

The Norwegian Proposal on auctioning allowances issued under the Copenhagen Agreement

1. Norway has submitted a proposal for a new financial mechanism under the UNFCCC, where a certain amount of allowances issued under the Copenhagen Agreement should be auctioned at the international level to generate new additional funds for climate change actions (FCCC/AWGLCA/2008/MISC.2). Attached to this paper is a proposed legal text for the implementation of this mechanism in the Copenhagen Agreement.
2. The financial mechanism that will monetize emission allowances through auctioning should be established in the agreement itself. In addition there will be a need for the adaption of further principles, modalities, rules and guidelines for the proper functioning of this mechanism. The COP should adopt such measures at its [16th] session.
3. Ensuring adequate, predictable and sustainable financial resources is a crucial issue in the Copenhagen Agreement. Among other sources of funding, auctioning allowances has the potential of generating substantial stable and predictable funding for climate change actions in developing countries for years to come.
4. Auctioning allowances could be a source of revenue for different kinds of financial needs under the Convention. There are different approaches to, and probable sources of, funding actions in developing countries. Norway is interested in discussing with other Parties possible combinations of proposals which together could generate adequate predictable funding.
5. The proposed auctioning model is in particular designed to meet special needs for raising substantial resources for financing adaptation and capacity building. The UNFCCC paper on investment and financial flows indicated financial needs for adaptation in non-Annex I Countries to be in the range of USD 28-67 billion yearly. In a context where a price on carbon is inadequate, the proposal could also be a possible source of funding for meeting mitigation costs. Actions related to reduced emissions from deforestation and degradation in developing countries (REDD) could potentially receive support from funds raised by international auctioning. On further specification of these financial needs, we would like to make reference to our submission on the establishment of a three phased REDD mechanism where financial needs for each phase are indicated (FCCC/AWGLCA/MISC.4 Part I).
6. The total amount of allowances to be issued should be decided in the Copenhagen Agreement itself. An alternative to establishing the quantity to be internationally auctioned in the Agreement directly would be adoption of this quantity by the COP at a later stage. More time for adoption of the quantity to be auctioned could be

preferable to allow for a process where developing countries' needs are specified more in detail.

7. The quantity to be auctioned, and thus the amount of revenue that could be generated, should be determined and updated in accordance with identified needs for assistance in developing countries. These needs should be identified more in detail through a process of preparing strategies for national low emission developments and strategies for national adaptation actions in these countries, taking into account the principle of common but differentiated responsibilities and respective capabilities.
8. The quantity to be auctioned should be decided before allowances are issued to Parties taking on quantified emission reduction commitments. Hence, international (as apart from domestic) auctioning of allowances generates funds independently of national annual budgetary decisions. A coordinated system for collection of fund raised domestically will thus be redundant. This will give a higher degree of predictability of fund raising than offered by traditional ODA contributions. International auctioning will not need any non-compliance mechanism in addition to those mechanisms ensuring compliance with Parties' emission reduction commitments.
9. The best way to ensure predictable funding through the auctioning mechanism is probably to determine a certain revenue requirement, in the sense that a number of allowances are auctioned until a predefined revenue requirement is met. There are, however, different options on how the amount auctioned could be determined to factor in short-time price fluctuations. The amount could be determined on the basis of a number of allowances, a fixed percent of the total amount or a predefined revenue requirement – or a combination of these methods, e.g. no more than x percentage and no less than y billion per year.
10. The Copenhagen Agreement should specify that countries taking on economy wide emission reduction targets would provide financial resources through the auctioning mechanism, and thus contribute to the fulfilment of financial obligations under the Convention. Holding back a share of allowances from distribution implies a cost for countries with emissions covered by international emission trading. In a combination with other sources of financing, e.g. contributory financing schemes, this cost could be taken into account when assessing overall financial contributions from different Parties.

Norwegian Financial Proposal on auction of allowances issued under the Copenhagen Agreement (draft text)

1. A mechanism for financing climate change actions by monetizing emission allowances through auctioning is hereby established.
2. This financial mechanism implies that a certain proportion of the total number of emission allowances under the Copenhagen Agreement is held back and auctioned at the international level.
3. The auctioning will generate revenue that shall be used to assist developing countries in implementing climate change actions.
4. Revenue generated by this mechanism will contribute to the fulfillment of financial obligations under the Convention of those countries taking on quantified emission reduction commitments.
5. The scope of this mechanism is to provide financial resources for
 - a) Adaptation
 - b) REDD
 - c) Capacity building
6. The Conference of the Parties shall determine the quantity of allowances to be auctioned at its [.....] 16th [.....] session for the period [.....] to support each financial need referred to in paragraph 5 above.
7. In order to provide predictable funding, the method for determining the quantity to be auctioned may factor in price fluctuations in emission allowances. The quantity could be determined on the basis of a number of allowances, a fixed percentage of the total amount or a predefined revenue requirement – or a combination of these methods.
8. The Conference of the Parties shall adopt further principles, modalities, rules and guidelines for the functioning of this financial mechanism at its [16th] session, including adopting procedures for the determination of the quantity to be auctioned for subsequent periods.
9. This financial mechanism will gradually be phased out as developing country parties further enhance their unilateral implementation of climate change actions.