

April 2013

Submission from Norway on possible changes to the modalities and procedures of the Clean Development Mechanism

Norway welcomes the opportunity to submit views on possible changes to the modalities and procedures of the Clean Development Mechanism pursuant to para 10 of Decision 5/CMP. 8. Norway notes the proposals for changes made by the CDM Policy Dialogue, stakeholders, the secretariat and the Executive Board, which together provides a rich source of input relevant to the review of the modalities and procedures.

Norway notes with deep concern the current market situation, that we see as a consequence of lack of demand reflecting ia. too low ambition in the climate regime.

Norway participates in the CDM both through a significant state procurement program operated by the Ministry of Finance and allowing private entities to use CERs in the European Emissions Trading Scheme (EU ETS). Further, many Norwegian entities are involved in the CDM process as project developers, consultants and DOEs. Norway is a firm believer in market based mechanisms such as the CDM. These give possibilities for countries to take more ambitious targets in combination with promoting sustainable development in host countries, as well as providing innovative sources of finance. Given the need for higher ambition, the role of flexible mechanisms, including the CDM, should be enhanced.

While recognizing that the CDM is a mechanism established under the Kyoto Protocol, Norway believes that CERs from CDM should be available to use against commitments for all Parties in a future climate regime, given necessary provisions to ensure environmental integrity of the regime. In this regime, we expect the CDM to coexist with the New Market Mechanism defined in CP. 17 in Durban. We also expect that emissions trading, joint implementation and possibly other mechanisms will be useful in the future. Interaction between the existing mechanisms under the Kyoto Protocol and new market based mechanisms point to the need for sound systems for unit accounting for all flexible mechanisms as well as measurement, reporting and verification of credits as well as provisions to avoid double counting.

It is vital to continue to build confidence in the CDM so that it can be scaled up and contribute to meeting a demand that is more in line with the mitigation actions needed to reach the 2 degrees target. Any changes in the modalities and procedures should serve the purpose of making the CDM more attractive to buyers of CERs, as well as more scalable.

Norway would welcome enhancement of sustainable development aspects of the CDM project activities, keeping in mind that the main motivation for CDM projects is emission reductions.

Stakeholder consultation processes, as well as the validation of these, should be further improved. This will help to make sure that all relevant aspects of the projects are transparently addressed. Roles and responsibilities of host countries need to be further elaborated, as well as the conditions on which host countries give letters of approval.

The current rules for crediting periods should be reexamined as part of the review. This reexamination should take into account the rapid development in technologies in some

sectors, as well types of equipment having shorter lifetime than 7 years, while other project types may have a longer time horizon than 21 years.

The thresholds pursuant to size of projects (small- and microscale) should be examined to see whether they allow for equal treatment regarding similar projects where individual units are small (ia. lighting and clean water devices), but where some of the projects may still be considered large scale under the current modalities and procedures.

Some project types should be pursued through other means than CDM in the future. In particular this is true for project types that creates perverse incentives, such as the industrial emissions of HFCs from production of HCFCs, and some industrial emissions of N₂O. Norway recognize that the current projects have played an important role in the CDM market in its first decade, but these relatively inexpensive mitigation options should rather be pursued through arrangements to fund the mitigation measures (incinerators and catalysts) such as those under the Montreal Protocol Fund. Moving these projects out of the scope of the CDM would also contribute to a better balance between demand and supply as well as enable funding for mitigation of emissions from new production lines. This view is also in line with the recommendations of the High Level Panel on the CDM Policy Dialogue.

The CDM should not register and issue CERs to major new power plants based on coal without carbon capture and storage(CCS).

Modalities and procedures for the afforestation and reforestation project activities should, if it is possible without compromising environmental integrity, be revised to allow for issuance of permanent CERs. The current rules on temporary units (tCERs and lCERs) have resulted in low prices, very few forestry projects registered and only a handful of issuances. Norway does not currently see that activities under REDD+ fit within the CDM due to issues related to ia. scope, leakage and permanence.