

## **Norwegian submission on a new market-based mechanism**

Norway welcomes the opportunity to submit its view in accordance with paragraph 52 of FCCC/CP/2012/8/Add.1. This submission focuses on the new market-based mechanism. A separate submission has been made on the Framework for Various Approaches.

### **General Comments**

Norway places great importance on the development of a new market-based mechanism. Parties have gained a good deal of experience with the mechanisms under the Kyoto Protocol. However, in order to meet the challenges posed by climate change, Parties must deliver on their pledges and target, and to meet the two degree target – enhance their ambitions. To facilitate ambitious climate targets, Parties must begin to examine ways in which to broaden the use and effectiveness of market-based mechanisms. The new market-based mechanism, as defined in Decision 2/CP.17 and further elaborated in Decision 1/CP.18, could provide the means to promote enhanced mitigation actions by all Parties while ensuring cost-effectiveness of these actions. In our view, market mechanisms in the future climate regime should be flexible with respect to who is buying and who is selling credits. This should be determined on an individual basis, through Parties' choice in how they will meet their mitigation commitments. This in turn should help facilitate an increase in ambition in a future climate regime, as well as pre-2020. Scaling-up mitigation actions, will also require greater access to financing as well as low carbon technologies. Norway believes that the new market-based mechanism, if designed appropriately, can provide for the scaling up of actions, finance and technology deployment. Furthermore, the design of the new market mechanism could promote longer-term transition to low emission development.

The development and use of a new market mechanism working under the authority of the Conference of the Parties should be based on the following:

1. Voluntary participation of Parties.
2. The principles and objectives of the Convention.
3. Mitigation outcomes achieved through domestic actions are undertaken in accordance with national circumstances.
4. The mechanism should provide a means to stimulate mitigation across broad segments of the economy, as defined by the participating Parties, including on a sectoral and/or project specific basis.
5. Environmental integrity is to be achieved through sound modalities, rules and guidelines, including standards which:
  - a. Deliver real, permanent, additional and verified mitigation outcomes,
  - b. Avoid double counting of emission reductions
  - c. Achieve a net decrease and/or avoidance of greenhouse gas emissions.
  - d. Ensure a robust system for accurate measurement , reporting and verification of emissions reduced, removed and/or avoided.
6. Assistance to developing country Parties in preparation and use of the mechanism.

The new market mechanism will need to be carefully structured in order to ensure that the mechanism is accessible to all, while remaining cost-effective and sustaining environmental integrity. Focused detailed discussions are needed, as well as gaining experience through pilot activities. Norway hopes to provide input to these discussions, including a roadmap for action for the remainder of this year.

### **A New Market Mechanism**

Norway supports the development of a sector-based mechanism - covering broad segments of the economy - that encompasses a two-track system, one for crediting, where credits are issued *ex post* for emissions reduction achieved according to an *ex ante* defined crediting threshold, and one for trading, where trading units can be issued *ex ante* according to an *ex ante* defined emission cap.

The crediting mechanism is the simplest to implement. Credit units would be issued only if the sector as a whole reduces emissions beyond the established crediting threshold. If the actual emissions are higher than the crediting threshold, there will be no credit units to sell.

Unlike the crediting track, sectoral trading will set a cap up front, on emissions for sources within the given sector. The host Party, under this track, would establish the target(s) for sectors to be included under this track and report to a governing body. This track would function similar to Article 17 trading under the Kyoto Protocol. The host Party can sell emission reduction units before the reductions occur. A trading mechanism will therefore imply that the host Party will need to purchase reduction units for emissions above the cap.

The trading track would probably be more suitable for segments of the economy where a host party has in place systems necessary to trade under a binding cap, and the level of guidance from any UNFCCC governing body for a trading track should take this into account.

A sectoral crediting mechanism provides Parties with greater opportunity to reduce emissions within a sector while improving infrastructure, providing greater access to low carbon technologies and financing. Under this track, the host Party identifies appropriate sector(s) for inclusion in the mechanism; business as usual baselines are developed in accordance with guidance to be provided by an appropriate governing body. Also in this case the sector covered by the NMM has to be defined in a clearly and transparent manner in order to compare the *ex post* emission with the *ex ante* defined crediting thresholds. A stringent crediting threshold should be set below the business as usual baseline.

### **Developing a work program to ensure progress**

A number of questions remain, that need to be addressed in order to design and implement a new market-based mechanism. Below we propose a list of issues to be addressed this year in order to make progress on this issue at COP 19. The list is not meant to be exhaustive, but rather indicative of what issues Norway see as crucial to discuss among parties.

Key questions include:

- What is the most appropriate form of governance and should governance levels vary between the crediting and trading tracks? Other issues include the level of guidance

and supervision for the two tracks, eligibility and participation requirements for the two tracks as well as whether there are common structural elements to both tracks.

- What institutional structure would be necessary in order to avoid double counting of emission reductions? How can we build on existing experiences to achieve this?
- While the host Party should be responsible for identifying the sector(s) it includes in this mechanism, what guidance or criteria will Parties require for determining sectors, sources and gases for inclusion?
- Which methodology and criteria should be used for setting baselines, and who will provide guidance or criteria on baseline development?
- How and who will determine crediting thresholds?
- What lessons can we draw from existing mechanisms in particular under the Kyoto Protocol, including on MRV, standardized baseline setting under the CDM, registries and the ITL?
- Are there lessons that can be drawn from experiences gained in other two tracked market-based mechanisms such as JI? How might the difference in inventory, reporting and recording requirements between the two tracks provide insight into how to structure the cycle for the new market mechanism?

Norway believes it is time to begin detailed discussions on the new market-based mechanism. Discussions should target the questions listed above as well as the elements listed in paragraph 50 of Decision 1/CP.18. In order to facilitate fruitful discussions, Norway would welcome a technical paper produced by the secretariat addressing the key elements of this mechanism, including scope, functions, and governance, as well as options for baseline and crediting threshold setting. Such a paper could feed into a workshop that preferably should be held as quickly as possible after the paper has been published and with good time prior to the next COP session. The workshop could be designed to be a forum for Parties to exchange views on and address the issues raised in the paper as well as in any submissions from Parties. The workshop should also examine options for draft modalities and procedures in order to ensure that substantive discussions will lead to development of draft modalities and procedures that can be forwarded to the COP at its 19<sup>th</sup> session.