

## **Rebate Mechanism for a Market-based Instrument for International Shipping**

Innovatively delivering on the UNFCCC principle of CBDR in a shipping MBI (proposal MEPC 60/4/55)

60<sup>th</sup> Marine Environment Protection Committee  
International Maritime Organization  
London, 25<sup>th</sup> March 2010

- Still a challenge: how to deliver on both the IMO and UNFCCC principles for a market-based instrument (MBI)
  - Confirmed by a decade of discussions at IMO and UNFCCC
  - Current approaches seems not acceptable to developing countries
    - The current proposals to disburse any revenue raised from a potential MBI for GHG emissions are not generally perceived as fulfilling the CBDR principle (CBDR = common but differentiated responsibilities *and respective capabilities*)
- MEPC 60/4/55 proposes a novel approach to a shipping MBI, to be acceptable to both developed and developing countries
  - It relies on strong political will of Parties expressed at COP 15 in 2009, and confirmed in the Copenhagen Accord, to urgently combat climate change **in accordance with the principle of CBDR**
  - For reference, we use section numbers from the paper [MEPC 60/4/55](#)

### 1. Scaled up climate funding and CBDR

- Copenhagen Accord (**CA**) **includes commitments of developed countries** to provide for scaled-up funding to developing countries (for climate change mitigation, adaptation, technology development and transfer and capacity building)
- A maritime MBI may be one of the alternative or innovative sources of finance, while stimulating emission reductions (not explicitly stated in CA)

### 2. Current MBI proposals versus CBDR

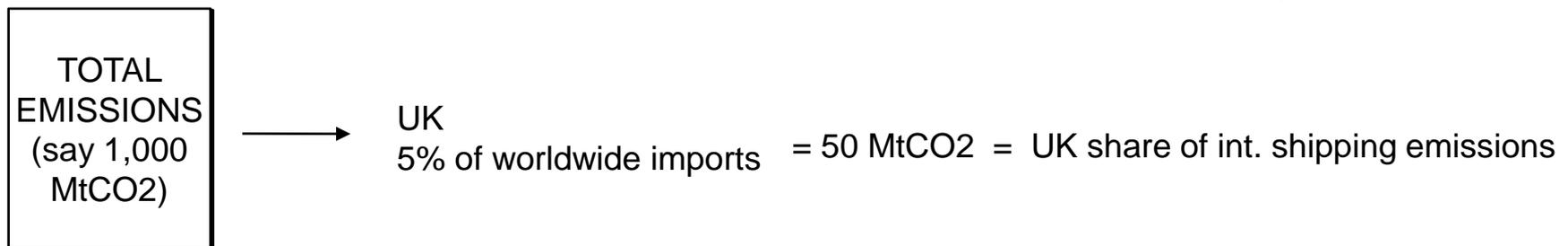
- Cost of MBI will be passed on to end-consumers
- In current proposals, many developing countries, especially smaller ones, would be net contributors to the generated funds, rather than being their beneficiaries
- At odds with equity, CBDR principles, and provisions of CA

### 3. Calculating a country's usage of international shipping

- Usage of int'n'l shipping relates to a country's imports (not fuel purchased etc.)
- Data on share of global imports by value is easily available, country by country
- **We propose to use it to:**
  - **Estimate a country's share of costs of applying global MBI**
  - It could also provide the country's share of the international shipping emissions (for accounting purposes; see a UK example)

Country	Share of imports %
<b>USA</b>	<b>16.2</b>
<b>Japan</b>	<b>4.8</b>
<b>Germany</b>	<b>7.3</b>
China	6.2
<b>UK</b>	<b>4.8</b>
Brazil	0.7
<b>Greece</b>	<b>0.5</b>
Nigeria	0.2

- Source: IMF & World Bank, for 2005;
- In **Bold**, developed countries



## 4. Rebate mechanism proposal to fulfill CBDR

- Maritime MBI would apply to all ships but would be differentiated through equitable financing (“common but differentiated”)
- Each developing country would be entitled to an unconditional payment (rebate)
- The rebate would be calculated in a proportion to a key
- The proposed key is a country’s share of global imports by value
- A developing country could forego the rebate, or a part of it
  
- The net revenue raised, after the rebates have been issued, could go to climate change action and shipping (according to agreed rules & provisions)
  - It could be split between assisting developing countries in implementing climate change action and the global shipping sector to accelerate reductions of its growing emissions through technological advances

- Disbursement of MBI revenue is to comprise two steps:
  1. Any economic cost incurred by a developing country Party participating in the MBI is paid (rebated) to it, unconditionally
  2. 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 MBI, with the most vulnerable countries to benefit most through the relevant rules and provisions applied at the 2<sup>nd</sup> step (SIDS, LDCs, African countries)
- The shipping sector should also benefit at the 2<sup>nd</sup> step, potentially through a new global Maritime Technology Fund, or similar

5. Lack of practical alternative for a global and differentiated mechanism
  - Final destination option would be too complex
    - As it would require obtaining a share of goods transported to developed countries for each ship or company worldwide
  
6. Conditions to integrate the rebate mechanism with an MBI
  - **Could apply to any MBI**
    - Providing the MBI generates enough gross revenue to cover the rebate needs
    - The revenue should be at least 30% of global costs/impacts (as per their share of global imports)
  
7. Securing advantages to shipping and world trade
  - Proportionality of effort is proposed, by **linking to a carbon price** established by other sectors
  - This would eliminate the need for a global cap on shipping GHG emissions.
  - Application threshold could also be set higher than 400GT, further increase benefits to developing countries (e.g. 4,000 GT or similar)

The proposed rebate mechanism is both technically sound and **politically acceptable**:

- It complies with the IMO & UNFCCC principles
- It's flexible to accommodate different national circumstances (SIDS, LDCs, land-locked countries, etc.)
- It can be integrated with any MBI (and provide environmental integrity)
  - Proportionality of effort through a linkage to a carbon price would also eliminate the need for a global cap on shipping emissions
- It's easy to grasp by Heads of State

## Q&A Debate

Could this mechanism facilitate swift progress in this longstanding and controversial area?  
(delivering on both the IMO and UNFCCC principles)

Further details:  
Dr Andre Stochniol <[andre@imers.org](mailto:andre@imers.org)>