Ensuring Fair and Effective Carbon Pricing of International Transport

COP 18 side event, 27 Nov 2012

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Panel:

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Negotiators/experts from certain countries

Agenda

- Background
- Rebate Mechanism to unlock a compromise
- Summary and Conclusions
- Panel Views, and Debate

Two Multilateral Problems ... in this order

1. **How to mobilize significant financing for climate action in developing countries?** (UNFCCC)
   - Current mechanisms are inadequate, both in scale and design
   - Yet "the writing is on the wall" regarding contribution from international transport:
     - Practically every independent report on the topic highlights carbon pricing of emissions from international shipping (and aviation) as an important/promising source of public finance (see AGF and IMF/WB reports, and recently LTF).
2. **How to address international shipping CO2 emissions?** (UNFCCC/IMO)
   - Global and complex
   - Outside current regime (Kyoto Protocol)
   - Significant and rapidly growing
   - Double aviation emissions
   - The 2011 IMO EEDI & SEEMP regulations will only slow their growth
   - All uniform proposals on the table are unacceptable to developing countries (as contrary to the UNFCCC principle of CBDR)

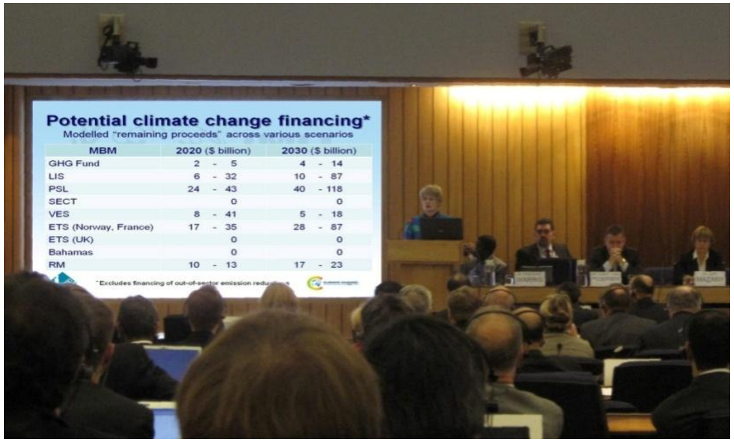
Example Issue

How to attribute emissions of a ship that is:

- Swiss owned,
- Flying Liberia flag,
- Chartered by Danish company,
- Leaving Saudi Arabia, with
- Cargo for NY, and Shanghai,
- Via international waters?

Carbon pricing / Market Based Measures at the IMO

- Market-Based Measures (MBMs) to address shipping GHG emissions discussed in details since MEPC 56 (July 2007)
- Slow pace, but steady progress – 10 proposals made, and assessed



- At the IMO focus is though on emission reductions, not financing
  - Shipping stakeholders wary of shipping becoming "cash cow", thus talk about "proportionality" of effort (expressed simply as % of total emissions)
  - Many would prefer to keep the money in the sector, rather than direct to climate financing; but are even more against money going to national coffers as tax or similar
  - The simpler the better attitude to avoid bureaucracy (thus the levy/contribution is supported more than ETS); situation is dynamic as nothing is agreed yet
- **The deadlock between developed & developing countries remains**
  - Namely, whether and how to apply the UNFCCC principle of common but differentiated responsibilities and respective capabilities (CBDR) to global shipping (the same issue is true for negotiations at the UNFCCC)
  - At MEPC 63 & 64, lack of the promised resolution on technical co-operation led to delaying also the proposed impact assessment of the MBMs

Rationale for the rebate mechanism (RM)

- **Not whether, but how to reconcile**
  - Differentiated climate principles (CBDR), with
  - Uniform policies of shipping (IMO)
    - A global approach is needed, as regional or national approaches will not work
- Carbon price/MBM would be regressive, impacting less developed countries, often heavily relying on international transport, most

- RM is the only differentiation option being currently considered to address potential adverse impacts of a global MBM scheme on the poor countries
  - An alternative option based on exempting the less developed countries, by covering only goods carried to developed countries, is too complex, especially for container ships
  - RM with climate financing would make them better off

Strong Case for Rebates

Source: “Fair Finance” briefing, CAFOD & A. Stochniol, 2011

Updated map is available that takes into account long trading distances (minor map changes).
For calculations and a map showing estimated cost burden as % of GDP see the RM Fact Sheet.

Options under consideration at the IMO

- Two RM options are being considered:
  - **RM add-on** (applicable to any revenue-raising MBM)
  - **RM integrated** (IMERS), a standalone MBM

Details on support & selected documents (2010-2012):

- “A number of delegations expressed interest in the RM proposal and supported its further development and consideration either as an integral or add-on element to a future MBM for international shipping under IMO”
- “A number of delegations stated that the RM is an innovative and constructive proposal that addresses the CBDR principle and should be analysed and considered further”
- MEPC 60/4/54, and MEPC 61/5/33 (IUCN) - RM proposal, including the two options
- MEPC 61/INF.2 (MBM-EG Report) – RM assessment in Chapter 18, 19.83-85, Annex 11
- GHG WG 3/3/3 (CSC & WWF) – systematic analysis of CBDR in shipping, including RM
- GHG WG 3/3/11 (WWF) – details on ‘optimal’ attribution key for RM; values for 190 countries
- MEPC 62/INF.3 (Secretariat) – The AGF Report: ‘no net incidence’ concept to ensure equity
  - The AGF’s analysis on International Transport highlights the RM
- MEPC 62/INF.6 (Republic of Korea) – RM at the fourth Seoul International Maritime Forum
- MEPC 62/5/14 (WWF) – outlines how to ensure no net incidence through the RM
- **MEPC 64/5/10 (WWF) – draft legal text;** to be considered in details later, alongside other proposals & submissions
- MEPC 64/5/12 (WWF) – incorporates impact of trading distances

Add-on option (in 140 characters)

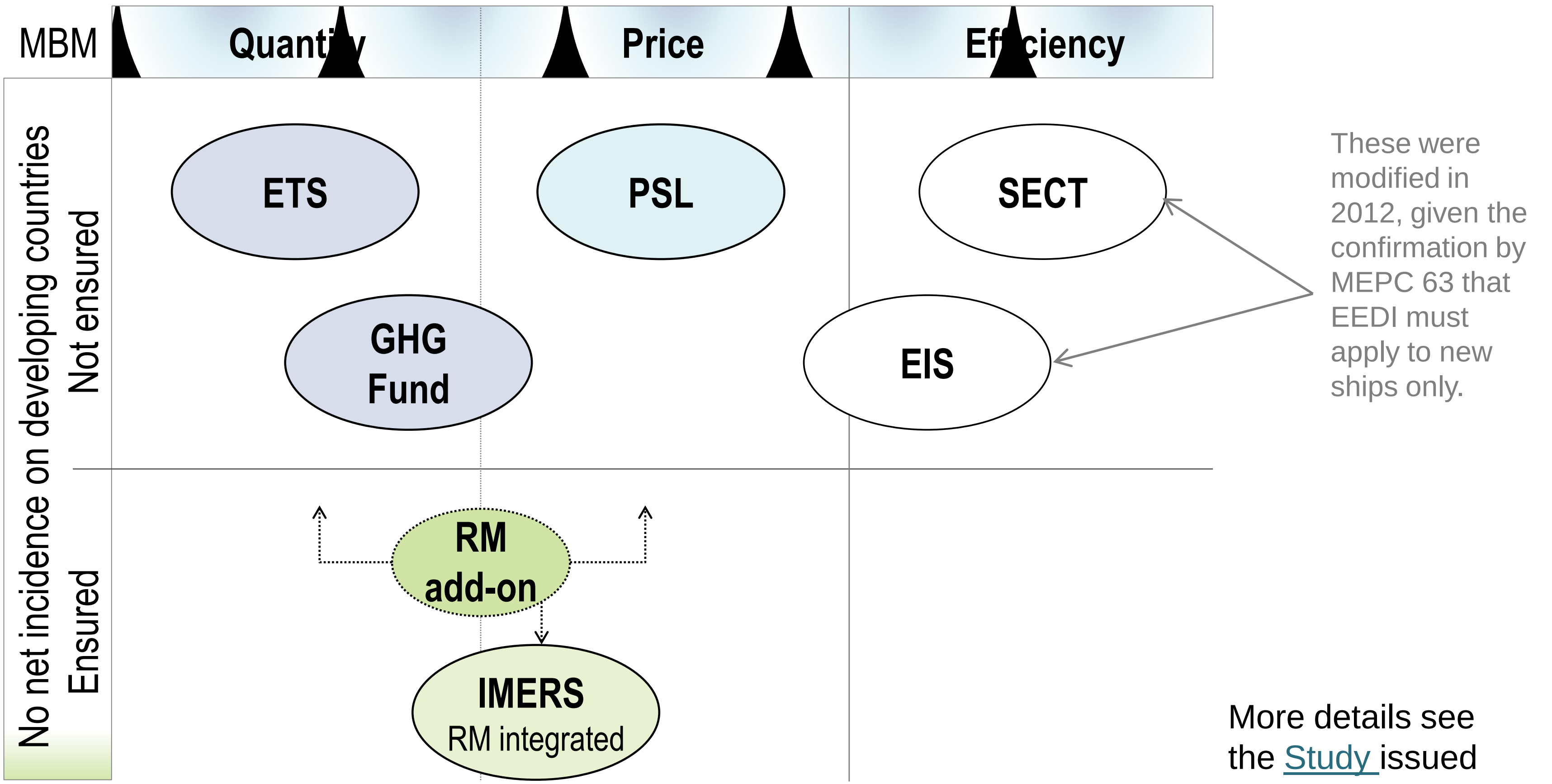
All ships/planes pay for their emissions. Certain countries obtain rebates, and the remaining revenue goes to climate change action. *(including in the sector)*

Detailed points:

1. Ensures that developing countries are not worse
2. **Reconciles a global approach**, which is required for international shipping, **with** the principles of equity and **CBDR**
3. **Can apply to any revenue raising MBM**
    1. Such as a levy/contribution and ETS
    2. Already integrated with the IMERS proposal
4. Highlighted **in the AGF, and the IMF/WB reports;** rebating mentioned in the LTF report
5. Rebates to developing countries may amount to 1/3 of revenue raised, the remaining 2/3 will be a **predictable and affordable source** of climate change financing and R&D for clean shipping

RM versions and applicability

1. **RM add-on** can apply to any revenue raising MBM, in principle



More details see the Study issued

2. **RM integrated** (aka IMERS) is a complete proposal with the RM built-in

Integrated option (IMERS)

A levy on fuel for international shipping with RM, applied globally, collected centrally*, likely to contribute $10bn+ to GCF.** *(in 140 characters)*

Key points:

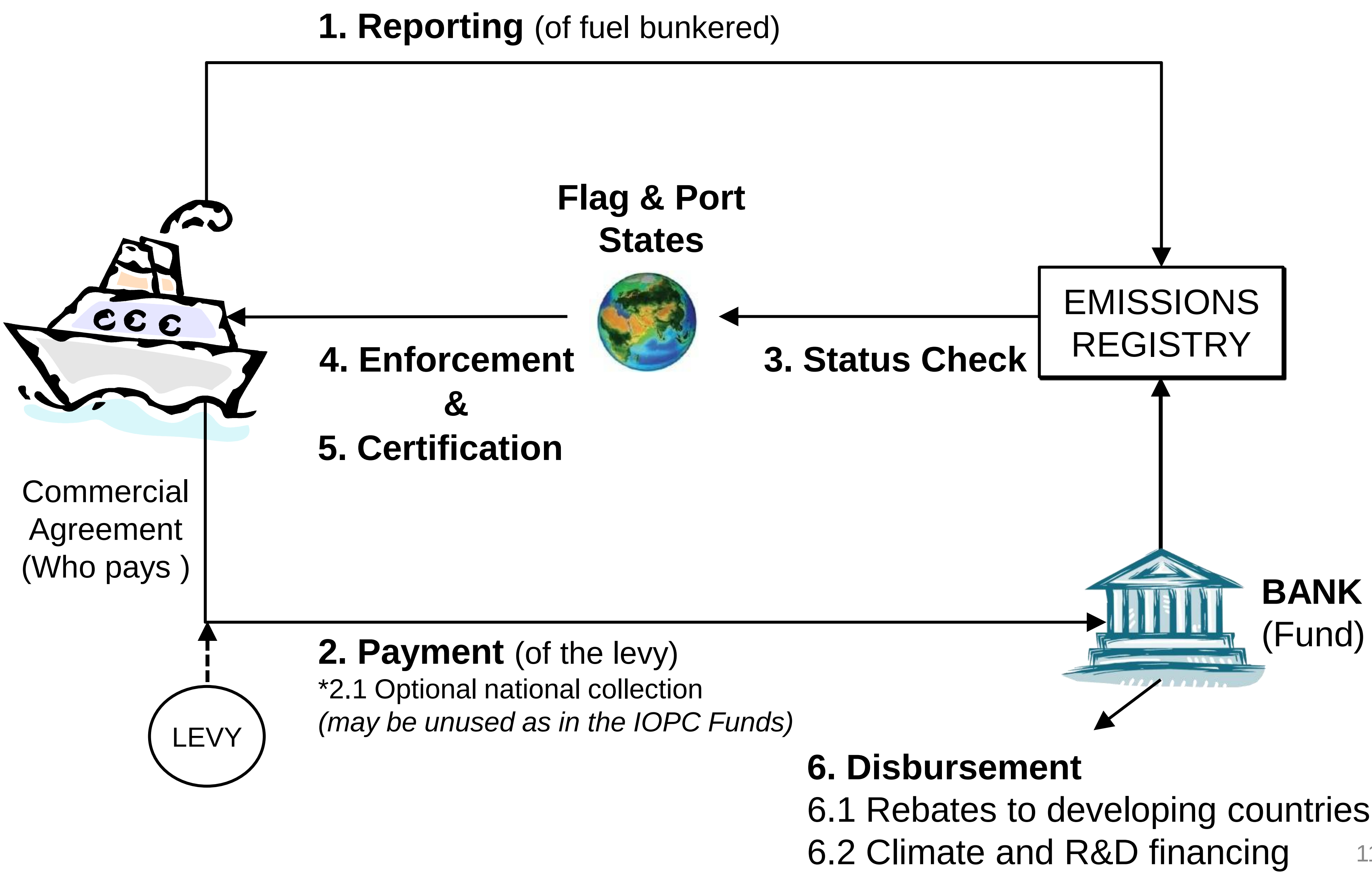
1. The levy is **market-based** with shipping facing the same carbon price as other modes of transport
   - The levy is however **set constant for at least a quarter**, and bounded within a price floor and ceiling set for many years
   - There is no cap on emissions *(but a % of mitigation finance is determined)*
2. The scheme is based on a central **emissions registry**, holding an emission account for each ship, and **a global bank providing a payment account for each ship** *(other proposals also assume global approach!)*
3. As per RM, a developing country is entitled to an **annual rebate** in relation to its **share of global seaborne imports**, and will further benefit from financing for climate change action

* Flexible for domestic collection, where required (i.e. potential opt-out for the USA)

** If so decided

How would it work?

Direct/global approach



Compliance with UNFCCC Convention

- Disbursement of MBM revenue is to comprise two steps:
  - Cost burden incurred by a developing country Party participating in the MBM is rebated (paid) to it
  - The remaining revenue (net revenue), is disbursed by the agreed entity or entities (i.e. GCF, IMO)
    - For details & options see the draft legal text

Consequently *(details):*

1. Net revenue for climate change action would come from consumers in developed countries only, complying with the UNFCCC principles
2. 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) – **LDCs circa tenfold**
3. The shipping sector would also benefit at the 2nd step, potentially through a new global Maritime Technology Fund, or similar

Approaches to high income developing countries?

1. “Voluntary” agreement: foregoing of the rebate, or part of it (with such money potentially flowing to South-South collaboration)
2. Capacity-based: securing commitment based on or scaling through a capacity factor, such as GDP per capita

- Certain views on burden (incidence) per country categorizations:
  - Economies (UNCTAD categorization)
    - Developed 56.7%, Transition 3.1%, **Developing 40.2%**
      - Of developing: **Africa 3.4%,** Americas: 5.4%, Asia: 31.3%, Oceania: 0.1% (all 40.2%)
  - Income based (World Bank categorization)
    - High Income: 70%, Upper Middle Income: **22%**,
    - Lower Middle Income: 7%, Low Income: 1% ***(subtotal 8%)***

- Thus the “real” rebates are very likely to be somewhere between **10% and 30%** of total costs *(depending on the agreement reached)*
  - *Thus 30% on the next page should be treated as for illustration only …*

Additional information

- Draft legal text (doc 1)
  - http://imers.org/docs/mepc64-5-10.pdf

- RM Fact Sheet (doc 2)
  - http://imers.org/docs/RM_Fact_Sheet.pdf

Conclusions, Q&A

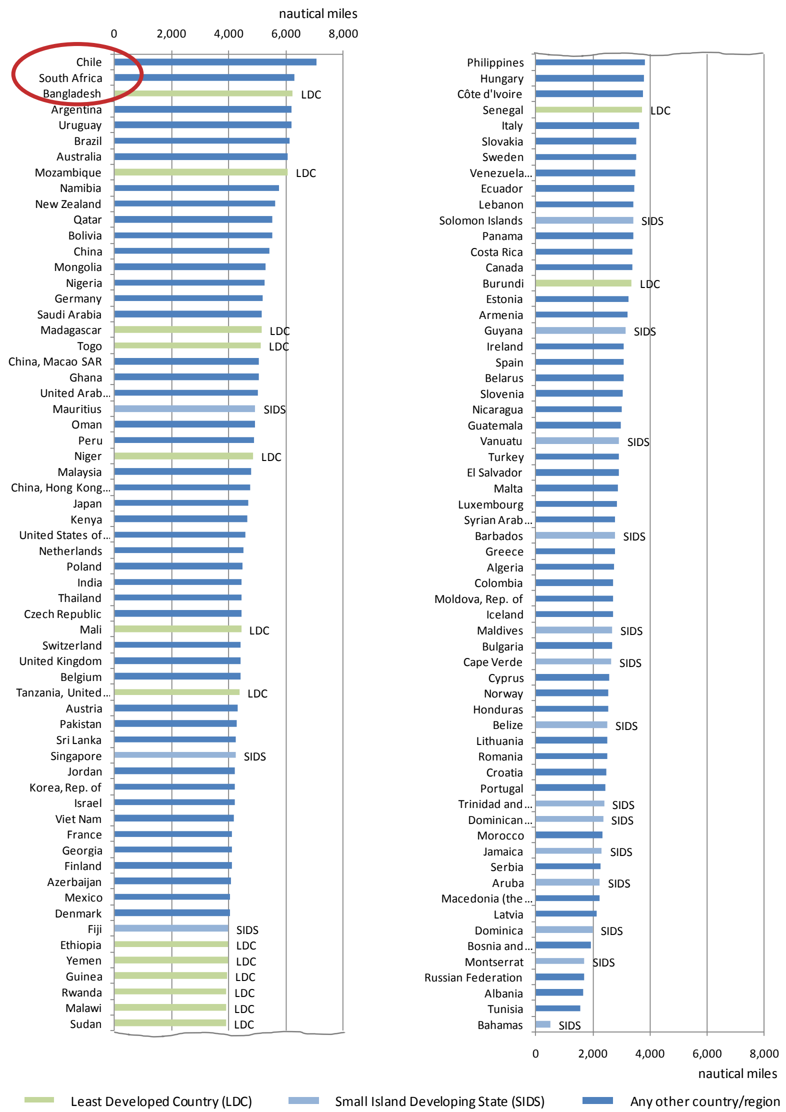
- The RM is practical and potentially transformative
  - It creatively reconciles the shipping and climate principles
  - It is fair and efficient
  - It may generate $10bn+ annually, from developed countries, and additional cooperative contribution from developing countries, able to do that
- Can be implemented as:
  - **RM add-on**, by integrating with any revenue raising MBM
  - **RM integrated** (IMERS), with its unique features (price collar etc.)
- Enough has been on technical analysis
  - Additional technical sharing/discussion could be arranged at Doha
- **It is high time for a political decision** how to reconcile the UNFCCC and ICAO/IMO/ICAO principles:
  - **How to get such agreement ,or at least a signal, here in Doha?**

Debate on Fair and Effective Carbon Pricing of International Transport

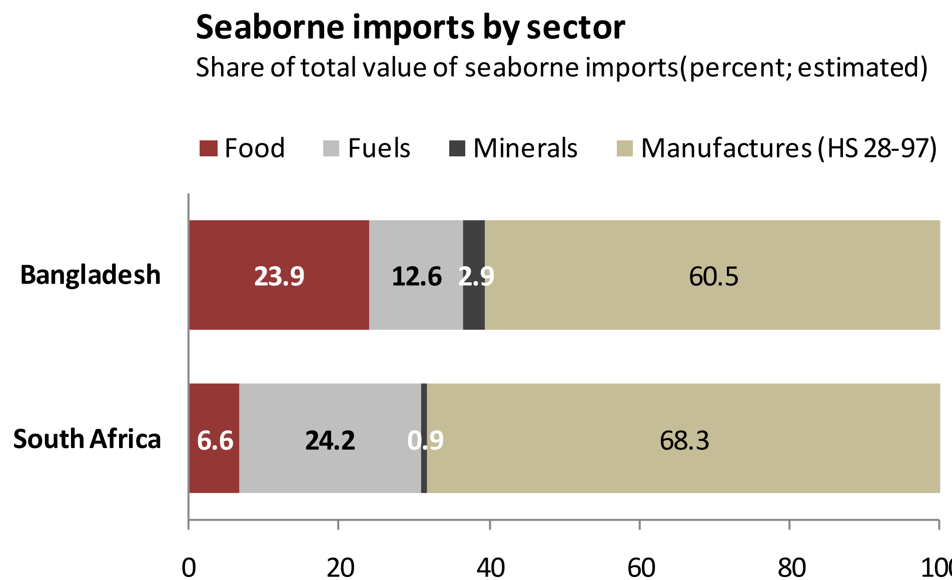
Feel free to ask any questions

Detailed Analysis Supports Global Action with RM

1. Country Trade-Weighted Distance



2. Impact analysis by country & regions

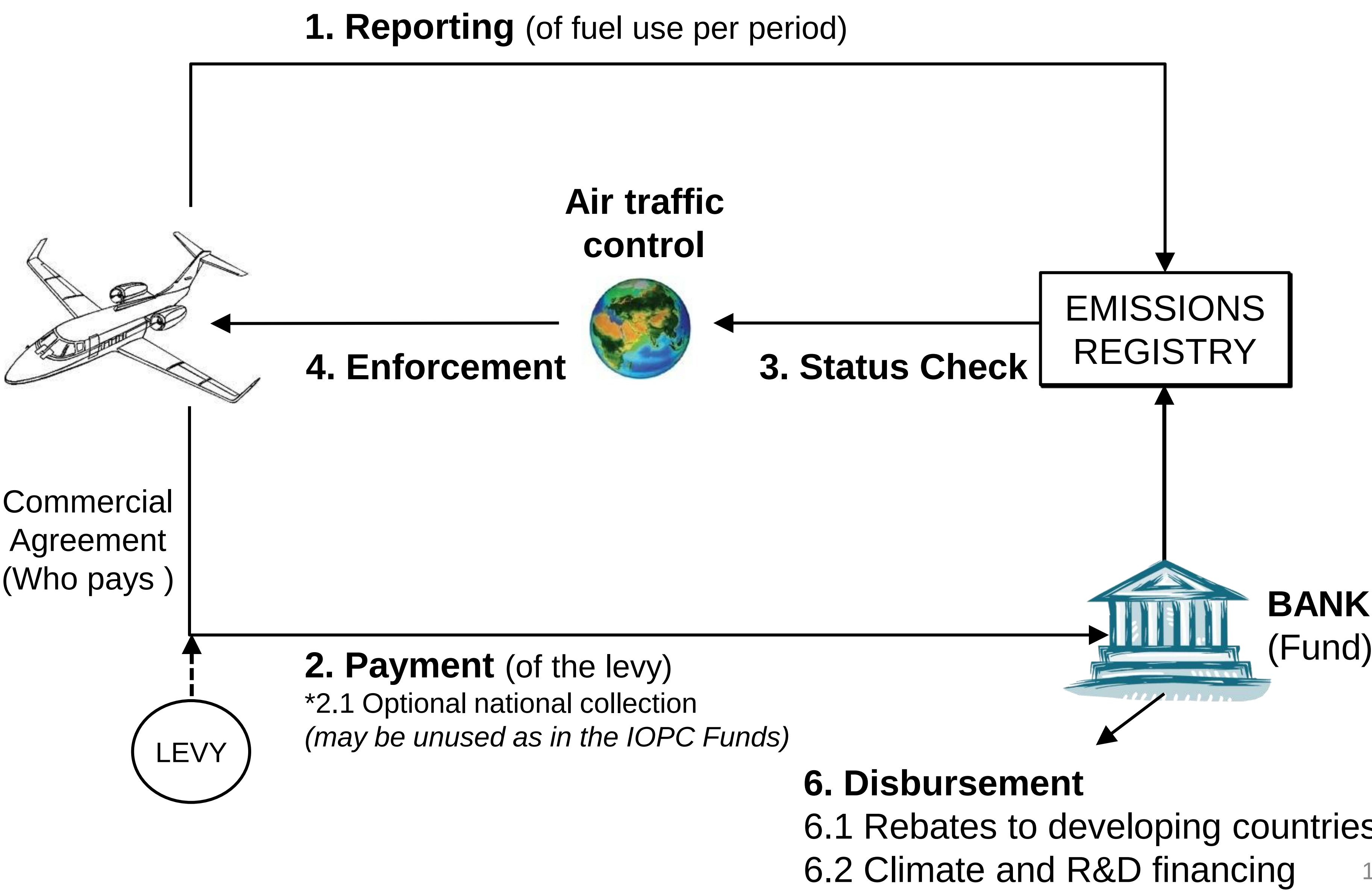


Maximum cost impact on import prices (example; excluding rebates & any benefits)

Bangladesh	South Africa
0.19%	0.14%

Available at:
http://imers.org/docs/bottom-up_analysis_BGD_ZAF.pdf

How may it work for aviation?
(fuel/emission levy)



Alternatives for rebates – Aviation
(work in progress)

	Aviation - selected options/proxies		
Option	A	B	C
Economies	Fuel (IEA)	RTK (ICAO)	Imports by sea/air
Developed	54.2	57.5	56.7
Transition	4.8	2.0	3.1
Developing	41.0	40.5	40.2
TOTAL	100.0	100.0	100.0
Details			
Africa	4.3	2.8	3.4
Americas	5.4	3.7	5.4
Asia	31.1	33.8	31.3
Oceania	-	0.2	0.1
All Developing	40.8	40.5	40.2