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Whatever happened to the Paris Predictability Problem? (Part II)

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Unconventional Options for Enhancing the Predictability of Multilateral Climate Finance

Introduction and Background

Part I of this blog[1] was about the idea of joint replenishments for all entities intended to serve the financial mechanism of the Paris Agreement. The idea was tabled by the Group of Least Developed Countries (LDCs) in the final days of Paris, as a significant institutional finance outcome; however, in the end it did not make it into the Agreement. Replenishments are one, if not the only way in which (national) governments have traditionally been able to bind themselves to provide resources more predictably over a number of domestic budget cycles.

The aim of this sequel (Part II) is to look at alternatives to conventional national budget contributions to multilateral climate funds, not only to increase and diversify the funding base, but also to address the problem of how the predictability of (public sector) climate finance for developing countries can be enhanced.

Before turning to discuss options which we believe to be particularly interesting, not least in the context of the upcoming UN Climate Conference in Marrakech, we feel we need to set the scene by looking at the evolution of the international debate on Long-Term Finance (LTF) and clarifying the concept of 'innovative finance', which we believe is key in this context.

The Evolution of the UNFCCC Long-Term Finance Debate

The <u>UNFCCC Long-term Climate Finance website</u> has a useful archive of previous work in the area of long-term climate finance with all presentations and recordings of the UNFCCC workshops and events of the Work Programme on LTF from 2012/13 onwards. A thematic analysis of these events by Laurel Murray[2] reveals two trends.

• For one it shows that the topical balance between raising resources and deployment of funds has, over time, shifted from 4:1 at the first Workshop on LTF (Bonn 2012) to 0:1 at the recent in-session workshop on LTF in Bonn.

• Second, as concerns the topic of raising resources, the balance between raising public sector finance and mobilizing private sector finance has also shifted, from 2:1 (Bonn 2012) to 1:3 (insession workshop on LTF, Bonn 2015[3]).

The gradual disappearance of the topic of providing (public sector) funds from the LTF debate is not only regrettable, it is, we believe, contrary to the spirit, if not the letter, of the original terms of reference of that debate, which stipulate that:

[T]he aim of the [LTF] work programme ... is to contribute to the on-going efforts to scale up the mobilization of climate change finance after 2012; the work programme will analyse options for the **mobilization of resources from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources** and relevant analytical work on the climate-related financing needs of developing countries; the analysis will draw upon relevant reports including that of the High-level Advisory Group on Climate Financing and the report on mobilizing climate finance for the Group of Twenty and the assessment criteria in the reports, and will also take into account lessons learned from fast-start finance.[4]

While the debate on (pathways) of conventional public sector sources through budgetary contributions may have proven to be not the most fruitful way forward, this does not mean that there are no alternative ('unconventional'/'innovative') sources of grant funding that could be usefully tapped – in particular, to enhance the predictability of financial support for climate change activities in developing countries. And the current LTF debate needs to be rebalanced to conform with this original aim, if it is to be of any real use to anyone.

Innovative Finance: What is it and why is it important?

In the context of providing financial support for climate change activities in developing countries ('climate finance'), the term 'innovative finance' typically refers to (off-budget) earmarked public sector sources that are usually, but not always, related to combatting climate change, such as:

- the auctioning of emission allowances in emission trading schemes;
- carbon or other taxes;
- a (2 per cent) share of proceeds from the Clean Development Mechanism (CDM), also adopted for the new market mechanism under the Paris Agreement.

As 'public sector' sources, these involve government decisions but, unlike conventional budgetary contributions (which, by and large, are determined purely politically) contributions based on earmarked sources of revenue are co-determined by political and other, usually market-based, parameters. The **share** of the source that is being earmarked will usually be politically determined, but the **magnitude** of the contribution also depends on the overall size of the revenue stream in question. Moreover, innovative finance is generally provided with a degree of automaticity that furthermore enhances its predictability.

To be clear, political decisions are not necessarily less predictable than markets. Indeed, if one is involved in the relevant decision-making processes – particularly as a powerful player – one might well prefer a purely political process. The problem from the vantage point of the developing country recipients is that they typically have very little, if any, say in the political processes that determine the relevant (conventional) contributions. This is why, for them, market-based uncertainties will be more palatable than those arising from the relevant political (developed country) processes: from the outside, markets appear more predictable than individuals.

Another characteristic of innovative finance, in this sense, is that it is generally used to provide grants, as opposed to loans or investments with profit incentives. For the purposes of this blog, we differentiate between 'international', 'regional', and 'unilateral' innovative finance sources, depending on whether the decision making involves all Parties to an international agreement (like the UNFCCC), just a few, or a single government. We also differentiate between national and subnational governments.

Varieties of Innovative Finance

As it happens, there is a plethora of examples of innovative finance of all kinds: international, regional, involving national and/or sub-national governments. Many of these were discussed in a 2008 paper 'International Adaptation Finance: The Need for an Innovative and Strategic Approach' [Müller 2008] which, in turn, formed the basis of an ODI paper 'Innovative Carbon-Based Funding for Adaptation'. Given the blog format limitations, we refer the reader to these and subsequent references for more detailed and complete accounts of innovative finance instruments. The following listing is intended to just give an idea of the potential variety of instruments and to highlight a few options that we believe may be viable in the current circumstances.

International Innovative Finance

In climate change circles, probably the best known example of international innovative finance is the **share of proceeds** collected from projects under the <u>Clean Development Mechanism</u> (CDM) of the Kyoto Protocol where 2 per cent of the Certified Emission Reductions (CERs) generated by a project are set aside internationally and given to the Kyoto Protocol <u>Adaptation Fund</u> to be monetized on the relevant carbon markets.[5] The most important outcome of Paris with regards to addressing the predictability problem was that the new international market mechanism defined in the Paris Agreement also contains a provision for a share of proceeds 'to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.'[6]

However, other proposals have also been under discussion, some of them more successful than others. For example, at COP 12 in Nairobi (2006), Moritz Leuenberger, President of the Swiss Confederation proposed 'a global carbon levy. Based on the "polluter pays" principle, it would be paid by each individual and each business in proportion to their carbon emissions. The revenue from this levy would then be directed towards adaptation measures worldwide.'[7]

The same year (2006) also saw the publication of an <u>outline proposal for an International Air Travel</u> Adaptation Levy (IATAL),[8] which at COP 14 (Poznan, 2008) was submitted to the UNFCCC by the Maldives on behalf of the LDC Group as the 'International Adaptation Passenger Levy (IAPAL)'.

In 2007 there was also a UNFCCC workshop on investments and financial flows to address climate change[9] at which 'Norway proposed that financial needs under the Convention could be financed through auctioning a share of assigned amount units of all Parties.'[10]

Other (mostly carbon market-based) instruments have been discussed and some have even been considered by the International Civil Aviation Organization (ICAO)[11] and the International Maritime Organization (IMO)[12] in the context of reducing international aviation and maritime emissions. But none of them has made any real progress so far, and it is unlikely that they will do so in the foreseeable future, not least because international levies are regarded as anathema by many national treasuries.[13]

This is a shame because, to paraphrase the above-mentioned Norwegian submission, due to their *genuinely international character* international innovative finance instruments, such as the *auctioning of allowances* have the potential of overcoming domestic revenue problems.[[14]] We therefore see auctioning as one particular promising option to generate adequate, predictable and sustainable financial resources.

Fortunately, innovative finance can also be provided regionally and unilaterally (at national or subnational level), which we shall now turn to.

Regional and Unilateral Innovative Finance

National Schemes

Among regional emission trading schemes the EU ETS is clearly one, if not the most, significant potential source of innovative climate finance: in the first quarter of this year, auctions across the EU ETS yielded a total of just over &1 billion,[15] 1 per cent of which would be tantamount to &40 million (\$45 million) per annum. Moreover, the revenue from such auctions is expected to increase between now and 2020 with the share of allowances to be auctioned, even if allowance prices fail to increase.

Of course, a number of EU member states will reject the idea of earmarking a share of the auction proceeds for climate finance, on the grounds that they are not allowed to 'hypothecate' government revenue as a matter of principle. However, this principle is more honoured in the breach than in the observance,[16] as was pointed out in a 2008 paper on the subject of earmarking of EU ETS auction revenue:[17] most countries practise some form of hypothecation,[18] such as earmarking a share of national lottery revenue for certain good causes.[19]

As it happens, the EU ETS Directive itself provides for a *de facto* earmarking, namely 'that at least 50 % of auctioning revenues or the equivalent in financial value of these revenues should be used by Member States for climate and energy related purposes.'[20] Some have actually used a significant proportion of their auctioning revenue for developing country climate finance.[21]

In other words, it should be possible for willing EU member states to use a small percentage of their ETS auction revenue to support developing countries, in particular the poorest and most vulnerable ones. Otherwise there is always, of course, the Norwegian idea: they could opt to allocate a small share of their (collective) allowances to, say, the Least Developed Countries Fund (LDCF), or to an intermediary that will monetize them on its behalf. After all, this is precisely what they did when allocating 300 million allowances to be monetized by the European Commission and made available for the co-financing of carbon capture and storage and of innovative renewable energy technologies, mostly in Europe under the NER 300 funding programme.[22]

Last, but by no means least in this discussion of innovative climate finance at the national level, it is worth keeping in mind the fact that this type of support of climate change activities in developing countries need not necessarily be related to emission mitigation schemes. As concerns potential revenue scales, one of the most promising initiatives must be the <u>European Union Financial</u> <u>Transaction Tax</u> (EU FTT), proposed by the European Commission, which has been taken up by 11 EU member states.

The EU FTT is to cover financial transactions between financial institutions. It will be collected by participating member states[23] and will represent a charge of 0.1 per cent against the exchange of

shares and bonds and 0.01 per cent across derivative contracts, if just one of the financial institutions involved resides in a member state of the EU FTT. The proposal, which according to various estimates will yield between ≤ 10 billion[24] and ≤ 37 billion[25] annually, was approved by the European Parliament in July 2013, and must now be unanimously approved by the 11 initial participating states before coming into force.

According to a *Guardian* article[26] published during COP 21 in Paris: *France, Spain and Belgium* have already committed to earmark chunks of the tobin tax revenues for climate aid, a move which may help allay fears among some developing countries about the over-use of loans and private finance in a fund planned to raise \$100bn a year by 2020. Pascal Canfin, the co-chair of France's presidential committee for innovative finance, said that the announcement would add to momentum for a climate deal in Paris. 'It is obvious that this tax could be a tool to provide more finance to the countries in need but it depends on the willingness of the participating countries to allocate the money for climate objectives,' he said.

Unfortunately, the required unanimity among the participating members could not be achieved in Paris, and the decision has been postponed to the end of this month. What is interesting in this context is that the decision by the three members reported in the *Guardian* piece shows once again that earmarking national government sources for climate finance is possible if there is sufficient political will.

Sub-national Schemes

On 6 December 2015 at COP21 in Paris, Premier <u>Philippe Couillard</u> of the Canadian province of Quebec announced that his government would be contributing \$6 million to the <u>Global Environment</u> <u>Facility</u> (GEF) operated UNFCCC <u>Least Developed Countries Fund</u> (LDCF).

At the announcement, former US Vice President <u>Al Gore</u> thanked the Quebec people as 'becoming true heroes in the world's effort to solve the climate crisis' and setting an example that would reverberate to regions and countries around the world. GEF CEO <u>Naoko Ishii</u> referred to the contribution as 'this ground-breaking commitment by Québec' while the LDC Group <u>press</u> <u>release</u> spoke of a 'historic and innovative pledge'.

On 10 and 11 December, other sub-nationals (the city of Paris and the three regions of Belgium), in turn, took the opportunity to announce contributions to the <u>Green Climate Fund</u>, with Wallonia pledging \notin 7 million on an annual recurring basis until 2020.

As alluded to in the heading of another OCP blog: <u>In Paris it became 'chic' for sub-nationals to</u> provide multilateral support for climate change finance. Now it must become 'de rigueur'!

But how? For one, the policy brief that launched the idea ('<u>Finance for the Paris Climate Compact:</u> <u>The role of earmarked (sub-) national contributions</u>') suggests the use of innovative finance involving a small but regular share of proceeds, which as mentioned above could be in the form of a share of auction revenue, or in the form of free allowances (to be monetized through the relevant auctioning/trading platforms by the LDCF or by a local intermediary on its behalf).

In practical terms Quebec could, for instance, decide to build on the Wallonia announcement and put its one-off 2016 contribution on an innovative regular footing by pledging 1 per cent of its auction revenue (about \$5 million annually) to the LDCF, to match the annual conventional bilateral support until the end of the current trading phase in 2020 that Premier Couillard also announced in Paris.

As at the national level, some sub-national governments may find it more difficult to earmark a share of auctioning revenue than others. For example, California, Quebec's partner in the <u>Western Climate</u> Initiative (WCI) also auctions a share of its trading scheme allowances (indeed it does so in joint auctions with Quebec). However, according to <u>Assembly Bill 32</u> (AB 32) which governs the <u>California</u> <u>Cap and Trade Programme</u> (CCTP), the proceeds of the (State government) allowance auctions are subject to annual appropriations[27] and as such are facing the domestic revenue problem like any other conventional budgetary support. Moreover, a lawsuit by the California Chamber of Commerce against the State government auction portion of the CCTP is pending on the grounds that auctioning off allowances constitutes an unauthorized, unconstitutional tax.[28] California government allowance revenue is therefore not likely to provide the sort of predictable support we are trying to identify here. However, the CCTP does have an interesting feature that may well offer a way forward: its allocation of allowances to utilities 'on behalf of rate payers.'

The <u>Air Resources Board</u> (ARB) allocates allowances 'to prevent leakage and provide transition assistance' to entities covered by the CCTP. To ensure that utility rate payers do not experience sudden CCTP-associated increases in their utility bills, the ARB allocates allowances to the utilities covered by the Program on behalf of their rate payers. The CCTP Regulation requires covered utilities to use the value associated with these allowances for the benefit of their rate payers, consistent with the goals of AB 32. They may not be used for the benefit of entities or persons other than their rate payers.[29] In other words, to quote *The Wall Street Journal*, 'two pools of allowances are sold at each auction: one controlled by the utilities, which get all of their allowances free, and another controlled directly by the state. Investor-owned utilities are required to sell all of their allowances [for the benefit of their rate payers] and then buy back what they need to cover their own emissions. (It's complicated.)'[30]

In sum, the CCTP uses (private sector) intermediaries to monetize allowances for the benefit of others. It thus stands to reason, particularly since the State government is currently engaged in looking at how the CCTP could be extended beyond 2020, that it should be possible for California to show some solidarity with the poorest and most vulnerable across the globe by using a similar arrangement on behalf of, say, the LDCF. Indeed, the long-term future of innovative multilateral funding from the WCI as a whole may well lie in a *WCI-wide post 2020 application of this use of a share of proceeds monetised on behalf of the global poorest and most vulnerable by eligible local intermediaries*.

Air Passenger Adaptation Crowdfunding - an unconventional alternative

As mentioned earlier, the idea of levying a small charge on air travel to support adaptation efforts in developing countries has been around for over a decade, but it failed to take off as an international instrument. In light of this, there was a 2011 proposal to transfer the idea to the national level ('<u>Solidarity Levies on Air Travel</u>'), which was also not particularly successful. In 2013, the ecbi published an award-winning study '<u>Crowdfunding for Climate Change</u>' and in 2012 the Adaptation Fund (AF) introduced a '<u>Donate</u>' button on its website to receive crowdfunding donations.[31]

Given that the AF was the intended recipient of the original International Air Passenger Adaptation Levy, it does not take a great leap of imagination to arrive at the idea of using this crowdfunding tool on the AF website for soliciting voluntary contributions from air passengers – particularly as a number of airlines already provide a similar service on their websites for passengers to pay for offsetting their flight emissions.

Why should airlines provide the option for passengers to contribute to adaptation efforts in developing countries? Is there not a danger that this would be to the detriment of individual offset

purchases? As it happens, it is indeed likely that some passengers who would otherwise have bought offsets would instead make an adaptation donation, but this is not a reason for abandoning the airline adaptation crowdfunding idea.

In light of the fact that since 2012 flights from, to, and within the European Economic Area have been under the EU Emission Trading Scheme, and since there remains a growing push for extending market-based measures in that sector globally,[32] it stands to reason – as argued by some airline sector spokespeople[33] – that since the industry is subject to emission reduction constraints, individual flight offsets by passengers are, if not redundant, then at least less important than they were in the absence of such industry constraints. This, of course, does not mean that the emissions permitted under these schemes are not still imposing adverse impacts that require adaptation actions, particularly by the poorest and most vulnerable. This is why individual offsetting *should* give way to individual solidarity though adaptation crowd funding.

What could be the scale of such voluntary adaptation air passenger crowdfunding? As there is, to our knowledge, no precedent, the only way to gauge its revenue potential is by looking at similar related instruments. And here the obvious candidate is, of course, voluntary flight offsetting.

For example, a 2011 ENDS Report ('Airlines struggle to get carbon offsetters to come onboard') surveying European airlines concludes that 'most airlines achieve commercial passenger offsetting rates of below 1%', and interestingly suggests that 'take-up rates appear to be most determined by whether airlines offer carbon offsets at the point of ticket purchase'.[34]

It also quotes the managing director of one of the world's largest offset providers as saying that most offsetting is done by businesses covering their corporate travel, and that – unlike in the case of leisure passengers – 'here the appetite not only remains unabated, but is growing', with more than half of their corporate clients using offsets to cover their travel emissions. If this is indeed a general trend, then a two-pronged approach to harnessing this potential revenue source could be in order by not only focusing on airline ticketing sites, but also directly at the corporate consumer, such as large corporations or business federations, as part of their CSR[35] schemes.

But what does all this tell us about the revenue potential of air passenger adaptation crowdfunding? The answer obviously depends on how contributions are specified. For example, 1 percent of corporate passengers donating 1 per cent of their ticket price would, according to Forbes, yield over \$100 million annually. If, alternatively, one were to use a flat rate levy (say \$6/\$62 per international economy/business and first class ticket as used in the IAPAL scheme), then a 1 per cent uptake by passengers in general would yield between \$80 million and \$100 million annually,[36] again more than the Adaptation Fund pledges received in Paris. While this would by no means be sufficient to meet the global demand for adaptation finance, it would provide a much needed core flow of funding for the AF, which would enable it to continue doing the sterling work it has been doing under very difficult financial circumstances and play a key role in the post-Paris multilateral financial architecture, as argued some time ago in another OCP Blog (On the Virtues of Strategic Divisions of Labour: Some thoughts on strategies for the Green Climate Fund and the Financial Mechanism of the Paris Agreement)

Conclusion

After nearly two decades of conventional multilateral climate finance, it is clear that we have reached the limit of what we can get in predictably from national budgetary contributions. If we want more, we may need to reconsider the proposal which Laurent Fabius, president of COP 21, tabled in Paris on the penultimate night of the COP, namely 'to establish a process for the

consideration of new sources of finance beyond existing bilateral and multilateral sources, in accordance with the terms of reference to be developed by the Conference of the Parties, taking note of the need to abide by the principles of fiscal sovereignty and avoid incidence on developing country Parties.'[37]

Moreover, we may actually have to throw caution to the wind and look into how we can get additional innovative resources for multilateral funds from both subnational governments and non-governmental sources, such as the proposed crowdfunding from airline passengers.

To be quite clear, the point here is not to belittle the importance of national budgetary contributions for multilateral climate finance. Indeed, for the foreseeable future, the bulk of it will come from these conventional sources, with their well-known predictability limitations (at best four-year time horizon for GCF and GEF replenishments amounting to some single digit billions annually). The point is merely to emphasise that if we do wish to enhance predictability of climate finance, then we will need to look at alternatives to these conventional sources such as the ones highlighted above.

Endnotes

[1] The Paris Cycle-wreck: beyond (partial) salvage?

[2] Analysis, personally communicated, based on the agendas of the events in question.

[3] The topic was not part of the agenda of the 2016 in-session workshop.

[4] Paragraph 130 of Decision 2/CP.17 (Outcome of the work of the ADP).

[5] National budgets, or for that matter Treasuries, are not involved. As such, these funds are without any doubt 'additional', in the sense of 'not displacing ODA'.

[6] Article 6.6.

[7] Moritz Leuenberger, '<u>A Global Carbon Levy for Climate Change Adaptation</u>', IIED/ecbi Opinion Piece, December 2006.

[8] See also: Jim Giles, '<u>Flying to new green heights: The prebudget report is likely to tax lowcost</u> <u>flights, but only international cooperation can solve climate change</u>', theguardian.com, Wednesday 6 December 2006.

[9] With a presentation on '<u>IATAL: a proposal for an International Air Travel Adaptation Levy</u>' by Laurens Bouwer.

[10] Norway, <u>Finance – AWGLCA Norway's submission on auctioning allowances</u>. The presentation in question was given by Leif K. Ervik, '<u>Carbon taxes and allowances</u>, <u>similarities and differences</u>'. See also <u>UNFCCC Technical Paper</u> and <u>CCAP Analysis</u>.

[11] See, for example the presentation on '<u>Market-Based Measures</u>' by the ICAO Environment, Air Transport Bureau at the *Global Aviation Dialogues* (GLADs) *on Market-Based Measures to address Climate Change*, Nairobi 14 April 2015.

[12] For example the Norwegian proposal regarding the <u>Prevention of Air Pollution from Ships: A</u> <u>rebate mechanism for a market-based instrument for international shipping</u> (IMO MEPC 60/4/55 29 January 2010). Another interesting, well-developed example is the <u>International Maritime Emission</u> Reduction Scheme (IMERS).

[13] For an account of the state of affairs in ICAO and WMO, see 'Aviation, Shipping and the Paris Agreement'

[14] The term 'domestic revenue problem' – see <u>Müller (2008)</u>, p.8 – refers to the fact that funding collected through domestic revenue channels are usually taken to belong to the jurisdiction in question, and as such face difficulties in being sent abroad.

[15] EEX (Transitional Common Auction Platform) €701m; Germany: €191m; UK: €113. Source: EC DG Clima, <u>Auction Reports</u>.

[16] The breach is usually sanctioned by declaring the revenue source 'off budget'.

[17] Benito Müller, '<u>To Earmark or Not to Earmark?</u>: A far-reaching debate on the use of auction revenue from (EU) Emissions Trading', Oxford: OIES EV43, November 2008.

[18] In the UK, for example, earmarking precedents include the Climate Change Levy initially used to fund a number of energy efficiency initiatives such as The Carbon Trust, and the Renewables Obligation, under which payments for shortfalls are earmarked to be paid back to suppliers.

[19] Indeed, some national lottery funding has already been used to provide climate finance for developing countries, e.g. the Dutch Post Code Lottery, having funded the Climate Group's '<u>Bijli</u> – <u>Clean Energy for All</u>' project.

[20] European Commission (2014), <u>Progress Towards Achieving the Kyoto and EU 2020 Objectives</u>, COM(2014) 689 final.

[21] Germany, UK, Finland and Denmark [Source: European Commission (2014)].

[22] The NER 300 funding programme is a mechanism in support of innovative renewable energy technology development and Carbon Capture Storage (CCS) demonstration projects. It is financed by the auctioning of 300 million allowances from the new entrants' reserve of the EU ETS. Two calls for proposals were launched under this programme.

The second call, awarded in July 2014, was funded from the sale of the remaining allowances and unused funds from the first call. 18 renewable energy and 1 CCS projects were selected and will receive $\notin 1$ billion in total, which will generate private investments for a total value of almost $\notin 900$ million. In total, the two calls will provide $\notin 2.1$ billion to 39 projects (38 in the field of renewable energy and 1 CCS project).[Source: European Commission (2014)]

[23] 'Taxation will take place in the Member State in the territory of which the establishment of a financial institution is located, on condition that this institution is party to the transaction, acting either for its own account or for the account of another person, or is acting in the name of a party to the transaction.'[Proposal for a COUNCIL DIRECTIVE on a common system of financial transaction tax and amending Directive 2008/7/EC]

[24] 'Canfin, a former French development minister said that the proposed fund would generate a minimum of €10bn to €15bn (£7.2bn to £10.8bn) a year.' ['<u>Final decision on financial transaction tax</u> expected in June', Arthur Neslen, 8 December 2015, *The Guardian*.]

[25] Dorothea Schäfer und Marlene Karl, '<u>Finanztransaktionssteuer Ökonomische und fiskalische</u> <u>Effekte der Einführung einer Finanztransaktionssteuer für Deutschland</u>', Deutsches Institut für Wirtschaftsforschung, 2012.

[26] 'Final decision on financial transaction tax expected in June', Arthur Neslen, 8 December 2015, *The Guardian*.

[27] 'The Legislature and Governor appropriate proceeds from the sale of State-owned allowances for projects that support the goals of AB 32.'[www.arb.ca.gov/cc/ab32/ab32.htm]

[28] Ann Carlson, 'Breaking News: California Chamber of Commerce Sues over AB 32 Auction', Legal Planet, 13 November 2012.

[29] Source: ARB, <u>Allowance Allocation</u>.

[30] How Cap-and-Trade Is Working in California: Carbon Program May Hold Lesson for Other <u>States</u>, by Alejandro Lazo, 28 Sept. 2014.

[31] In 2009, the AF received a small contribution from students of a German High School, followed by one from the World Development Movement (a British NGO) in Cancun in 2010. The AF Board wanted the trustee to receive such small private donations. However, the acceptance of individual small donations increases the transaction costs, as the trustee has requirements related to conducting due diligence on the donors of such contributions. For this reason, the AF Board considered ways to make it simpler to receive such contributions, and decided in July 2011 to:

- 1. a) Pursue the option to enter into a partnership with a third party (UN organization, foundation, NGO, etc.) that would raise funds through on-line donations on behalf of the Adaptation Fund. The Trustee would then receive funds into the trust fund as a donation from that entity;
- 2. b) Request the Board Chair to formally invite the UN Foundation to enter into such a partnership with the Board, and to initiate discussions to that effect.[AF Board Decision B.14-15/2]

A partnership agreement with the UNF was established in November 2012, with the establishment of the 'Donate' link between the AF and the UNF websites being announced at the nineteenth meeting of the AF Board in December 2012. [Source: AF Secretariat]

[32] The International Civil Aviation Organization (ICAO) agreed in 2013 to develop a **global market-based mechanism** to address international aviation emissions by 2016 and apply it by 2020. This agreement followed years of pressure from the EU for global action.

To allow time for the international negotiations, the EU ETS requirements were <u>suspended</u> for flights in 2012 to and from non-European countries.

In the period **2013-2016**, only emissions from **flights within the EEA** fall under the EU ETS. Exemptions for operators with low emissions have also been introduced.

Under the amended law, the Commission will report to the European Parliament and Council on the outcome of the 2016 ICAO Assembly and propose measures as appropriate to take international developments into account with effect from 2017. [Source: European Commission, 'Reducing emissions from aviation']

For recent developments see: European Commission, '<u>Consultation on market-based measures to</u> reduce the climate change impact from international aviation'.

[33] A BA spokeswoman said that UK passengers could be paying for the environmental impact of their flight three times: through voluntary offsets, the EU ETS, and the UK's air passenger duty

(APD), which the UK Treasury is consulting on. A spokesman for the International Air Transport Association (IATA), which manages an offsetting programme for numerous airlines, echoed this: 'There is evidence passengers may be more reluctant to voluntarily offset where they feel they are already being hit with an environmental tax ... The [UK] government has in the past presented APD in this way.'[GreenAironline.org (2016)]

[34] The ENDS Report also mentions a July 2007, UK House of Commons Environmental Audit Select Committee report dealing with passenger offsetting and urging the UK government to make it compulsory for airlines to provide the option to offset at the point of purchase, and recommending to do it on an 'opt out' basis.

[35] Corporate Social Responsibility

[36] IAPAL was estimated to yield between \$8 and \$10 billion annually.

[37] Paragraph 57 in Proposal by the President: DRAFT PARIS OUTCOME, Version 2 of 10 December 2015 at 21:00.

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