

Finance - AWGLCA

Norway's submission on auctioning allowances

1. Norway welcomes the conclusions from the meeting in Bonn in June where the Ad hoc working group on Long-term Cooperative Action under the Convention (AWG-LCA) invited Parties and accredited observer organizations to provide additional information, views and proposals on paragraph 1 of the Bali Action Plan as may be required for each session.
2. It is stated in the Bali Action Plan that there is a need to address “enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation”. Improved access to adequate, predictable and sustainable financial resources is a crucial issue in the design of an agreement for Copenhagen 2009.
3. At the workshop on Investment and financial flows to address climate change organised for the AWG-LCA, Norway proposed that financial needs under the Convention could be financed through auctioning a share of assigned amount units of all Parties.
4. Due to its genuinely international character auctioning of allowances has the potential of overcoming domestic revenue problems. We therefore see auctioning as one particular promising option to generate adequate, predictable and sustainable financial resources.
5. In an emission trading system auctioning of emission quotas is a possible source of revenue. In cap and trade systems allowances are valuable, in other words assets. The yearly asset value of allowances is the product of the amount of allowances (the cap) and the price, where the cap is set by the total amount of allowances and the price will equal the marginal abatement cost. How many allowances that should be issued, will follow from overall emission targets (longterm and midterm).
6. A small percentage of this asset value could be auctioned directly or through a tax on issuance of the allowances, while a tax on transactions creates inefficiencies and should therefore not be an option. A two percent auctioning of the asset (similar to the CDM levy) can be used as an illustration. At this level one would generate an annual income of between 15 and 25 BN USD. The value of the asset (price time's quantity) is relatively robust to the actual cap. If the cap is set tight the price will rise and on the other hand if the cap is set more loosely the price will decrease.
7. The percentage or the number of allowances auctioned should be set to generate the amount of funding needed for the purpose in question. The amount of allowances auctioned could be predefined by a number of allowances, by a fixed percentage of the total amount or a predefined revenue requirement. One could also establish a process with the aim of deciding the exact amount at a later stage.
8. Auctioning of allowances could be a source of revenue for different kind of financial needs under the Convention. There are different studies on financial needs for developing countries for taking adaptation actions. In one UN study the need is estimated to be in the range of USD 28-67 BN in additional investment and financial flows in developing countries. non-Annex I Parties by 2030. The decision from Bonn on updating this UNFCCC paper on investment and financial flows to address climate change will give valuable input in the

discussions of how much funding that will be needed for adaptation and mitigation actions.¹ The proposal doesn't rule out the possibility of raising funds for other purposes than adaptation, such as technology development and efforts to reduce deforestation in developing countries.

9. The Norwegian proposal of withholding a small portion of permits from national quota allocations, and auction it by an appropriate international institution, should be further discussed and elaborated in the upcoming meetings of the AWG-LCA. This includes discussions on modalities for determination of how many allowances that should be auctioned, for what purposes financial recourses raised by this mechanism should be allocated to and under which principles a fund will be established and organised (governance etc).

¹ http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/background_paper.pdf