

# Nordic approach for ambitious and inclusive carbon market cooperation

## Cooperation under the Paris Agreement

The Paris Agreement and United Nations (UN) Agenda 2030 represent a universal commitment to a just and inclusive transition to low-carbon and sustainable societies. International cooperation and private sector engagement are crucial for meeting these goals.

Market-based cooperation can help countries, e.g., to harness the expertise and financial resources of private companies. However, to ensure that carbon market cooperation supports ambition and transformation, robust rules and governance are needed. The international community is now working together to operationalise the rules and governance of carbon market cooperation under Article 6 of the Paris Agreement.

## How carbon markets work

Carbon market cooperation mobilises the private sector in particular to identify and realise the most cost-effective additional mitigation opportunities, helping to make the most of limited resources. There are two main types of carbon market schemes:

- (i) cap-and-trade schemes, which issue emissions allowances against a binding emissions cap, and
- (ii) baseline-and-credit schemes, which issue carbon credits against a conservative baseline for emissions reductions and/or removals that would not happen without the cooperation.

Carbon credits must also meet other criteria relating to, for example, methodologies, permanence and verification. There are numerous established baseline-and-credit schemes.

Both types of units can be traded on carbon markets. Emissions allowances are mainly used for compliance purposes (cap-and-trade schemes). Some types of carbon credits are eligible for compliance use but can also be used for voluntary purposes, such as offsetting an organisation's carbon footprint and delivering results-based climate finance.

Cooperation can and should benefit all partners and allow for higher ambition: the buyer supports mitigation activities in exchange for carbon credits, the host country and activity developer receive finance and sustainable development co-benefits, and all partners build their capacity for climate action.

## New generation of carbon markets

Under the Paris Agreement, all countries must set and implement climate actions in line with their Nationally Determined Contributions (NDCs), i.e. national climate targets. Carbon market cooperation under Article 6 should focus on mitigation that is additional to what countries implement domestically to meet their NDCs. Countries are required to increase the ambition of their NDCs over time, which also raises the bar for carbon market cooperation.

The international community can build on past experience to develop a global standard for carbon market cooperation that supports a low-emission and sustainable future. **In the Paris Agreement era, both compliance-driven and voluntary carbon market cooperation contribute to the same global goals and should aim for consistent in quality.**

Participating countries are responsible for ensuring that cooperation under Article 6 meets requirements relating to environmental integrity, transparency, robust accounting and sustainable development, additionality and ambition. Countries must set up practical national criteria and processes for carbon market cooperation in line with the Paris Agreement Rulebook.

The countries can make use of the Paris Agreement's baseline-and-credit mechanism and/or develop bilateral criteria and processes for generating carbon credits in partnership with other countries. Host countries can authorise these carbon credits as Internationally Transferred Mitigation Outcomes (ITMOs) for use towards other countries' targets, international airlines' targets or for voluntary purposes. To avoid double counting, the host country must adjust its emissions balance so that the authorised mitigation outcomes are not counted towards its own targets.

# Carbon crediting mechanism cycle

## Mitigation activity

Activities that reduce emissions or enhance sinks may generate carbon credits if they meet eligibility criteria. These activities can have sustainable development co-benefits.

## Generating carbon credits

Baseline-and-credits schemes register eligible activities and issue carbon credits against mitigation outcomes that meet relevant criteria. Sustainable development co-benefits may also be reported and recognised.

## Authorising carbon credits

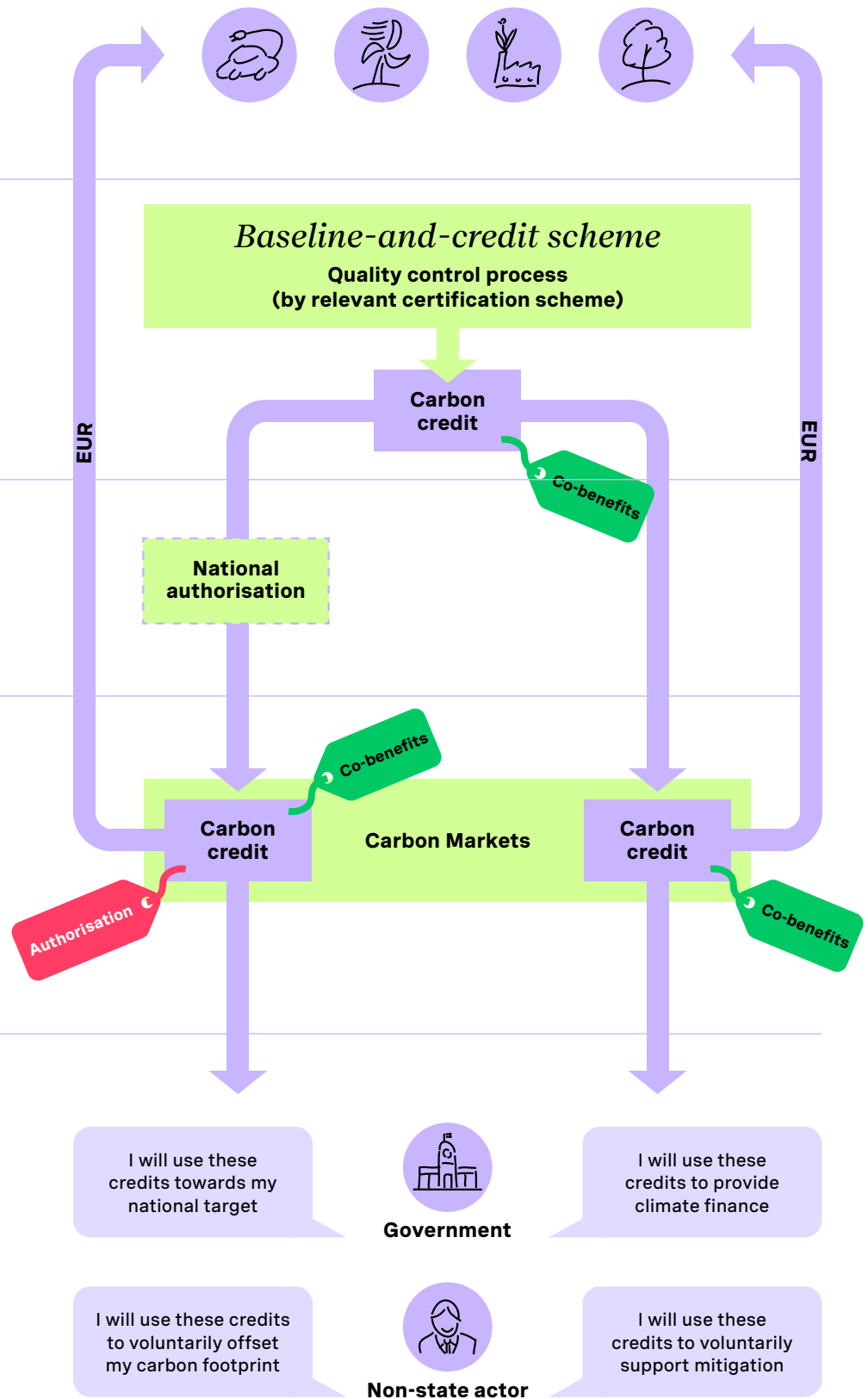
Participating countries may authorise carbon credits to avoid double counting with national targets.

## Trading carbon credits

Carbon credits are sold and bought in carbon markets. Revenue from the sale of carbon credits supports the mitigation activity.

## Using carbon credits

Carbon credits can be used for various purposes by governments and non-state actors.








## Promoting best practices and Nordic priorities

In the Paris Agreement era, the Nordic countries continue to lead by example, engaging with partners across the world to support the transition to climate neutrality through carbon market cooperation. Nordic countries are already developing pilot projects on Article 6. Piloting is a powerful approach to develop best practices and build capacity.

Active engagement in the development and/or utilisation of Article 6 cooperation strengthens the position of Nordic actors as advocates for greater ambition and environmental integrity. Article 6 is a key design feature of the Paris Agreement architecture and arguably an important element for developing countries.

### Nordic countries' ambitious national targets towards carbon neutrality

	Norway	Finland	Iceland	Sweden	Denmark
					
Target year for carbon neutrality	2030	2035	2040	2045	2050
International flexibility	To compensate remaining emissions. By 2050 a low-emission society. (Emissions will be reduced by 90-95% below 1990-levels)	International flexibility considered in 2025		Options for limited use of supplementary measures, including verified emission reductions from other countries	

### Cost-effectiveness of Article 6

A study commissioned by the World Bank in 2019 concluded that there are notable potential benefits from cooperation under Article 6. Cost reductions could total about USD 250 billion per year by 2030 using Article 6

mechanisms. Cost reductions can be achieved through improved economic efficiency. Investing these cost savings in mitigation action could help to raise ambition under the Paris Agreement by 50% or 5 GtCO<sub>2</sub>e/year by 2030.

## Nordic Article 6 cooperation

The Nordic vision, priorities and goals for Article 6 have been developed under the Nordic Initiative for Cooperative Approaches (NICA), an initiative established in 2018 by Nefco and funded by Finland, Norway, Sweden, the Nordic Council of Ministers' Working Group for Climate and Air, and Nefco. Iceland and Denmark are also following in the NICA work.

### Proposed vision for Nordic Article 6 cooperation

Nordic actors engage in international carbon market cooperation to promote greater ambition of global climate action. They support environmentally and socially sustainable mitigation activities that are compatible with the transition needed to limit global warming to 1.5°C and meet the United Nations Sustainable Development Goals.

#### Key international criteria and proposed Nordic priorities for robust and impactful Article 6 cooperation:

- Ensuring environmental integrity of mitigation outcomes
- Promoting ambition
- Applying robust accounting, avoiding double counting
- Promoting sustainable development, especially gender equality

#### Additional goals and proposed Nordic priorities for robust and impactful Article 6 cooperation:

- Enabling transformational change
- Fostering a just and inclusive transition towards the 1.5-degree pathway
- Facilitating private sector participation
- Embracing prompt action and learning by doing
- Fostering partnerships and synergies

## Promoting Nefco's mission through carbon market cooperation

Carbon market cooperation offers valuable opportunities to promote Nefco's mission to accelerate the green transition and demonstrate its potential. Building on over 20 years of international carbon market experience, Nefco is now contributing to global efforts in line with the proposed framework for Nordic Article 6 cooperation.

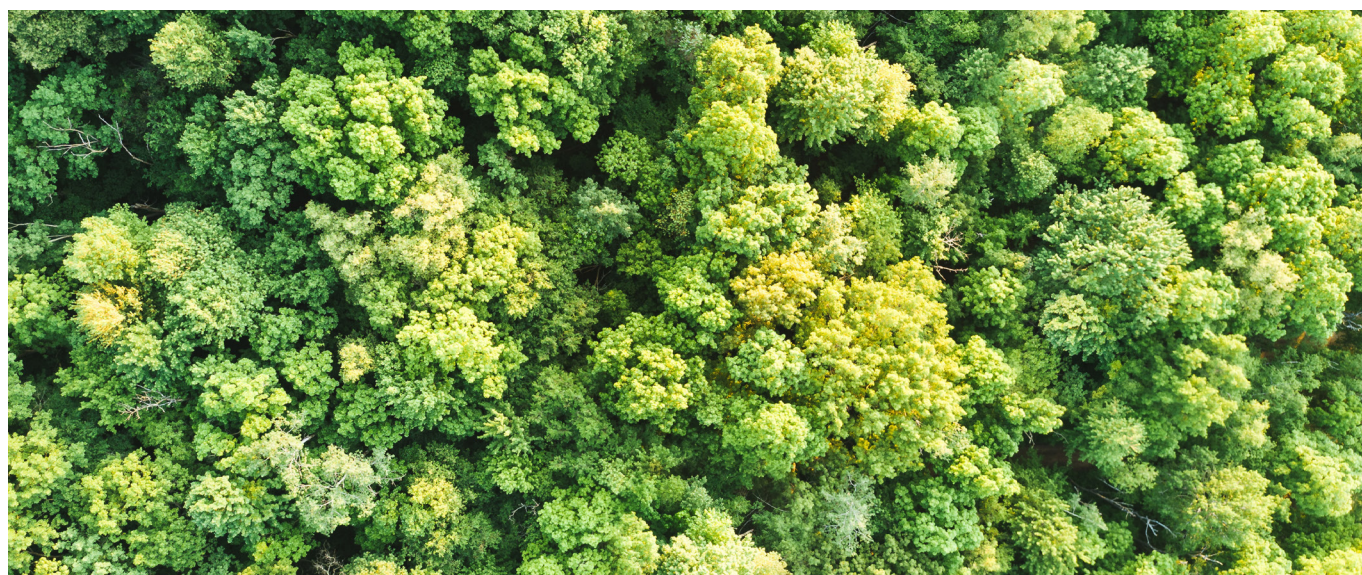
### Further reading

- [Read our recent published summary report of pilot activity development for Nordic Initiative for Cooperative Approaches \(NICA\)](#)
- [Read more about a summary report of Nefco carbon funds 2008-2021](#)

## Nordic Initiative for Cooperative Approaches (NICA)

NICA strives to demonstrate how international partnerships can scale up and accelerate ambitious climate action, promote sustainable development and harness private sector finance and innovation. It aims to build capacity and foster partnerships among Nordic public and private actors and their global peers for collaboration that is compatible with the Paris Agreement. NICA activities aim to contribute to the development of robust and practical international rules for carbon market cooperation under Article 6. NICA has arranged several workshops and produced knowledge and templates on the operationalisation of Article 6, including concept notes for concrete pilot activities in East Africa.

Read more at [www.nefco.int/nica](http://www.nefco.int/nica)



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