FAIR FINANCE

Ensuring Developing Countries Benefit from Carbon Pricing of International Transport

Executive Summary from a Durban Briefing Paper[1]

November 2011
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Developed countries have promised additional funds rising to US$100 billion per year by 2020 to support climate action in developing countries. Countries will discuss how to meet this target at the UN climate talks in Durban, including through "innovative" ways of raising finance.

One innovative financing mechanism that CAFOD supports is carbon pricing of international shipping and aviation. It has the potential to reduce emissions and generate significant resources for climate action. However, 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.

This briefing paper analyses the impact of carbon pricing of international transport for nearly 200 countries based on their imports by sea and air. The analysis shows that, without any compensation 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. This includes some small island developing states and least developed countries.

It thus makes a strong case for compensating developing countries for the potential adverse impacts of carbon pricing on international transport. If this occurs and the most vulnerable countries also receive finance from the revenue raised for climate change action, they would be net beneficiaries of carbon pricing on international transport. Overall, the expected cost impact on global trade from such a mechanism in shipping is low, estimated at less than 0.2% of the trade value. Nevertheless, the relative impact on various countries will vary significantly in relation to how reliant a country is on imports by sea. The ten countries or regions shown to be most reliant on imports by sea and air by this analysis are all developing countries, and eight of them are small island developing states or least developed countries. Their value of imports by sea and air is approximately equivalent to their GDP. The ten countries ranked least reliant on imports by sea and air include developed and developing countries, including larger economies such as United States and Brazil. Their value of imports by sea and air is approximately equivalent to 10% of their GDP. For the majority of G20 countries, imports by sea and air are less than the world average (estimated at 17% of GDP). The additional impacts of trade-weighted distances and the structure of trade are not explored in the analysis. However, including these factors would most likely make the case for compensation even stronger.

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[1] The full briefing analysis is at: http://bit.ly/vCdP2y

[2] See www.imers.org. The analysis of impacts done for this briefing is the sole responsibility and property of Dr Andre Stochniol.

[3] CAFOD is the official relief and development agency of the Catholic Church in England and Wales. It works with partners in more than 40 countries, including with many vulnerable communities at the frontline of climate change, for instance in Kenya and Bangladesh. CAFOD campaigns for a fair, ambitious and global deal to cut carbon emissions and for sufficient resources to be mobilized to support poorer countries to adapt and build low carbon development paths.

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ENSURING DEVELOPING COUNTRIES BENEFIT FROM CARBON PRICING OF INTERNATIONAL TRANSPORT

Extract*

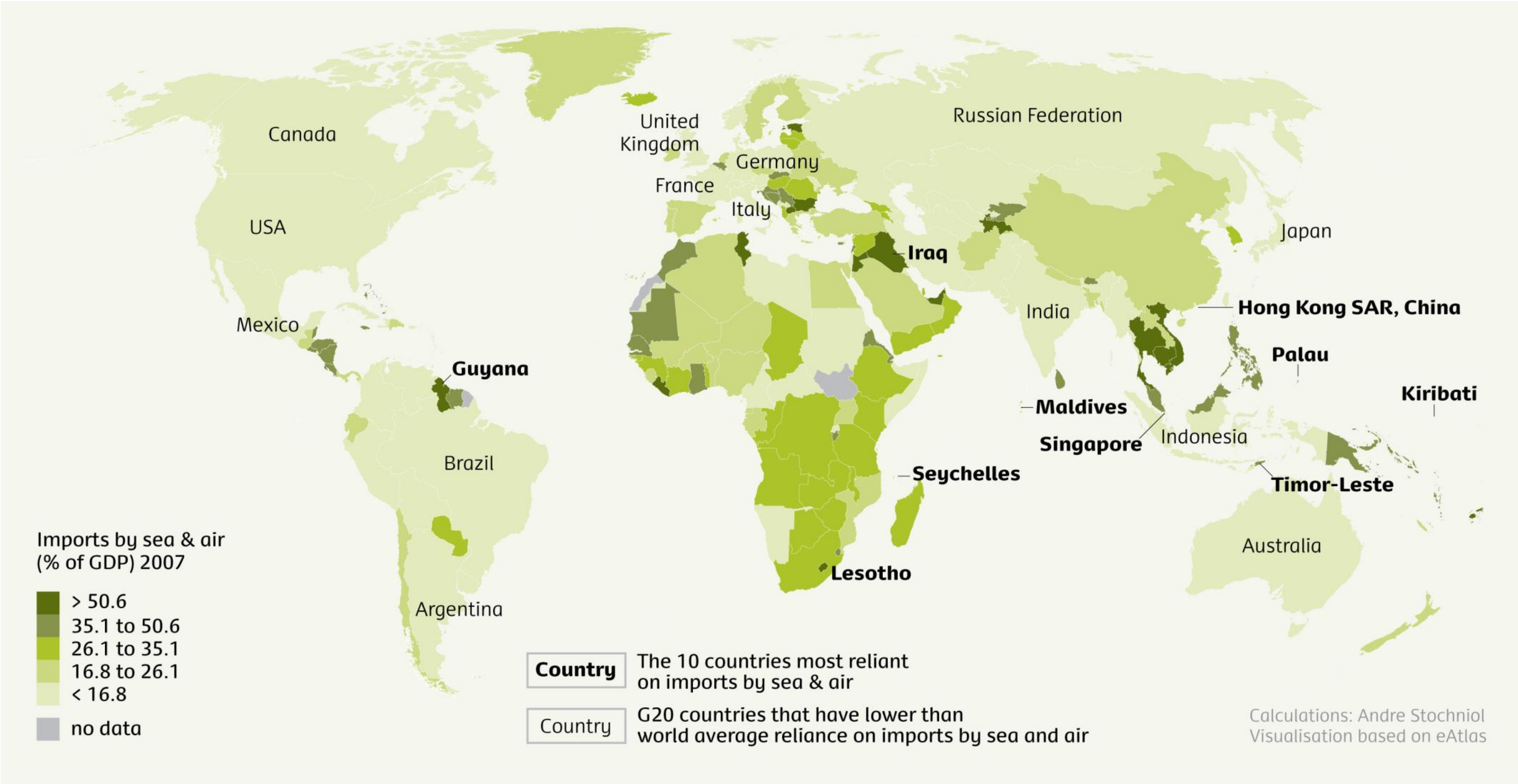

Fig. 1 Imports by sea and air as % of GDP (2007)

*The full briefing is available at: http://bit.ly/vCdP2y