FACT SHEET

Galvanizing International Financing through IMERS

A levy on emissions from international shipping, which recognizes national circumstances. Applied worldwide, collected centrally, raising US$10bn+ annually to catalyze climate action.

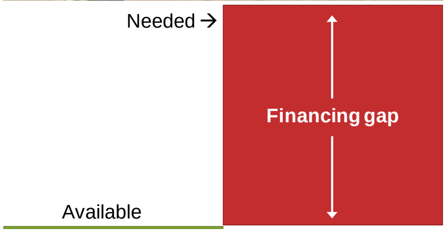
THE PROBLEM?

There are two:

1. Current **mechanisms to finance climate change adaptation** in developing countries **are inadequate**, both in scale and design. The poorest countries are the most vulnerable, will be hit hardest by climate change and did not contribute to the problem.
   Tens of $billions are needed annually. When compared with what's available the financing gap is huge, circa 100:1.

2. International **shipping CO2 emissions are outside** of the Kyoto Protocol, yet they are:
   - Significant and growing;
   - Double aviation emissions;
   - Global and complex.

   Attempts to address them have failed due to emission allocation issues (see box), ease of avoidance of local regulations, and lack of agreement on a uniform global regime.



A Core Issue

How to attribute emissions of a ship that is:

- Swiss owned,
- Flying Liberia flag,
- Chartered by Danish company,
- Leaving Saudi Arabia,
- Carrying cargo for NY, and Shanghai,
- Via international waters.

THE SOLUTION?

A global market-based instrument for shipping called IMERS, which can catalyze global cooperation and solve both these problems, is proposed.

How would the solution work?

In simplest terms, **IMERS will work as a levy on emissions** from international shipping.

All ships active in international transport shall pay the levy based on their fuel consumption, irrespective of the flag they fly and the nationality of the shipowner. **Applied worldwide** and collected centrally it **would raise approximately US$10bn annually** to catalyze climate change action.

How would the levy be set?

The **carbon market and a cap on emissions would together establish the levy** for shipping. The levy could be equal to the average U.S. market carbon price, adjusted for free emission allowances.

What would the consumer see?

The anticipated price impact of the scheme on final consumers is minute, only circa 0.1% increase in the price of imported goods (equivalent to an extra $1 of every $1,000 of imported goods). When technical and operational improvements unlocked by the scheme are included, **consumers would see net benefits** due to reduced cost of transport.

How will the levy be collected?

The levy will be obtained worldwide through a combination of two methods:

1. **Directly from ships** (or shipping companies), that will pay the levy periodically based on fuel consumption to their carbon accounts (established with the World Bank or a similar organization);
2. **Indirectly through domestic arrangements**, where necessary; the revenue raised in this way shall be **directed for international action** on climate change (appropriated through a provision in domestic law of each country). For instance, if this option were required in the U.S. then one easy way to participate would be to cover fuel sold for international shipping within the economy-wide scheme.

For each ship the total payments obtained from direct and indirect mechanisms **must cover its emission obligation**. The direct approach can be seen as being used

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to top-up the indirect payments to guarantee that entire emissions are included, irrespective of where the fuel is bought in the world.

Any legal precedent for IMERS?

The International Oil Pollution Compensation Funds (IOPC Funds) provide a precedent of direct collection of a levy that bypasses national systems in the maritime sector, in over 100 countries. The U.S. is not part of the IOPC Funds mostly because its national approach for compensation from spills of oil from ships is more stringent.

IMERS will comply with the WTO and GATT rules as it will not discriminate imports from any country.

Is a regional rather than a big-bang start possible?

The scheme can be started for a group of countries (say a region). For instance, **the region may comprise all developed countries, and selected others**. In this approach, the total payments from a ship are linked to the annual volume of goods carried by the given ship or company to the region. A regional start would deliver early benefits while providing resources for wider implementation where capacities may be limited. Importantly, **it would resolve the conundrum of reconciling the need for a uniform shipping regime with differentiated responsibilities enshrined in the UNFCCC.**

How will it be enforced?

The liability stays with the ship and the scheme will be **enforced by port entry conditions**.

How much would be raised?

As minimum we assume that all developed countries will participate at the start of the scheme. Given that roughly 60 percent of global maritime emissions would be subject to the levy (developed countries' share of worldwide imports), a levy of US$15 per ton of CO_2 would raise **approximately US$10 billion in 2013**. This will increase with expanded participation, emissions, and an increased carbon price.

Where will the money go?

As the emissions mostly happen outside of national borders, 100% of revenue raised is to be disbursed to climate change action. This could comprise:

1. **Climate adaptation** in developing countries;
2. **Emissions mitigation**, mainly through reducing emissions from deforestation and forest degradation, including conservation (REDD+);
3. **Technology** transfer and transformation in the maritime sector.

How will the scheme reduce emissions?

Emissions will be reduced **through a series of mechanisms**, including:

1. The scheme will bring additional incentives and certainty to invest in efficient engines, ships, and practices.
2. The scheme will collect data on ship efficiency, thereby giving charterers a mechanism to choose more efficient ships.
3. Financing provided for capacity building of developing countries will increase their openness to globally applicable compulsory efficiency measures.
4. Seed financing provided for technology R&D will bring forward adoption of hydrogen engines by a decade or so.

Supplemental emission reductions will be achieved through carbon markets, and forestry (REDD+).

Who is endorsing IMERS?

IMERS has been reviewed/endorsed in numerous reports, including by UNFCCC, UNCTAD, UNDP, OECD, OXFAM, and WWF. It has been discussed in the climate and maritime multilateral processes, and is gaining increasing support from both developed and developing countries.

Will IMERS help to galvanize international climate actions?

There is a need for a dramatic increase in the flow of resources available to developing countries to catalyze both mitigation and adaptation actions at a scale that is necessary to address the climate challenge. This has been recognized at the recent U.S. submission to the UNFCCC climate change negotiations. During the current financial downturn, raising additional funding from domestic budgets will be challenging in many countries. Therefore, using IMERS will not only address the most difficult to regulate source of emissions, **it will secure one of the least controversial and most effective ways to generate significant additional financing** for climate change action.

What is needed for success?

Engaged leadership to obtain an agreement on IMERS is needed, ideally from the United States. Its implementation would fulfill the ambition of many governments and non-governmental organizations to implement a carbon price on maritime transport with revenue financing action on climate change.

Where will it be debated next?

Please come to discuss & contribute: **IMERS side event, Bonn Climate Change Talks, Monday 1 June 2009, room RAIL, 19:30 – 21:00**.

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