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)

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International Maritime Organization
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Background
Imperative to reconcile principles of IMO and UNFCCC

- 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

Context
Copenhagen Accord, CBDR and Current Proposals

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

Usage of International Shipping

How to Calculate it?

3. Calculating a country's usage of international shipping
   - Usage of int'nl 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 %
USA	**16.2**
Japan	**4.8**
Germany	**7.3**
China	6.2
UK	**4.8**
Brazil	0.7
Greece	**0.5**
Nigeria	0.2

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

TOTAL EMISSIONS (say 1,000 $MtCO_2$) → UK 5% of worldwide imports = 50 $MtCO_2$ = UK share of int. shipping emissions

A Rebate Mechanism

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

Summary of the Rebate Mechanism

- 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 2nd step (SIDS, LDCs, African countries)

- The shipping sector should also benefit at the 2nd step, potentially through a new global Maritime Technology Fund, or similar

Other Sections of 4/55 (outline)

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)

Conclusions

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)

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