NORWAY

Submission to the AWG-LCA

A common accounting system under the Convention

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In order to have credibility, an international climate agreement must establish a system that allows assessment of the emission reductions that are implemented and foreseen, in a consistent and predictable manner. This is best achieved through internationally agreed rules for the accounting of emissions, followed up by comprehensive and regular reporting.

Norway believes that the accounting system must be established *ex ante.* This is necessary in order to fully understand what the mitigation commitments actually imply, and thus assess what countries should be held accountable to. An *ex ante* establishment of quantitative emission reduction commitments will give predictability and comparability, and should underpin subsequent review processes. It should also make it possible to estimate the expected overall emission reduction outcome, and thus contribute to monitoring progress towards meeting the 2 degree target. A common accounting framework should be a platform for stepping up ambition, and should underpin the MRV system.

The Convention does not currently have any accounting rules for the implementation of emission reduction commitments. It is urgent to establish the accounting basis for the mitigation targets and actions put forward for 2020. This will contribute to inform the review of the Cancún agreement in 2013-2015, by providing a comprehensive picture of the overall emission reductions that are foreseen. Also, a common accounting system is necessary to ensure the environmental integrity of the carbon market, and is therefore a foundation for scaling up of carbon finance. A common accounting system should accommodate different types of mitigation targets and actions, in a way that provides transparency and predictability. The outcome in Durban should launch a work program to develop the necessary accounting system, to be adopted at COP18.

Scope of the accounting system

The accounting system needs to include approaches, rules and methodologies for how countries should estimate and account for all their emissions and emission reductions. In addition, there will be need for a system for tracking GHG units and credits. The accounting system must also establish which flexibilities can be used to achieve the emission reduction targets. Any need for flexibility in order to accommodate the diversity of mitigation targets and actions, as well as national circumstances, should be within a range of options that ensure that the environmental integrity is preserved.

This submission includes elements that should be included in such a framework. The basic metrics on mitigation targets and actions should be based on current practices and harmonized with reporting guidelines. Further elaboration and finalization of the framework for accounting of countries' targets and actions could take place through an international process, e.g. considering agreed options. This submission suggests a process and work program for the finalization of the framework, which also should be agreed upon in Durban.

Common rules for the accounting of economy-wide emission reductions
Developed countries have all pledged economy-wide emission reduction commitments in absolute terms in relation to a base year, and must account for the outcome in terms of emissions. We have extensive experience with implementation of a set of accounting rules for this kind of commitment under the Kyoto Protocol. This includes *ex ante* quantification of commitments, rules that allow consistent tracking of progress, as well as forming the basis for a final assessment of whether an emission reduction objective has been met or not. This experience will be very useful when we now need to develop an accounting framework under the Convention. While drawing upon the Kyoto Protocol rules, it is clear that these rules need to be adjusted to reflect the diversity of mitigation targets and actions, and to reflect national circumstances.

Encompassing developing countries in a new accounting framework
The accounting framework should also address the mitigation actions of developing countries, although the context would be different. Many developing countries have put forward substantive mitigation pledges in various forms, e.g. intensity targets or emission reductions below business-as-usual. A common understanding of the progress in implementing these mitigation actions is promoted by a common accounting framework. Furthermore, developing countries should contribute to the accounting of international credits if they intend to use such credits themselves or deliver credits as offsets to developed countries. This means that also developing countries with pledges other than economy-wide targets would need to submit information, making their pledge more transparent, and to understand the overall level of ambition. It is important to be able to express emission reductions in the same denomination – tonnes CO_2 equivalents - and to avoid double counting. The implications would be that developing countries participating in the carbon market would need to put in place necessary provisions and institutions that can keep track of carbon credits and be included in an international framework. The Least Developed Countries should have flexibility with respect to their participation in a common accounting system.

Key elements to be included in a common accounting framework:

1. **Defining the form of the commitment over time:** While all pledges for mitigation targets and actions have been related to 2020 as a target year, it is still unclear how the overall emission reduction between now and 2020 will be accounted for. The Kyoto Protocol has an averaging period approach that allows for use of reduction units from the Kyoto mechanisms towards the commitment. Some parties have proposed other approaches to how they will account for their target, e.g. a single year accounting. The work program from Durban needs to address this issue and establish one or more accepted approaches. A key concern is how the integrity of the carbon market can be maintained if there are several parallel approaches.

2. **Metrics and basic common information:** All basic metrics related to the mitigation targets and actions should be established. This will ensure accounting of all relevant emissions and removals, and promote comparability.
    - Economy-wide goals for emissions reductions should cover all sectors and all GHGs not controlled by the Montreal Protocol, and the Global Warming Potentials from the IPCCs fourth assessment report based on a 100-year time horizon should be used.

- A process to estimate the emissions for the base year and the target year, *ex ante.* A complete GHG inventory should be submitted for this purpose, and be subject to expert review.
- Locking in the base year emissions, through a process of submitting an "initial report". This report should include the inventories mentioned above and additional accounting information (on markets, LULUCF etc) based on agreed rules.

The metrics of mitigation actions of developing countries should similarly be established, and common standards for treating the inclusion of gases, sectors and application of GWP values be developed. The development of common approaches would promote transparency. In our view, this will facilitate the provision of support, as a common accounting basis would apply to various actions, making detailed descriptions for each type of action unnecessary.

3. **LULUCF sector:** Common methodologies for estimating and accounting for emissions and removals from the LULUCF sector is necessary, as different choices of methodology can have major implications with respect to comparability, and on estimations on the overall emission reductions outcome. This also applies to the implementation of REDD+ activities. Accounting rules for the LULUCF sector should address:
    - Methodologies for estimating emissions and removals.
    - Activities to be mandatory or voluntarily included, and methodologies for accounting. Afforestation/deforestation and forest management activities should be included, land based activities could be an option at a later stage.
    - Activities should be accounted for in the base year.

4. **Unit accounting**: Clear rules for the accounting of international credits are necessary in order to prevent double counting. The accounting rules should also address which kinds of international credits that can be accepted as offsets towards a mitigation target, in order to preserve the environmental integrity of the regime.
    - Although the use of the GHG market will depend on type of pledge put forward and approach to accounting period – commitment period, pathway or other – it must be clear *ex ante* with regards to if and how GHG units can be used in achieving a Party's pledge.
    - The system of "assigned amount units" should continue, and trading of such units must be allowed. For other approaches to defining the mitigation commitment, the accounting of units should be harmonized to allow fungibility.
    - GHG credits generated from the CDM and JI mechanisms should be accepted for meeting the emission reduction commitments under the UNFCCC, as well as all other types of GHG credits generated by any future mechanism within the framework of UNFCCC.
    - Parties should agree on common standards and requirements for domestic emissions trading systems where units are traded between countries.
    - Parties should, to what extent possible, agree on guidelines for standardization on baselines and reference levels on future project based mechanisms and sectoral mechanisms.

5. An international registry for units: A system to track the GHG units and credits will be necessary in a credible climate regime. This is crucial to build trust that the commitment will be met, and it is required in order to avoid any double counting.

- We suggest establishing an international registry where all units and credits that can be internationally transferred, must be included. Units or credits should have unique identities through registration numbers.
- Registration of units and credits should happen as soon as they have been verified. This tracking system should be an extension of today's International Transaction Log, depending on how the entire accounting system is designed.
- Registration in the international log should be a prerequisite for acceptance of units towards a country's commitment. GHG credits generated from a project should be registered with the Party in which the project takes place. A national registry for this must be established in developing country Parties participating in flexible mechanisms.
- Rules to avoid double counting should ensure that emission reductions in tonnes CO_2 equivalents are only counted once with respect to measuring progress in mitigation targets and actions.
- The system for tracking GHG units and credits should be compatible with other systems, like the registry of national appropriate mitigation actions in developing countries. This will facilitate development of carbon markets, and make carbon markets a more accessible source of support for nationally appropriate mitigation actions.
- There should be a third party verification of credits, e.g. an existing board or a UNFCCC-established body.

Process for establishing a common accounting framework under the Convention
Above we have outlined some principles and rules to ensure robust and transparent accounting of mitigation targets and actions. A work program should start in Durban, with the aim of establishing international accounting rules and approaches, and establishment of an international registry for carbon units and credits, by COP18.

We suggest that the process of establishing the accounting basis for the mitigation targets should result in Parties submitting an "accounting report", on the basis of the agreed accounting rules and approaches. The purpose of such a report is to ensure transparency and consistency with regards to how the Parties achieve their quantified economy-wide emission reduction targets. Information on all relevant metrics for accounting of emissions and removals should be a part of this first report.

These accounting reports should be submitted in 2014, after the accounting framework has been finalized. The accounting report could be part of the first biennial report or a national communication, whichever comes first. For developing countries, similar relevant information could be included in their first biennial update report, providing further information on their mitigation action. Information on how developing countries will keep track of the issuance and verification of carbon units for international transfer should be included.