Rebate Mechanism for Equitable Financing and Emission Reductions in International Shipping

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Agenda

- The core climate issue in international transport
- How to implement UNFCCC principles in the IMO?
- Benefits, costs, and uncertainties
- Conclusions

The Core Issue

- **Not whether, but how to reconcile**
  - Differentiated climate principles (CBDR), with
  - Uniform policies of shipping (IMO)
    - A global approach is needed though, as regional or national approaches won't work
    - The same is true for aviation (ICAO)

- The only differentiation option currently considered is compensating less developed countries, by rebating the costs/impacts of a global scheme (*AGF's no incidence*)
  - An alternative option based on exempting the less developed countries, by covering only goods carried to developed countries, is too complex, especially for containers

A Rebate Mechanism

- Delivering CBDR
  - A bunker levy, or another MBM (Market Based Measure), would apply to all ships globally, with country-based differentiation addressed as follow:
  - Each developing country would be entitled to an unconditional payment (rebate)
  - The rebate would be calculated in proportion to a country's share of global (seaborne) imports by value, and paid annually
    - A developing country could forego the rebate, or a part of it, and be internationally credited for it
- Contributing to scaling-up of climate change financing
  - The net revenue raised would go to climate change action and technology transformation in shipping (according to rules & provisions agreed by the UNFCCC/IMO)
  - Developed countries would be automatically credited for the amount of financing raised through the MBM, based on the same key, and would not entitled to any rebates

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Compliance with Convention

- Disbursement of MBM revenue is to comprise two steps:
  - Any economic cost incurred by a developing country Party participating in the MBM is rebated (paid) to it, unconditionally
  - The remaining revenue (net revenue), is disbursed through the operating entity of an agreed financial mechanism
- Consequently, the net revenue for climate change action would come from consumers in developed countries only, complying with the UNFCCC principles
- Developing countries would be beneficiaries of the MBM, with the most vulnerable countries to benefit most through the relevant rules and provisions applied at the 2nd step (SIDS, LDCs, African countries)
- The shipping sector would also benefit at the 2nd step, potentially through a new global Maritime Technology Fund, or similar

Costs and Benefits

- Easily affordable, given shipping efficiencies
  - Max cost impost: circa 0.2% on total seaborne trade
  - Impact on poor countries compensated (at least)
- Worldwide, the share of goods imported by developed countries is circa 70%, thus a significant contributory climate financing could be raised, coming from developed countries ($10bn+ annually)
- The approach could unlock all the benefits associated with an MBM
  - Such as stimulation of energy efficiencies, long-term R&D, supplemental emission reductions through carbon markets and forestry arrangements, and so on

Dealing with Uncertainties

- Predictability of costs is essential
  - Given carbon markets uncertainties, a shipping carbon price should be bounded (e.g. by a price floor and ceiling)

- A reliable reporting of fuel consumption from international shipping is needed (not estimates)

Conclusions

- Predictable financing is needed for adaptation, mitigation, and **technology** transformation to low carbon transport *(and must be spent wisely)*

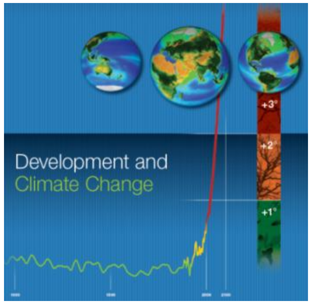
- The rebate mechanism is **politically feasible**
  - It creatively reconciles the shipping and climate principles
    - All ships pay for CO2 emissions (globally; international shipping)
    - Developing countries are entitled for/receive rebates annually
    - Remaining funds go to climate change, and shipping
- It's easy to grasp by decision makers
- It can be implemented as proposed, or integrated with any revenue raising MBM
  - The concept can apply to aviation as well

Backup slides

For Q&A

Differentiated Priorities

- Developed countries:
  - Come out of downturn, and reduce budget deficit; reduce/mitigate emissions
- Less developed countries:
  - Develop, and reduce poverty; adapt to climate change
    - 1.4 billion people in poverty;
    - 1.6 billion people without modern energy
    - 25% of children malnourished
    - 1/6 people without clean water



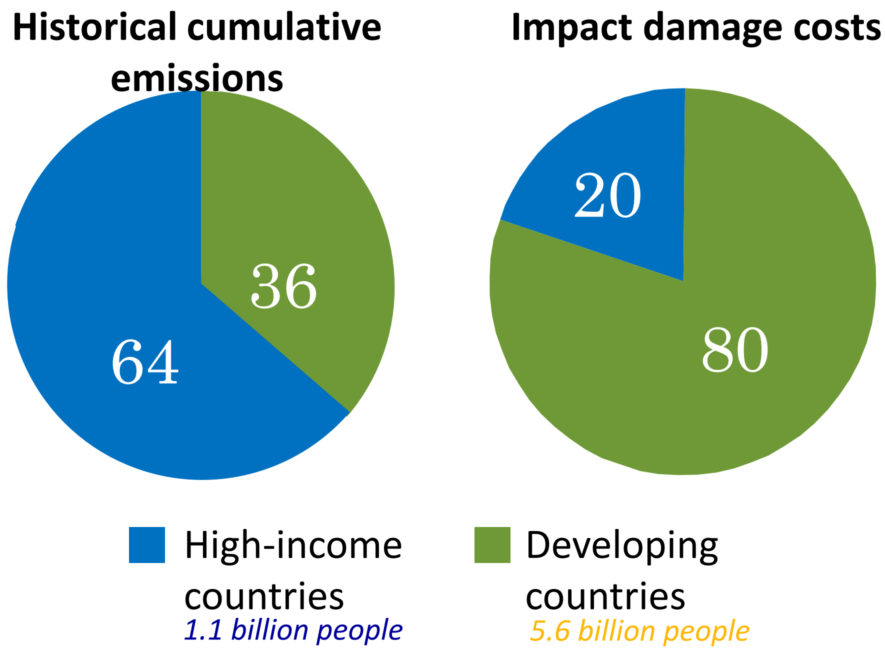
World Development Report 2010

  - Yet, most recognize the need to act on climate change:
    - Now, Together, and Differently

The Core Issue's Perspectives

- Not whether, **but how** to reconcile:
  - Differentiated climate principles (CBDR), with
  - Uniform policies of shipping (IMO)
- The traditional by flag, country of registration, etc cannot work

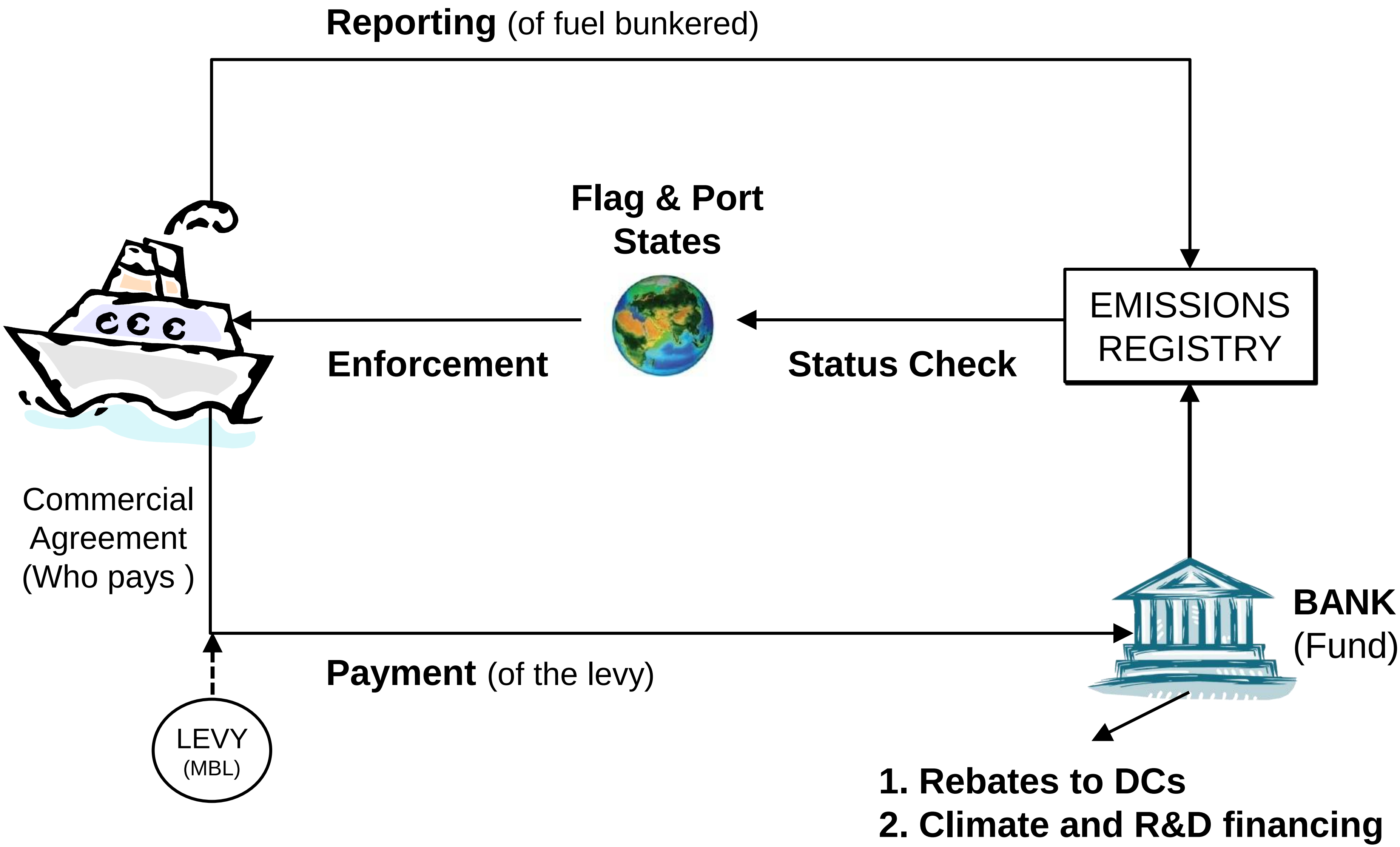
Differentiated



Uniform

Costs passed on to end-customers

IMERS processes (RM integrated)



How Will the Rebate Mechanism Reduce Emissions?

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1. It will **stimulate energy efficiency** and bring additional **certainty** to invest in efficient engines, ships, and practices

2. It may collect data on ship efficiency, thereby giving charterers a **mechanism to choose more efficient ships** (working as part of the IMO toolbox)

3. Seed financing provided for R&D will **bring forward adoption of low-carbon technologies** (hydrogen ships) by a decade or so

4. Financing provided for **capacity building** of developing countries will increase their openness to globally applicable **efficiency measures** (through the IMO)

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