity developer in comparison to the risk scenario described. Ideally this evaluation is carried out by the national government or by a third party. If this has not been done yet, the activity developer is to take the following steps to carry out the analysis.
- b. The evaluation of the inherent additionality risks shall be undertaken with respect to the applicable geographic area selected as per the definition in this tool.
- c. Identify the number of activities of this type that already have been implemented without incentives.
- d. List and characterise the **inherent financial additionality risks** related to this specific activity type (e.g., evidence of potential profitability, short payback periods, ample experience, availability of subsidies, availability of competitive financing sources, economic risks with continuation of the existing scenario, etc).
 - i. Analyse whether the **only source of revenue or savings of the activity is the revenue from the sale of mitigation outcomes**. Activity types that feature such characteristics in all possible contexts shall be deemed to have a “low” inherent additionality risk.
- e. On the basis of the preceding, draw conclusions on:
 - i. The consolidated **inherent financial additionality risk** (high, medium, low):
 1. High, meaning that there is no difference between the financial attractiveness of the activity and a more emissions intensive alternative;
 2. Medium, meaning that there is a difference between the financial attractiveness of the activity and more intensive alternatives for some but not all alternatives; or
 3. Low, meaning that there is a clear difference between the financial attractiveness of the activity and all more emissions intensive alternatives.
 - ii. the consolidated **implementation additionality risk** (high, medium, low), based on the common practice in the respective country
 1. High, meaning the activity type is implemented frequently without incentives from the mechanism (at least 3 activities of this type already have been implemented without incentives);
 2. Medium, meaning the activity type has been implemented without incentives from the mechanism (at least one activity of this type already has been implemented without incentives); or
 3. Low, meaning the activity type has not been implemented without incentives from the mechanism (no such activity implemented).
- f. If both the consolidated inherent financial additionality risk and the implementation additionality risk are assessed as:
 - i. Low: Activities are eligible for a **global positive list** for financial additionality and do not have to go through Step 4
 - ii. Medium: **Step 4 (investment analysis) is mandatory**.

- iii. High: **Step 4 (investment analysis) is mandatory.** In addition, the activity developer must justify how the specific activity differs from the general implementation of the activity type by justifying the input(s) to its financial analysis that drive financial unattractiveness.
- g. If the consolidated inherent financial additionality risk is assessed as “High” or “Medium” but the consolidated implementation additionality risk is deemed “Low”: barriers to implementation may be incorporated in the investment analysis and impacts on the investment decision explained in step 4⁸.
- h. Special circumstances of LDCs apply in this step. For mitigation activities located in LDCs, barriers to implementation may be considered as a complement to the investment analysis, while for other countries they must be incorporated in the investment analysis as explained in Step 4.

17. Step 4: Determination of financial additionality of the activity through investment analysis (MANDATORY step if inherent financial additionality risk is medium or high):

- a. Investment analysis of the activity to determine that it is **not financially viable** without the expected revenues from the sale of the certified mitigation outcomes.
 - i. This analysis requires identification of what is a financially viable and realistic alternative(s) to the mitigation activity in **similar social, economic, and regional contexts**. This will provide the point of comparison for the analysis to identify the appropriate financial parameter (e.g., internal rate of return, payback period) and calculate its value at which a mitigation activity would **not** be deemed economically / financially feasible, considering all revenues and savings generated by the mitigation activity.
 - ii. This analysis needs to include all revenues and savings generated for the activity, including any incentives related to policy instruments, such as all kinds of subsidies (e.g., grants, reverse auctions, contracts for difference), avoided carbon taxes, financial impacts of emissions trading schemes, etc.
 - iii. If the consolidated implementation additionality risk was identified as medium or low, then the analysis may include any identified risks to implementation. These risks need to be **expressed in monetary terms**, e.g., in changes in cash flow due to slower activity implementation, lower load factors, risk-adjusted discount rate, etc. If this is not possible, then the risk cannot be considered, which leads to conservative outcomes.
- b. Conclusions on degree of confidence on financial additionality:
 - i. If the activity is likely to be attractive without the revenues from credit sales, then the activity is not considered additional. Barrier analysis exemptions may be applicable for activities located in LDCs and SIDS. In case a mitigation activity is located in an LDC and implementation risk is medium or low, if the identified implementation barrier is overcome by the fact that the mitigation activity is framed as an Article 6 activity and receives carbon revenues, it may be deemed additional. Specific barriers need to be defined in this context.
 - ii. If the activity type is only **marginally unattractive** where under a realistic sensitivity analysis financial parameters such as IRR or payback period of the viable alternative and the mitigation activity overlap, the activity is considered financially additional, but the **crediting period must be restricted** as detailed in paragraph 27.
 - iii. If the investment analysis concludes to a medium to high degree of confidence that the activity would not be attractive without the revenues from credit sales, then the activity is additional.

⁸ In the absence of such a decision, activity developers must refer to the latest version of the “guidelines on the assessment of investment analysis” approved by the CDM EB in its most recent version and in particular the default values for the expected return on equity listed therein.

18. Step 5 - MANDATORY: Re-assessment against the eligibility “pre-check” criteria and re-assessment of regulatory analysis at the point of crediting period renewal.

- a. Reapply the mandatory pre-step specified in paragraph 13 above and Step 2 specified in paragraph 15.

Guidance for the Development of Positive Lists

19. In the following, positive lists are defined as a list of activity types **deemed automatically additional** in relation to all or specific aspects (e.g., financial additionality, regulatory additionality). Positive lists for additionality must meet minimum criteria specified below before they can be used to substitute step 5 of the procedure (i.e., financial additionality) of this Tool.

20. The process for developing global and national positive lists should include the following:

- a. Inputs from experts in the development of the list
- b. Public consultation period
- c. Independent assessment and validation of the outcomes of the development process

21. Positive lists may be adopted by the Article 6.4 Supervisory Body (i.e., for use in the Article 6.4 mechanism or in cooperative approaches), by other independent standards, or by parties to the Paris Agreement (i.e., for use in cooperative approaches).

Guidance for the Development of Positive Lists for Financial Additionality

In the development of positive lists for financial additionality, the following approaches may be considered. Further approaches including non-financial ones may also be elaborated by the Article 6.4 Supervisory Body:

22. Activity types that, under all contexts, can show that their net present value of costs significantly (e.g., by at least 25%) exceeds revenues and savings without carbon finance are eligible to be put on a **global positive list** of “low risks to financial additionality”.

23. Activity types are eligible to be put on a **national positive list** if they, in their national context, can show that:

- a. their costs significantly exceed revenues and savings so that their **IRR is negative under conservative assumptions** regarding the discount rate, or
- b. their **levelized costs** of delivering a product or service are more than 25% higher than the industry average, or
- c. their **marginal abatement** cost exceeds a country specific benchmark value.
- d. a combination of very low penetration rates (e.g., less than 2%) and objectively justified non-financial barriers shows that they cannot be implemented without carbon revenue and that carbon revenue can overcome these barriers.

24. Global and national positive lists for financial additionality are to be **reviewed every three years**.

25. In case an activity type does not feature anymore on a positive list after the review required in paragraph 24, any activities that request renewal of crediting period must then follow the guidance presented below.

Guidance for Crediting Period Length and Renewal

26. Guidance for crediting period length and renewal is based on the analysis of the relationship between technology lifetime and type and timing of investment decisions (e.g., for **one-off** investments decisions versus **replacement** and **renewed investment decisions** into the same activity), building on the crediting period length under the Article 6.4 mechanism at either a maximum five years renewable twice or ten years non-renewable.

27. Ex-ante determination of crediting period length

- a. If the activity is marginally unattractive, restriction of crediting period (implying that crediting period renewal will not be possible)
 - i. to the **payback period** of the mitigation activity investment, if the investment decision is one-off
 - ii. to the **lifetime of technology**, if the activity requires replacement and additional investments.
- b. In the case of replacement and/or additional investments and a technology with a lifetime of less than five years (e.g., 3 years), the initial crediting period should be a maximum of five years renewable.

Stepwise Approach for Consideration of Financial Additionality for Crediting Period Renewal

28. Assessment of financial additionality for replacement and/or new investments into the activity

- a. Whether this step is mandatory depends on the relationship of technology lifetime and investment decision:
 - i. In case no investment analysis was required, and the **inherent risk is still considered low** (i.e., due to low financial additionality risk) a re-assessment of financial additionality risk is **not** required. If risk is now deemed medium-high for the activity type, investment analysis is now required based on current data.
 - ii. In case of a **one-off investment** decision in a technology with a lifetime that is longer than the crediting period, re-assessment of financial additionality is **not** required if this was done for the first crediting period.
 - iii. In case of **replacement investments** in a technology with a lifetime shorter than the crediting period or additional investments to scale up the activity, the mitigation activity developer is required to undertake an investment analysis for the renewal.
 - iv. Activities that are part of a global or national positive lists for financial additionality - which are still valid at the time of crediting period renewal - are not required to reassess financial additionality at the renewable of their crediting period.

Rules and Principles

29. This tool has been developed based on the following principles enshrined in the decision 2/CMA.3 and 3/CMA.3 adopted by the Parties to the Paris Agreement [bold added to highlight key terms and provisions]:

30. Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement

"1. Internationally transferred mitigation outcomes (ITMOs) from a cooperative approach are:

*(a) Real, verified and **additional**; [...]" (Decision 2/CMA.3, annex, paragraph 1)*

31. Rules, modalities, and procedures of the Article 6.4 mechanism

31. The activity: (a) Shall be designed to achieve mitigation of GHG emissions that is **additional**, including reducing emissions, increasing removals and mitigation co-benefits of adaptation actions and/or economic diversification plans (hereinafter collectively referred to as emission reductions), and not lead to an increase in global emissions; [...]

38. 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 33⁹** above.

(Decision 3/CMA.3, annex, paragraphs 31 and 38)

32. In addition, the following principles are relevant for this tool:

- a. Each participating party shall ensure that participation in Article 6 contributes to the implementation and achievement of their NDCs, LT-LEDS, and long-term goals of the Paris Agreement (most notably Decision 2/CMA.3, annex, paragraph 4.f and Decision 3/CMA.3, annex, paragraph 28.b) (see II-AMT GUIDE01)
- b. The assessment shall deliver **consistent results** for similar activities in the same relevant context conditions. For that to work, the additionality tool must contain mandatory steps for all activities and only few optional assessments. To allow for **consistent validation** by independent designated operational entities, the tool must provide detailed guidance on how to apply the different steps (see II-AMT TOOL03, paragraph 99-103).
- c. The assessment shall include a characterisation of the inherent risks to additionality relevant to the general activity type and to the specific project conditions, as a reality check of the additionality assessment. Safeguards include:
 - Automatic financial additionality through **positive lists** shall only be applicable to activity types in circumstances where few, if any, activities are occurring without carbon credit revenue. National and international positive lists for financial additionality must be updated regularly; national positive lists may be set up under the responsibility of a national authority designated for this purpose, while international positive lists would be defined by the Article 6.4 Supervisory Body.
 - Mandatory re-assessment of parts of additionality determination steps at the time of **crediting period renewal**.
 - Mandatory restriction of choices for **crediting period length** under certain circumstances¹⁰.
- d. The assessment shall utilise information communicated in the respective host country NDC as a reference point for additionality demonstration.

⁹ Paragraph 33 reads: "Mechanism methodologies shall encourage ambition over time; encourage broad participation; be real, transparent, conservative, credible, below 'business as usual'; avoid leakage, where applicable; recognize suppressed demand; align to the long-term temperature goal of the Paris Agreement, contribute to the equitable sharing of mitigation benefits between the participating Parties; and, in respect of each participating Party, contribute to reducing emission levels in the host Party; and align with its NDC, if applicable, its LT-LEDS if it has submitted one and the long-term goals of the Paris Agreement." (Decision 3/CMA.3, annex, paragraph 33).

¹⁰ Decision 3/CMA.3 paragraph 31f indicates that Article 6.4 crediting periods may be a maximum of 5 years, renewable twice, or a maximum of 10 years with no option for renewal; or, for activities involving removals, a period of 15 years, renewable twice. Host countries, however, may choose to stipulate shorter crediting periods at their discretion (Decision 3/CMA.3, Annex, paragraph 27).

References

UNFCCC (2021a): Decision 2/CMA.3. Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement. UNFCCC, Glasgow

UNFCCC (2021b): Decision 3/CMA.3. Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement. UNFCCC, Glasgow



CONTACT

Perspectives Climate Research Freiburg
Hugstetter Strasse 7 | 79106
Freiburg | Germany
Phone: +49 761 590 33 823

info@perspectives.cc
www.perspectives.cc

