Common but Differentiated Responsibilities in International Transport

Generating $billions for climate change action

Tuesday, 9 Dec, 2008

13:00 – 15:00h, Room Grebe

UNFCCC COP 14 side event, Poznan, Poland

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Panelists:

Jules Kortenhorst CEO, European Climate Foundation

Rajendra K. Pachauri Director-General, TERI, India (last part)

Laurence Tubiana Director, IDDRI, France (delayed)

Event by: IMERS and European Federation for Transport & Environment (T&E)

Agenda

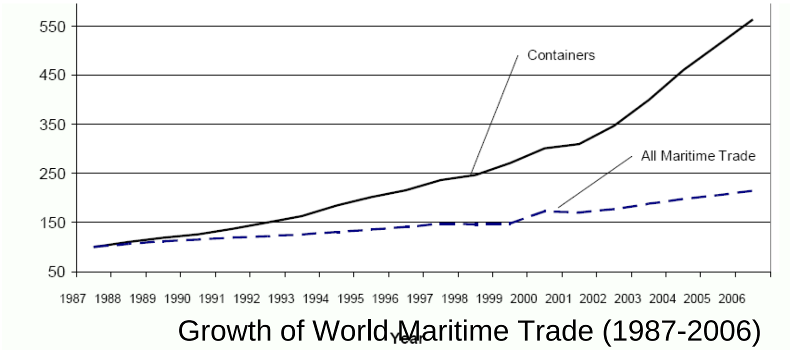
- Background
  - Global shipping and global climate change
- Problem 1: Reconciling Global and Differentiated in Shipping
  - Viable approach
  - Discussion
- Problem 2: Need for trust, and action
  - Simplicity needed to make Copenhagen
  - Need for cooperative action
  - Submission from a Party
- Closing Debate, Q & A
- Conclusion & Next Steps

Shipping and 4 pillars of Bali Action Plan …

International transport and climate change are truly global

1. Mitigation

Intern'l maritime emissions at c.1GtCO_2, **3% of total**; exempt from taxes, growing, unaffected by Kyoto P; more than double the emissions from aviation, greater than the 6th highest polluting country; complex!



Growth of World Maritime Trade (1987-2006)

(Source: Drewry Shipping Consultants; Fearnleys; UNCTAD 2007) (index: 1987 = 100)

2. Adaptation to climate change

Crucial to developing states - the poorest countries are most vulnerable & will be hit hardest by CC.

Current financial mechanisms are inadequate →

- **100:1 gap** (\$billions/pa needed, \$0.4bn available)
- New innovative means are urgently needed

100:1

3. Technology

Essential to developing states – technology, better infrastructure and faster processes could reduce the high freight costs, and lead to increased growth.

Technology transformation, including hydrogen transport, could dramatically reduce cost & emissions, but R&D spend goes down rather than up.

Freight cost as % of import (c.i.f., 2005; rounded):
Developed countries: **5%**
Developing countries: **8%** (source: UNCTAD, IMF)

4. Financing

How to finance mitigation, adaptation & technology for a global industry such as maritime transport?

How to:

- square the different priorities and needs?
- achieve **adequate and predictable** financing?
- be affordable?

Some argue that a "differentiated approach" is not appropriate for global shipping, as most ships are registered in developing countries (3/4), but owned by companies in industrialized countries .

Problem 1
Reconciling Global and Differentiated (IMO vs UNFCCC principles)

- Market-based instruments are necessary in shipping
  - How?
- IMO: ‘Flag neutrality’; ‘No more favourable treatment of ships’
  - IMO: International Maritime Organization
- UNFCCC: ‘Common but differentiated responsibilities and capabilities’ (CBDR)
- Need to reconcile creatively
  - Or repeat the Kyoto’s failure of not including the shipping’s emissions
  - Furthermore, failing to provide funding for adaptation to climate change

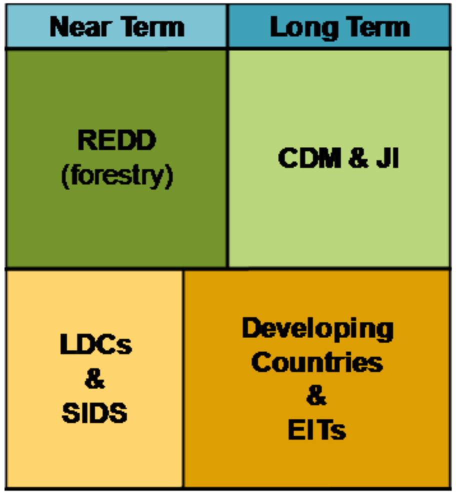
Differentiation in market based-schemes

- Market-based schemes are generally not understood
- Differentiation boils down to two points:
  - Collection (who pays)
  - Distribution (where the money goes)

- From economic and business points of view the scheme should:
  - Minimize costs
  - Maximize benefits
    - While delivering on the chosen goals

Proposed solutions – 2007 to mid 2008 (compensation type)
Uniform collection, compensation at distribution point

- Uniform approach with compensation (levy, trading, or hybrid)
- Total revenue $10 - $30+ billion annually (2012 - 2020)
  - Low impact: estimated at 0.1%
  - $1 per each $1,000 of price of imported goods
- Revenues used for:
  - Maritime technology transfer & transformation
  - Emission mitigation
  - Adaptation to climate change in DCs
    - Detailed analysis for one funding option:



Total revenue	**16%**	**Technology**	**50%**	**Short-term technology transfer**
			50%	**Long-term R&D**
	42%	**Mitigation**	**50%**	**REDD**
			50%	**CDM & JI**
	42%	**Adaptation**	**40%**	**LDCs & SIDS**
			60%	**Other developing countries and EITs**

Differentiated benefits

- Benefits to ALL groups of developing countries would outweigh costs, by a factor from 2 - 15:

Country group	Share of costs (C)	Share of benefits (B)	Benefit ratio (B / C)
Least Developed Countries (LDCs)	1%	15%	15
Small Island Developing States (SIDS)	1%	4%	4
Other Developing Countries (except BRIC)	22%	44%	2
BRIC	16%	30%	2
Economies in Transition (without Russia)	2%	3%	2
Developed Countries	59%	5%	0.1

Details: www.imers.org/climate

- But … the **uniform approaches have proven unacceptable** in the IMO on the CBDR principle
  - Compensation only approach is unlikely to work

NEW: Autumn 2008 option – Differentiated at both points

Global but Differentiated (share of imports – 'the breakthrough')

- **Global** (as per IMO) but **Differentiated** (as per UNFCCC)
- Policy can be based on cargo imported
  - Applies to **all ships**, irrespective of flag and nationality
- Only two destinations are defined (as per the KP):
  - Annex I countries, and
  - Non-Annex I countries
- Destinations are treated as per climate change regime in force. Currently it means:
  - Annex I destinations are included fully (100%)
  - Non-Annex I destinations are not included

Differentiated at both points #2 of 2

- A ship transporting goods to both Annex I **and** non-Annex I countries is partially included
  - It is included in proportion to the **ship's share of goods unloaded in Annex I** countries
    - Destined to Annex I for transhipments
  - This means that only the Annex I share of ship's CO2 emissions is in scope
- Worldwide, the Annex-I share of unloaded goods is 60%
  - Therefore on day one of a scheme driven by such a policy 60% of maritime emissions will be covered.

Advantages of the new option
“Common but Differentiated”

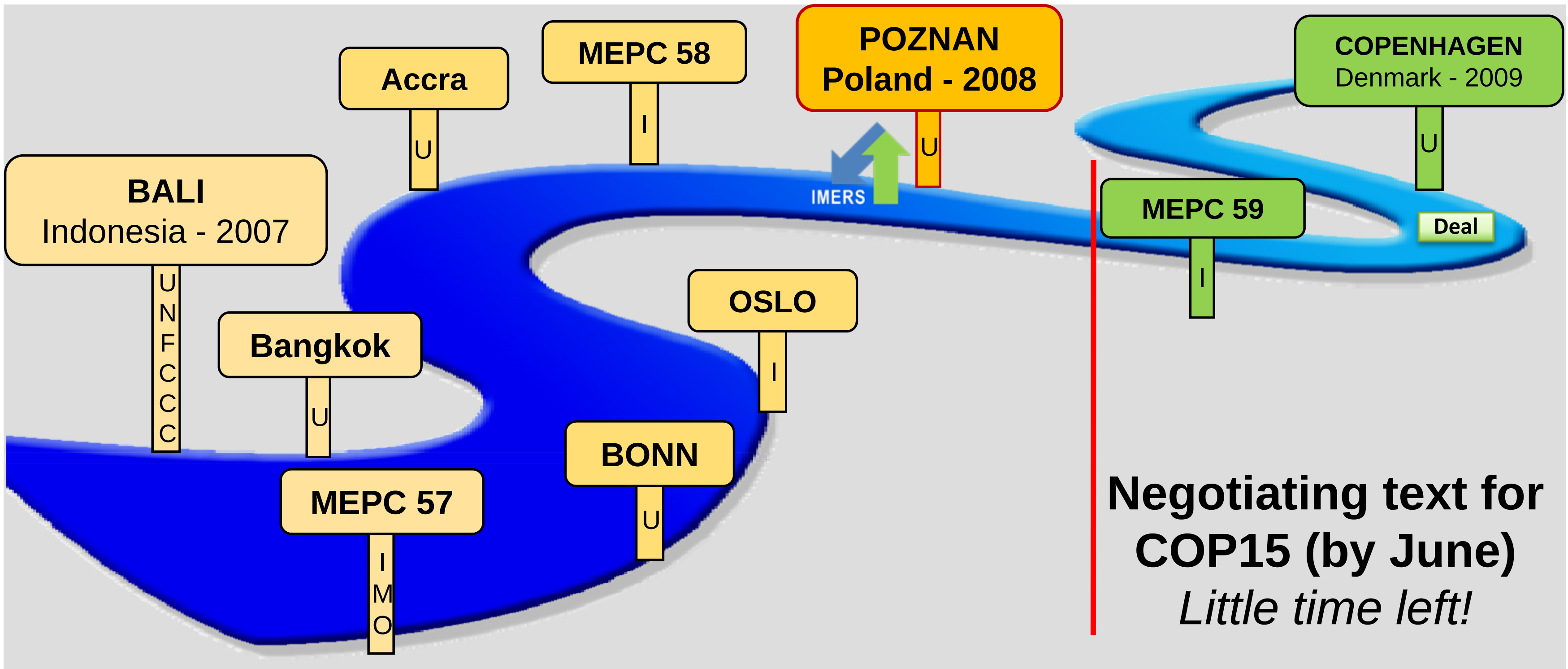
- Three major advantages of the proposed policy:
  - It will deliver on the 9 IMO principles (proposed at the MEPC 57)
    - Including #2: *Binding and equally applicable to all flag States in order to avoid evasion*
  - It is compliant with the current and future climate change regimes
  - Environmental results will be very high as the goal may be more ambitious as it applies to Annex I only (i.e. no goal dilution)

- **Common but Differentiated policy is both viable** and needed for the maritime market-based GHG scheme:
  - Importantly, it does not prescribe a specific instrument
  - Instead, it will enable identification of the most appropriate scheme by **unlocking the current impasse**

- Relevant international laws and precedents exist
  - UNCLOS, WTO, MARPOL, IOPC Funds
- Supra-national governance preferred (under the UN)
- Automatically compatible with the agreed outcome at Copenhagen
- Details could agreed for implementation in 2012:
  - Differentiated mechanism to deliver efficiently, and in short-term
    - Differentiated levy/charge, or alternatively trading for long-term
    - Equitable distribution of funds
  - Differentiated levy with an emission cap (cap-and-charge) preferred for the complex shipping

Problem 2 – Need for trust and action
Little Time Left

Tight Maritime GHG Roadmap to Copenhagen



Simplicity needed for negotiations, and the Top Level

- Issue: Simplifying too much makes an idea not acceptable

- Current description in the UNFCCC documents (TP7 etc.)
  - **Levy** on bunker fuels (IMERS) $4-15bn for adaptation
  - **Levy** connotations:
    - Uniform
    - Nationally collected
    - Set by a political decision (unless clarified)
  - Needed:
    - Change of description, simple but not too simple
    - More appropriate (signifying CBDR, and quantitative reductions/cap)
  - Something like:
    - Differentiated levy on bunker fuels
    - Differentiated levy on shipping fuels, with an emission cap
    - …

Need to build trust through cooperative action

- Major obstacles for cooperative action:
  - Bureaucratic constraints, lack of time/resources
  - Free-riding is a norm, despite high promises
  - Passive approach, waiting for clear policy
    - Officials are not asked to take initiative and ownership, let alone provide vision and leadership
    - Lack of inter-departmental clarity makes it worse
    - Bilateral rather than multilateral approaches
  - Partnering with and engaging non-state experts is often against the government pride/policy
    - This creates a big risk of distorting or even destroying the thoroughly crafted proposals
- Lessons for innovators:
  - Getting financing for ambitious public good projects is difficult, for VC's risk is too high …
  - Going through associations and companies does not help either
- New openness, trust and partnerships are urgently needed

Selected quotes from officials

I've only 2 hrs per week for this topic.

Why us? Why not country XYZ?

Seems like a great proposal. But it might be incompatible with our policy.
[Q] What is your policy?
[A] We don't have one yet.

We don't need help. We can manage. Thank you for bringing the idea to us.

Our experts are uncomfortable.
[Q] What about? [A] I don't know yet.

Great work! Carry on. When it's approved we'll be very interested.

It might be too early. We still have time till 2009.

After so many years of deadlock I don't even remember what's the issue anymore.

Essential Need
Submission from a Party

- Details can be done
  - Practical issues like funding needs resolving
  - Practitioners can create a global solution (it’s relatively easy)

- **The essential need** now?
  - **A submission** from a Party by early February 2009
    - Would help to create the needed trust
  - How to achieve this when everyone waits for everyone else?
    - Push from the top?
    - At the high-level segment?

Closing Debate, Q & A

- Focused on:
  - CBDR for International Transport
  - Financing of adaptation to climate change in developing countries

Conclusion & Next Steps

- A viable solution for CBDR scheme for shipping has emerged
  - Low impact: +0.1% on import prices in Annex I ($1 per $1,000)
  - $6bn+ revenue for CC from 2012, of which $2.5bn for adaptation
    - The least controversial way to generate additional CC funding

- The agreed description will be presented at the high-level GLCA roundtable on Financing and Technology tomorrow
  - 20+ high-level panelists (including former presidents & prime ministers)
  - Wed, 10th Dec, 18:00 - 19:30, Room: Aesculapian snake (14B, 1st floor)
    - GLCA – Global Leadership on CC, a joint initiative of the UN Foundation and the Club of Madrid

- High level momentum is needed for action
  - We hope that you could help

» Further details: www.imers.org/poznan