MARINE ENVIRONMENT PROTECTION COMMITTEE
63rd session
Agenda item 5

MEPC 63/5/6
22 December 2011
Original: ENGLISH

REDUCTION OF GHG EMISSIONS FROM SHIPS

Ensuring no net incidence on developing countries from a global maritime Market-Based Mechanism

Submitted by World Wide Fund for Nature (WWF)

SUMMARY

Executive summary:	This document provides information that suggests a potential growing convergence of views of a growing number of governments and civil society actors around the need for a global Market-Based Mechanism (MBM) to reduce greenhouse gas (GHG) emissions, which takes account of the UNFCCC ultimate objective to prevent dangerous anthropogenic interference with the climate system, and the UNFCCC principle of "common but differentiated responsibilities and respective capabilities" (CBDR) through the allocation of revenue generated to developing countries, principally to support climate change actions. It also provides an analysis of current MBM proposals that are compatible with ensuring no net incidence on developing countries through a rebate mechanism, if so decided.
Strategic direction:	7.3
High-level action:	7.3.2
Planned output:	7.3.2.1
Action to be taken:	Paragraph 28
Related documents:	MEPC 60/4/55; MEPC 61/5/33, MEPC 61/INF.2; MEPC 62/5/1, MEPC 62/5/13, MEPC 62/5/14, MEPC 62/5/15, MEPC 62/5/34, MEPC 62/INF.3 and MEPC 63/5/1

Introduction

1 Several of the MBMs proposed through MEPC are designed to use carbon pricing or similar mechanisms to reduce GHG emissions in the shipping sector, which consequently may generate significant revenue. WWF and others have argued previously that such revenue can be used:

.1 to provide rebates to developing countries for the impacts of MBMs through a rebate mechanism to ensure "no net incidence" on these countries;

.2 to further reduce emissions within the international shipping sector, including the possibility of devoting funds to clean technology R&D, technical cooperation and transfer of technology; and

.3 as climate finance for mitigation and adaptation actions in developing countries to be allocated through the UNFCCC and its Green Climate Fund.

2 Recognizing the importance of ensuring a uniform application of the expected MBM on all flag States while at the same time ensuring no net incidence on developing countries, this document reviews the current MBM proposals for the purpose of analysing the case for including an adequate rebate mechanism in such an approach, if so decided.

The case for revenue-generating MBMs that ensure no net incidence on developing countries advocated in various submissions and fora

3 At the third Intersessional Meeting of the Working Group on GHG emissions from ships[1], the concept of "no net incidence" generated considerable interest from a number of developed and developing States and observer organizations[2].

4 In document MEPC 62/5/14, WWF demonstrated that it is feasible to calculate a suitable proxy for incidence from a global maritime MBM, such as a levy or an emission trading scheme, on different countries. WWF proposed a country's share of global imports from non-adjacent countries as the basis for the key to be used with the rebate mechanism or any revenue-raising MBM under consideration, and provided rebate keys for over 150 developing countries and attribution keys for developed countries.

5 Germany, in document MEPC 62/5/15, highlighted the possible uses of revenues generated by an emissions trading system, comprising: (A) compensation of the economic impact on developing countries; (B) R&D and technological support to promote mitigation and adaptation in the maritime sector and (C) contribution to international climate finance.

6 France, in document MEPC 62/5/34, expressed support for the above possible options highlighted by Germany, and suggested that compensation of potential adverse impact on developing countries, taking into account the incidence on these countries, is one of several options that should be explored further to enable compatibility of an MBM with a global scope with CBDR. France also called on IMO to take into account the report on climate finance produced for the G20, which is mentioned below.

7 The High-level Advisory Group on Climate Change Financing (AGF), established by the United Nations Secretary-General, found that the application of a carbon-pricing mechanism to international transport emissions is an important potential source of climate financing that could contribute towards mobilizing US$100 billion per year by 2020 to address the needs of developing countries. The AGF's assumption was that any mechanism raising climate finance would have no net incidence on developing countries (document MEPC 62/INF.3). The same assumption is used in the recent report for the G20 finance ministers on Mobilizing Climate Financing.

[1] 29 March to 1 April 2011 (Intersessional Meeting; reported in document MEPC 62/5/1).
[2] Summarized in document MEPC 62/5/14 (WWF).

8 The G20 group of countries continued to consider MBMs to both address emissions from international shipping and provide a source of climate finance. In February 2011, the G20 Finance Ministers asked the World Bank, IMF, OECD and the Regional Development Banks (RDBs), to prepare a report building on the findings of the report of the UN Secretary-General's Advisory Group on Climate Change Finance from 2010. The Report for G20, called "Mobilizing Climate Finance[3]", provides a technical analysis of the range of options available to countries. Specially prepared background papers include detailed analysis, including a comprehensive paper on carbon pricing of international transport by the IMF and World Bank.[4] This paper demonstrates the revenue generating potential through a carbon pricing mechanism on international shipping and argues the need for rebates/compensation to ensure no net incidence on developing countries.

9 One conclusion of the Report for the G20 is that: "The impact on developing countries of such charges would likely be modest and could be largely offset by explicit compensation schemes. Closer analysis of impacts is needed in order to design practicable compensation schemes but enough has already been done to provide confidence that solutions can be found. Compensation for developing countries is unlikely to represent more than about 40 per cent of estimated global revenues […]" (paragraph 6, executive summary).

10 G20 leaders at their November 2011 summit in Cannes discussed the World Bank, IMF et al. report on climate finance and called for continued work taking into account the objectives, provisions and principles of the UNFCCC by international financial institutions and relevant UN organizations. The G20 leaders asked their Finance Ministers to report at the next G20 Summit in 2012 on progress made on climate finance.

11 The EU Council, in its conclusions on Climate Finance[5], "invites Parties to IMO/ICAO to consider within IMO and ICAO the work undertaken by the IMF and the World Bank on MBMs in aviation and international maritime transportation. Carbon pricing is a potential source of revenues that would also generate the price signal necessary to efficiently achieve emissions reduction from these sectors".

12 The 9th Ministerial Meeting on Climate Change[6] of the BASIC[7] group discussed emissions from international shipping. The meeting Statement noted: "Ministers emphasized the need to address emissions from international aviation and maritime transport in a multilateral context and in accordance with the principle of common but differentiated responsibilities and respective capabilities." These same country Parties supported the call[8] to include "no net incidence on developing countries" as one of the criteria for addressing the proposals for MBMs under consideration by the MEPC. India's Finance Minister Pranab Mukherjee said, in the context of the G20 considerations of climate finance, that "global

3 The Report is available at: http://www.imf.org/external/np/g20/pdf/110411c.pdf.

4 The background paper on international transport is entitled "Market Based Instruments for International Aviation and Shipping as a Source of Climate Finance" and is available at: http://www.imf.org/external/np/g20/pdf/110411a.pdf. All background papers are available at: http://www.g20-g8.com/g8-g20/root/bank_objects/Climate_Finance_Report_Annexes.zip (as a compressed file with 6 Annexes; Annex 2 is on international transport, as above).

5 Communication from this meeting referred to in this text is available from: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/125968.pdf

6 Joint Statement Issued at the Conclusion of the Ninth BASIC Ministerial Meeting on Climate Change. Beijing, China, 1 November 2011.

7 Brazil, South Africa, India and China.

8 MEPC 62/5/1, paragraph 3.36.

levies on carbon emissions from shipping and aviation should be raised only if a mechanism for refund of revenues collected from developing countries is put in place."[9]

13 Leading shipping industry, labour, development, environmental and faith organizations support carbon pricing in the shipping sector, as a means to effectively reduce or offset emissions, to enable application of an adequate rebate mechanism and to raise financing for climate change action in developing countries:

.1 a joint Oxfam and WWF briefing[10] notes that "agreement to apply a carbon price to shipping can both reduce emissions and raise funds for climate change adaptation and mitigation in development countries (…) while ensuring that developing countries face no net costs";

.2 in Durban during COP 17 the International Trade Union Congress (ITUC)[11] and the International Transport Workers Federation (ITF)[12] declared their support for a levy on bunker fuels to speed up the shift to low carbon transport and to raise finance for climate change actions in developing countries. This levy must apply equally to all flags, and be implemented through the IMO;

.3 CAFOD and other faith organizations support carbon pricing of international shipping and aviation, but for them it is essential that it does not have negative impacts on developing countries that are least responsible for climate change, in accordance with the fundamental principle of climate justice. According to the CAFOD's recent paper entitled "Fair Finance", without any rebates for its impacts, carbon pricing of international shipping would be regressive, as it would impose a larger cost burden relative to GDP on many poorer countries that rely heavily on imports[13]; and

.4 Bill Gates supported the carbon pricing of emissions from international transport, including in his report to G20 leaders on Development Financing.[14]

14 In UNFCCC discussions this year, the concept of "net incidence" was introduced in the context of measures to address emissions from international transport under SBSTA in June, 2011. More recently, at COP 17 in Durban, proposals for MBMs to address emissions and raise revenues, with no net incidence on developing countries, were discussed in the AWG-LCA under both Cooperative Sectoral Approaches and Finance agenda sub-items. No substantive decisions emerged from this discussion, but a Work Programme was agreed for Long Term Finance that will have as input the AGF and G20 reports, which provide a substantive basis for consideration of MBMs as a source of finance.

---

9 http://www.dnaindia.com/india/report_carbon-tax-cannot-be-source-of-climate-finance-pranab-mukherjee_1599271.

10 Based on the report "Out of the Bunker" 5 September 2011 by Oxfam and WWF, available from: http://www.worldwildlife.org/climate/Publications/WWFBinaryitem24585.pdf.

11 Workers and Climate Change: ITUC Contribution to CoP 17. http://www.ituc-csi.org/IMG/pdf/ituc_contribution.pdf.

12 ITF Press Release: http://www.itfglobal.org/itf-africa/press-releases.cfm/pressdetail/6801

13 Based on analysis for nearly 200 countries, available at http://bit.ly/vCdP2y.

14 The executive summary and the full report are available at http://www.gatesfoundation.org/g20/Pages/report-downloads.aspx.

Flexibility of MBM proposals to ensure no net incidence on developing countries through a rebate mechanism

15 This section considers the various MBMs being considered at IMO with a view to assessing the possibility of integrating the Rebate Mechanism or a similar mechanism, into these proposals.

16 The various MBMs comprise: Emission Trading Scheme (ETS), International Fund for GHG emissions from ships (GHG Fund), Port State Levy (PSL), Ship Efficiency Credit Trading (SECT), Efficiency Incentive Scheme (EIS) and Rebate Mechanism (RM).[15] The proposal by the Bahamas, set out in document MEPC 62/5/13 and further developed in document MEPC 63/5/1, is not included as it is an alternative to an MBM, and it would not raise any revenue.

17 The RM has two options: the RM add-on which could be added or integrated into certain MBM proposals that raise revenue, and the RM integrated which is the International Maritime Emissions Reduction Scheme (IMERS) proposal (MEPC 60/4/55 and MEPC 61/5/33).

18 All proposals except SECT anticipate that an MBM will generate revenue, and require a Fund to disburse it. All the following proposals ETS, GHG Fund, PSL, and IMERS would raise revenue from all participating ships, in a uniform manner (see MEPC 61/INF.2 for more details). Thus RM add-on could apply to each of them, provided sufficient revenue is generated to cover the rebates.

19 The applicability of the RM to the MBMs being considered at IMO is illustrated in Figure 1 showing that the RM add-on can be integrated with ETS, GHG Fund, PSL, and IMERS. The only proposal thus far that incorporates explicitly RM is the IMERS scheme (RM integrated). Figure 1 underlines the potential for including the RM into the majority of the MBMs under consideration by MEPC.

20 The RM add-on cannot apply to SECT, given that this scheme does not raise revenue at all. Applying the RM add-on to EIS would be complex, as EIS would only raise revenue from the non-compliant ships. Only ships failing to meet the required efficiency standard would be subject to a fee applied to each tonne of fuel consumed. Thus the cost burden to countries would depend where the non-compliant, fee paying ships operate, as well as on the hidden cost of reaching the efficiency standard by the compliant ships. As a result, providing rebates based on a simple rebate key, such as a country's share of global imports by sea, cannot apply. A much more complex rebate key would be required. Furthermore, the amount of revenue raised may not be sufficient to cover the rebates, given that the hidden cost may be significant.

[15] For the description and assessment of the various proposals see the report of the MBM-EG contained in document MEPC 61/INF.2.

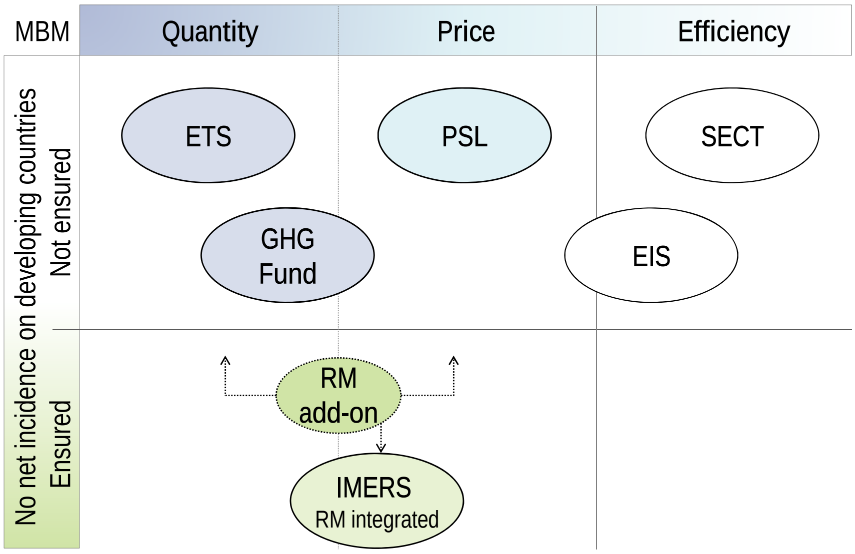

Figure 1: ***Applicability of rebate mechanism to various MBMs***

21 To further clarify and generalize the findings, MBMs are categorized in Figure 1[16] by the dominant control characteristic or the type of MBM, reflecting their different designs. These are: Quantity; Price; Efficiency.

22 The quantity proposals require a cap or target line for total quantity of GHG emissions from international maritime transport. The price proposals require a levy or a contribution (on ship fuel or GHG emissions). The efficiency proposals require efficiency targets for existing ships.

23 Thus, Figure 1 shows that generally the RM can apply to quantity and price measures, but not to measures based on efficiency. This relates to the need to (1) generate revenue and (2) the scheme being applied in a uniform manner across the fleet, irrespective of ship efficiency, age, and so on.

24 Figure 1 also illustrates that the RM add-on and IMERS (RM integrated) can ensure no net incidence on developing countries from the maritime MBM, country by country. The ETS, GHG Fund, PSL, SECT and EIS, as currently proposed, do not ensure a zero net incidence on individual developing countries from their implementation, but the ETS, GHG Fund and PSL are compatible with the incorporation of such a mechanism.

---

16 Figure 1 illustrates only one possible categorization, as certain proposals employ features of a different type, or types. For instance, the GHG Fund proposal is categorized as a quantity measure, but some may see it as a price measure, given that it is based on GHG contribution per tonne of fuel bunkered. However, in this paper it is categorized primarily as a quantity measure as it is the target line for emissions that is established first, and which subsequently drives the level of GHG contribution. EIS partially belongs to the price category, as the level of fee or penalty on emissions for ships that do not comply with the efficiency standard needs to be set, and penalties need to be collected. IMERS partially belongs to the quantity category, as its market-based levy is driven by economy-wide quantity emission targets, and the proposal provides for attribution of international shipping emissions to countries, with the attributed quantity included within the national emission target, if so decided by a given country. The positioning of these proposals between the different types aims to illustrate their hybrid features.

25 As proposed in the RM, and analysed further in MEPC 62/5/14, some developing countries, may pursue the option of foregoing all or part of their rebates, and may make such revenue available to South-South collaboration as part of a global agreement. Thus effectively the rebates may amount to only 10-40% of total cost of the MBM scheme. More generally, as noted by the IMF – World Bank in their background paper for the G20 report, rebates could also be linked to relative per capita income; and could be larger for low-income countries where higher fuel prices could have a greater relative impact.

Conclusions

26 There is growing awareness of and support for the role that a carbon price mechanism can play, not only in providing economic incentives and policy signals that encourage greater energy efficiency and necessary funds for achieving emissions reductions from the shipping sector, but also to use the revenue generated to ensure that the principle of equity and CBDR are taken into account in the application of the MBM, and to support climate change actions in developing countries.

27 Thus, if so decided, it is feasible to design and implement a global maritime MBM with "no net incidence" on developing countries, by ensuring these countries may be reimbursed for their costs resulting from the global maritime MBM, through a Rebate Mechanism. The review of proposed MBMs undertaken in this document demonstrates that a rebate mechanism can be applied to the majority of the proposals under consideration by the MEPC, notably the IMERS, ETS, GHG Fund and PSL.

Action requested of the Committee

28 The Committee is invited to consider the information and analysis provided, and to take action as appropriate.

____