

Financing adaptation by auctioning

Workshop in Bonn 5. June on Investment and Financial
Flows to address Climate Change

by

Leif K. Ervik

Key points

- Cap and trade systems create assets
- The size of the asset is decided by the Cap
- The value of international allowances are substantial
- A small percent in auction suffices to finance adaptation
- Administration can be very simple

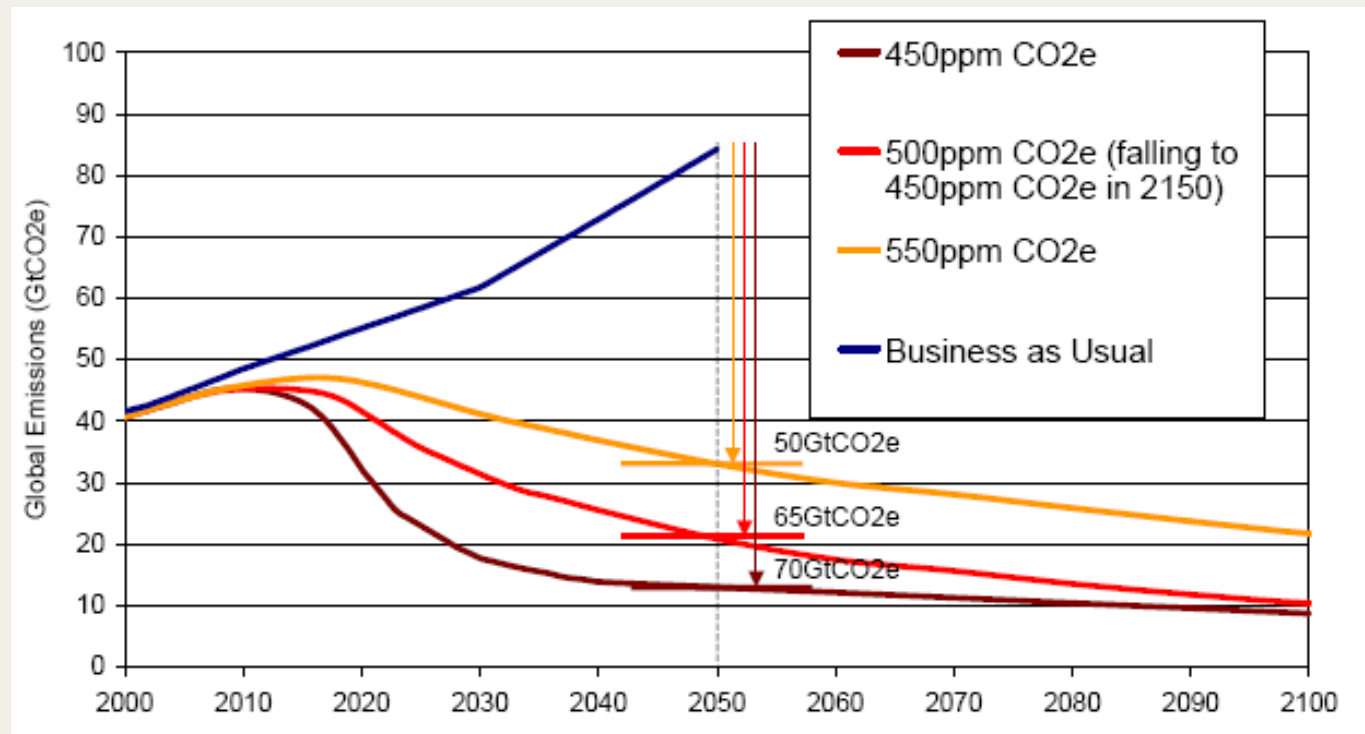
Cap and trade systems

- The core obligation in an Emission Trading System (ETS) is to surrender permits (allowances and offsets) equal to own emissions.
- In the ETS the obligation is placed on the emitter.
- In Kyoto the obligation is placed on the whole country.
- The Cap is the total amount of Allowances into the system.
- The allowances in ETS systems are allocated for free, auctioned or by a combination.
- The permits are freely traded.
- In Kyoto app. 11.2 billion allowances were allocated for free, almost proportional to 1990 emission.(per year)
- In C&T systems allowances are valuables, they are **assets**.

Value

- The yearly **asset value** of allowances is the product of :
 - the amount of allowances (**the cap**)
 - and
 - the **price** (marginal cost of specified abatement))

Different emission paths

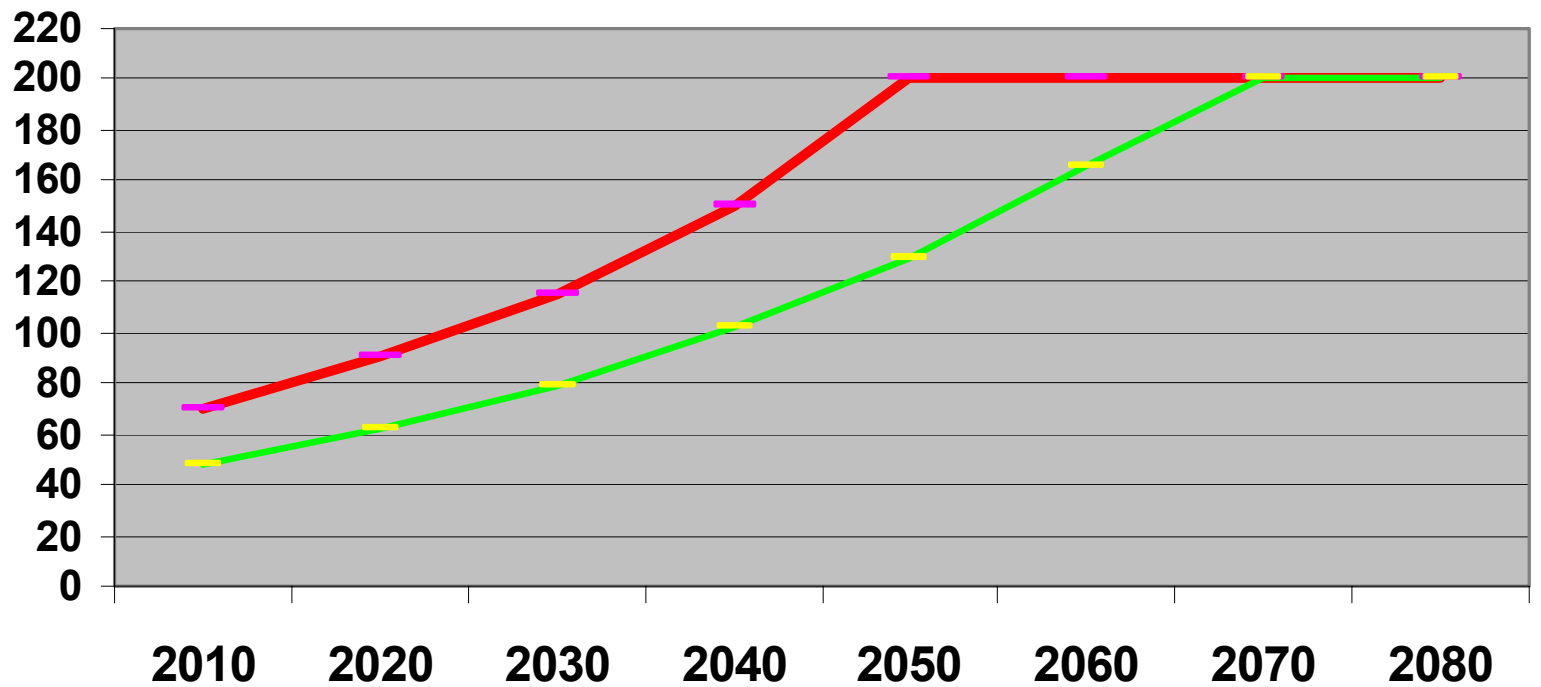


Borrowed from the eminent Stern-report

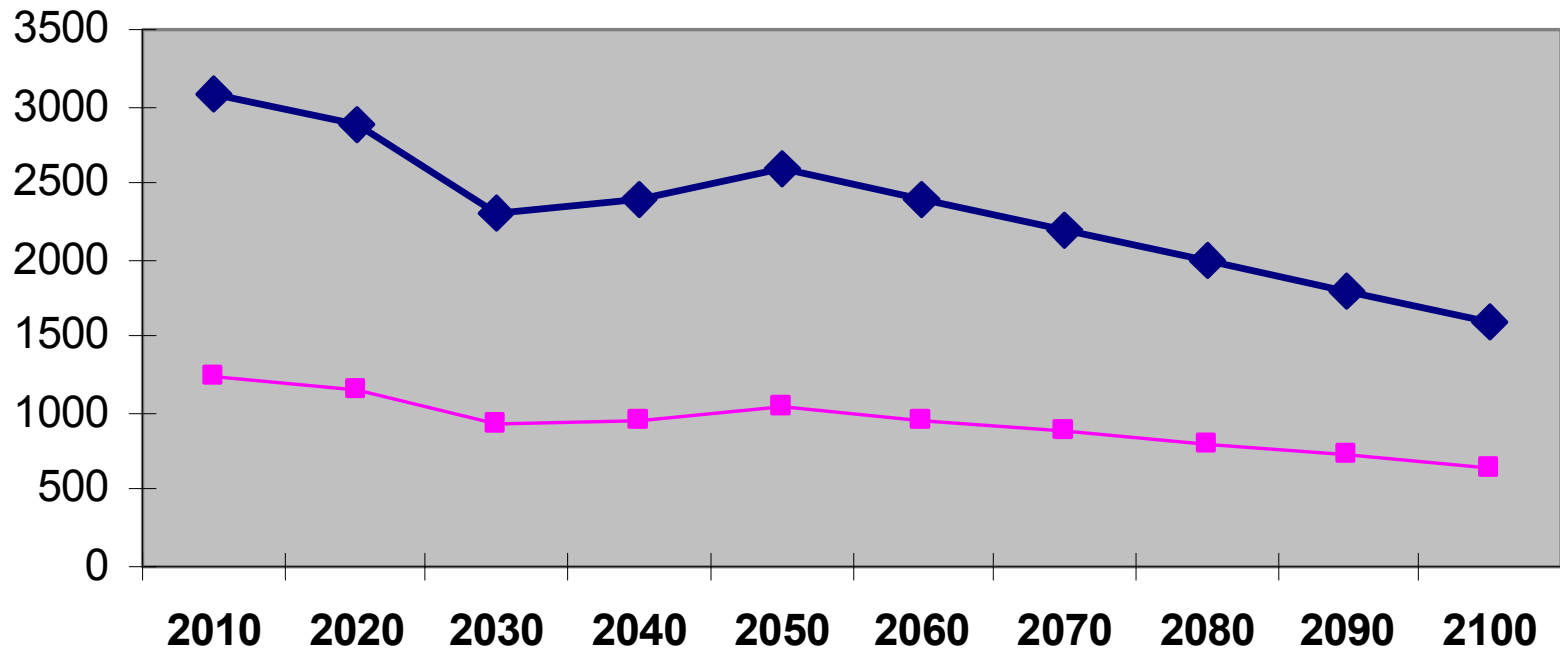
Global CO₂-price, USD

An efficient global market is assumed

- 2 degree target
- 3-degree target



The world market for CO₂-quotas Consistent with 2-degree target, bill. USD



Financing

- A **small percentage** of this asset value can be auctioned/sold to finance Adaptation
- The task of auctioning/selling can be given to a reputable international bank(s)
- Result:
- **Integrated, reliable and predictable finance of the delineated UNFCCC role on adaptation.**