Ensuring No Net Incidence on Developing Countries from Carbon Pricing of International Transport (The Rebate Mechanism)

Outline and RM keys; August 2011

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'No net incidence' for a breakthrough in Durban

The key to break the deadlock in the complex area of emission reductions and innovative financing from international transport is the concept of "no net incidence". Recommended in the AGF Report and introduced into International Maritime Organization (IMO) negotiations, the requirement to "ensure no net incidence on developing countries" from carbon pricing of international transport is already being supported by various major countries, including China and Australia (informally). It will reconcile the different principles of shipping and climate change conventions enabling progress in Durban.

Rebate Mechanism to ensure not net incidence

Already formally proposed and assessed in the IMO, the Rebate Mechanism (RM) is a way to ensure no net incidence on developing countries from carbon pricing of international maritime transport. The RM was designed to apply to any revenue-generating market-based mechanism for shipping (maritime MBM) – be it a levy or an ETS. It can also apply to aviation. Through the RM developing countries can be rebated the potential cost or incidence of a maritime MBM.

RM details

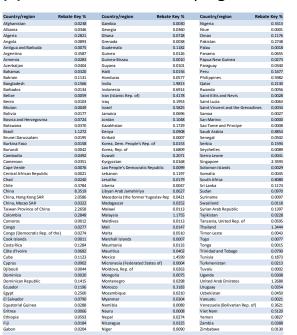
The mechanism calculates the rebate using the global MBM costs and a trade-based key, countryby-country. Each developing country receives the attributed rebate, unless it decides to forego it. The developing country that foregoes its rebate, or part of it, would be internationally recognized for such action, and the foregone rebates could potentially contribute to South-South collaboration. Developed countries are not entitled to rebates but are automatically credited for the amount of financing raised through the MBM, based on the same attribution key. Consequently, the net revenue raised, after rebates have been issued, would come from customers in developed countries only, thereby complying with the principles and provisions of the UNFCCC, while simultaneously securing a global approach to shipping emissions.

The rebate key could be adjusted each year, accordingly with changes in trade patterns. The optimal rebate keys for 150+ developing countries and attribution keys for developed countries are enclosed overleaf, based on 2007 trade by sea and air.

Long-term financing contribution

Around one third of the total revenue would be redistributed to developing countries through the Rebate Mechanism. The remaining USD 10+ billion annually would be new and additional financing to support mitigation and adaptation actions in the most vulnerable countries. By 2030, since the shipping sector's emissions will most likely increase even if regulated, the mechanism would generate in the region of USD 35 billion each year for climate change. As an example, the European Union would automatically be credited for circa 28% of this amount based on the optimal attribution keys (see overleaf).

RM's optimal rebate & attribution keys¹ for:



Developing Country/region	Rebate Key, %
China	8.35
Korea, Republic of	3.68
Singapore	2.36
Taiwan Province of China	2.27
Hong Kong SAR, China	2.06
India	1.98
Next 30	15.31
Remaining 120+ countries	4.10
TOTAL non-Annex I	40.11

Example: Ethiopia's annual rebate would be \$6 million for total carbon costs of \$10bn (i.e. 0.06% of \$10bn)

(2) Crediting developed countries for climate financing raised

SAR = Special Administrative Region

Country	Attribution Key %	Country	Attribution Key %
Australia	1.5989	Latvia	0.0959
Austria	0.4522	Lithuania	0.1143
Belarus	0.0911	Luxembourg	0.0506
Belgium	1.6711	Netherlands	2.3306
Bulgaria	0.2400	New Zealand	0.3178
Canada	1.9780	Norway	0.4906
Croatia	0.2318	Poland	0.7258
Czech Republic	0.4329	Portugal	0.5022
Denmark	0.3992	Romania	0.5536
Estonia	0.1123	Russian Federation	1.3997
Finland	0.6020	Slovakia	0.3238
France	2.6027	Slovenia	0.0961
Germany	4.6031	Spain	3.0132
Greece	0.7365	Sweden	0.9115
Hungary	0.4481	Switzerland	0.5131
Iceland	0.0690	Turkey	1.6392
Ireland	0.5934	Ukraine	0.5626
Italy	2.9662	United Kingdom	3.9658
Japan	6.4183	United States of America	15.9825

Example: EU would be credited for raising \$2.85 billion of climate financing when total revenue from carbon pricing of shipping emissions is \$10bn (i.e. 28.5% of \$10bn)

Developed Country/region	Attribution Key %
European Union*	28.54
United States of America	15.98
Japan	6.42
Canada	1.98
Turkey	1.64
Australia	1.60
Russian Federation	1.40
Remaining 7 countries	2.33
TOTAL Annex-I Parties	59.89

¹Each key reflects a percentage of total costs or revenue from carbon pricing of shipping emissions.

² Developing country may forego the rebate or a part of it, and be recognized for such action. Thus the rebates may amount to 30% or less. The keys are for 2007 (the full Study is available at: www.imers.org/docs/optimal_rebate_key.pdf).

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(1) **Rebates** for developing countries²