CO2 emissions: an opportunity for shipping companies?

Eurosif/UKSIF shipping event:

"Shipping: an industry exposed to potential liabilities and opportunities under regulatory regimes?"

Henderson Global Investors

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Dr Andre Stochniol, Founder, London, UK

andre@imers.org, +44 7809 764 894

Two Problems ...

1. **Current mechanisms to finance climate change adaptation in developing countries are inadequate**, both in scale and design
   - The financing gap is huge, circa 100:1
     - Tens of $billions are needed annually
     - Available total: $0.4bn

   Yet the poorest countries are most vulnerable, will be hit hardest by climate change and did not create the problem

Financing gap

$0.4bn $50bn

2. **International shipping CO2 emissions are outside of the Kyoto Protocol**
   - x2 aviation emissions
   - Significant and rapidly growing
   - Attempts to address them have failed
   - Regulation needs to comply with the differentiated climate regime (CBDR)
   - Global and complex

Example:
How to attribute ship's emissions:
- Swiss owned
- Flying Liberia flag
- Chartered by Danish company
- Leaving Saudi Arabia
- Cargo for NY, and Shanghai
- Via international waters

... Opportunity for One Solution (supra-national)

- International shipping CO_2 emissions would form one emission bubble (no allocation to countries)

- Ships would be liable to pay a levy on fuel for carrying goods to:
  - Rich countries only: @100% (rich = Annex I countries)
  - Poor countries only: 0%
  - Both to rich & poor: 60%, on average
    - Based on % of goods carried to rich countries annually
    - Enforcement in Annex I ports: pay up 100% or prove you should pay less

- Level of levy would be determined by an emission cap and the market carbon price (cap-and-levy; by a formula not a political body)
  - Levy paid to the central ship account - bypassing national coffers!
    - Based on already compulsory fuel receipts
  - **100% of revenue generated goes to climate change**

Outcome

- Worldwide, the share of goods transported to Annex I is **60%**
  - Day 1 of scheme: 60% of maritime emissions covered, with an ambitious emission cap e.g. **20% emission reductions** for Annex I (by 2020)

- **Easily Affordable:**
  - Marginal cost: just +0.1% on import prices to Annex I (**$1 per $1,000**)
  - No impact on imports to non-Annex I

- **Significant Impact:**

FUNDS pa*	2013
Mitigation	2.5
Adaptation	**2.5**
Technology	1

* In $billions per annum

TOTAL: $6bn+

Approach Benefits

- A central, supra-national differentiated approach would:
  - Resolve the conundrum of reconciling the need for Global rules (as per the IMO) with Differentiated responsibilities (as per the UNFCCC)

- Its implementation would:
  - Provide an effective centralized system rather than patchwork of multiple variants for different flag states
  - Be future-proof, by being automatically compatible with any CC regime as it allows taking emission deviation commitments, and similar

- Importantly, it would create a new governance to effectively address emissions that are inherently beyond national jurisdictions
  - Legal under international laws and rules (UNCLOS, WTO, GATT; would use IOPC Funds as the precedent for direct collection of funds)

Benefits to Ship Owners, Charterers, and Investors

- Hassle free solution for CO2 emissions with minimal administration costs
  - No allowances to manage, no individual cap to comply with, services provided, no set-up costs, compliance easily verifiable
- No impact on international competitiveness (level playing field)
  - **Equally applicable** to all vessels **irrespective of flag** they fly **and nationality** of the ship-owner

- Stimulation of innovation, investments in R&D, and in infrastructure
- **Increased cash flow** (EBIDTA) as a result of reduced delays, improved operations and reduced fuel (especially to/from developing countries)

- Reduced risk of multiple regulations
- **Benefits of better image** (clean transport, social responsibility)
- Increased demand (with increased trade and development)

Climate change action makes good business sense

Conclusion

- Addressing the financing gap & CO2 emissions is an opportunity:
  - A differentiated levy is equitable, clear, predictable and effective
  - By being collected centrally provides 100% payout to climate action
  - In contrast to cap-and-trade, it can be rapidly and cheaply implemented
    - Neither large bureaucracy nor complex reporting is required
  - It is underpinned by existing law and trade rules

- From our experience, it still requires:
  - Proactive approach and leadership to scale up *(including finance)*
  - Practical solution demonstrators to convince sceptics
  - Mobilization of various stakeholders

- Shipping industry and investment community should pull for a global scheme for shipping CO2 emissions, rather than delay it

Details: www.imers.org

Back-up slides

Executive Summary and Examples

Executive Summary

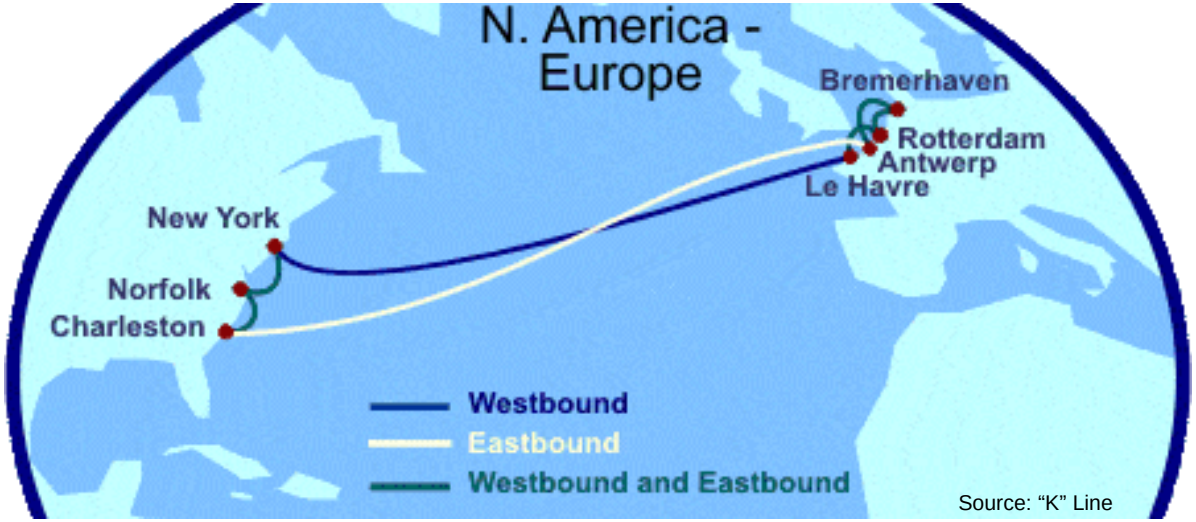
- A technically sound and politically acceptable levy on fuel for international shipping, which differentiates responsibilities between developed and developing countries

- Applied worldwide, collected centrally – bypassing national coffers – raising $6bn+ annually for climate action

"It is one of the least controversial and most effective ways to generate significant additional climate change funding"

Three Examples

	Vessel	Route/Voyage	Cargo Destination	Levy %
1.	Tanker	Persian Gulf → Rotterdam	Annex I (A1)	100%
			» on the entire fuel, incl. the ballast leg	
2.	Bulk	Australia → China	non A1	0%
3.	Container	N. America ←→ Europe	A1	100%

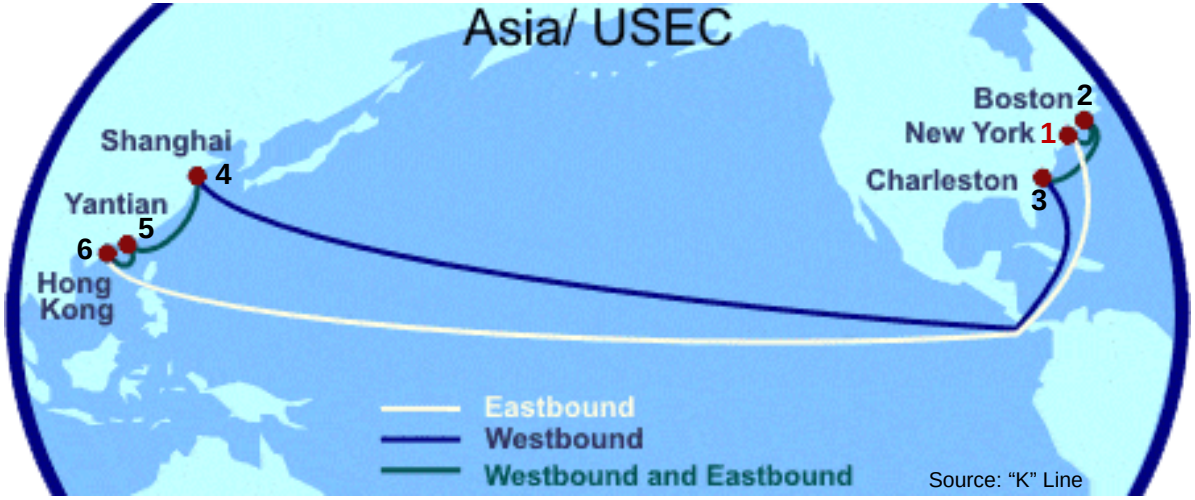


Equally applicable to all vessels **irrespective of flag** they fly **and nationality** of the ship-owner

Multiple Destinations

(1 statistical ratio needed to qualify for a lower payment)

Vessel	Route/Voyage	**Cargo Destination**	**Levy %**
Container	Asia – US (East Coast)	A1 & non-A1	variable



» Based on a ratio of delivered containers to A1
(% of full containers unloaded/ transported to A1 countries; the final destination counts)

EXAMPLE Number of full containers (TEUs) unloaded/transported to: *(illustrative)*

Ports	A1	non-A1 (incl. trans-shipments)	TOTAL
Asia	200	2,000	2,000
US	2,800	-	3,000
Total	3,000	2,000	5,000

A1 cargo ratio: **60%** (i.e. emission payment = 0.6 x fuel used x levy level)