RM

Rebate Mechanism

Proposal submitted by IUCN
(in documents MEPC 60/4/55, MEPC 61/5/33)

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Rationale for the proposal

- **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

- RM is the only differentiation option being currently considered to compensate less developed countries the costs/impacts of a global MBM scheme

  - 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

Key Documents

RM

- MEPC 60/4/54 (IUCN) contains the RM proposal
- MEPC 61/5/33 (IUCN) further details on the two RM options:
  - RM add-on (applicable to any revenue-raising MBM)
  - RM integrated (IMERS), a standalone MBM
- MEPC 61/INF.2 (Sec.) – Chapter 18, 19.83-85, Annex 11
- MEPC 62/INF.3 (Secretariat) – The AGF Report: 'no net incidence' concept to ensure equity, which RM aims to deliver
  - The AGF's Analysis on International Transport highlights RM

- GHG WG 3/3/3 (CSC & WWF) – systematically analyzes ways to address CBDR in shipping, including RM
- GHG WG 3/3/11 (WWF) – provides details on 'optimal' attribution key for RM, including values for 190 countries

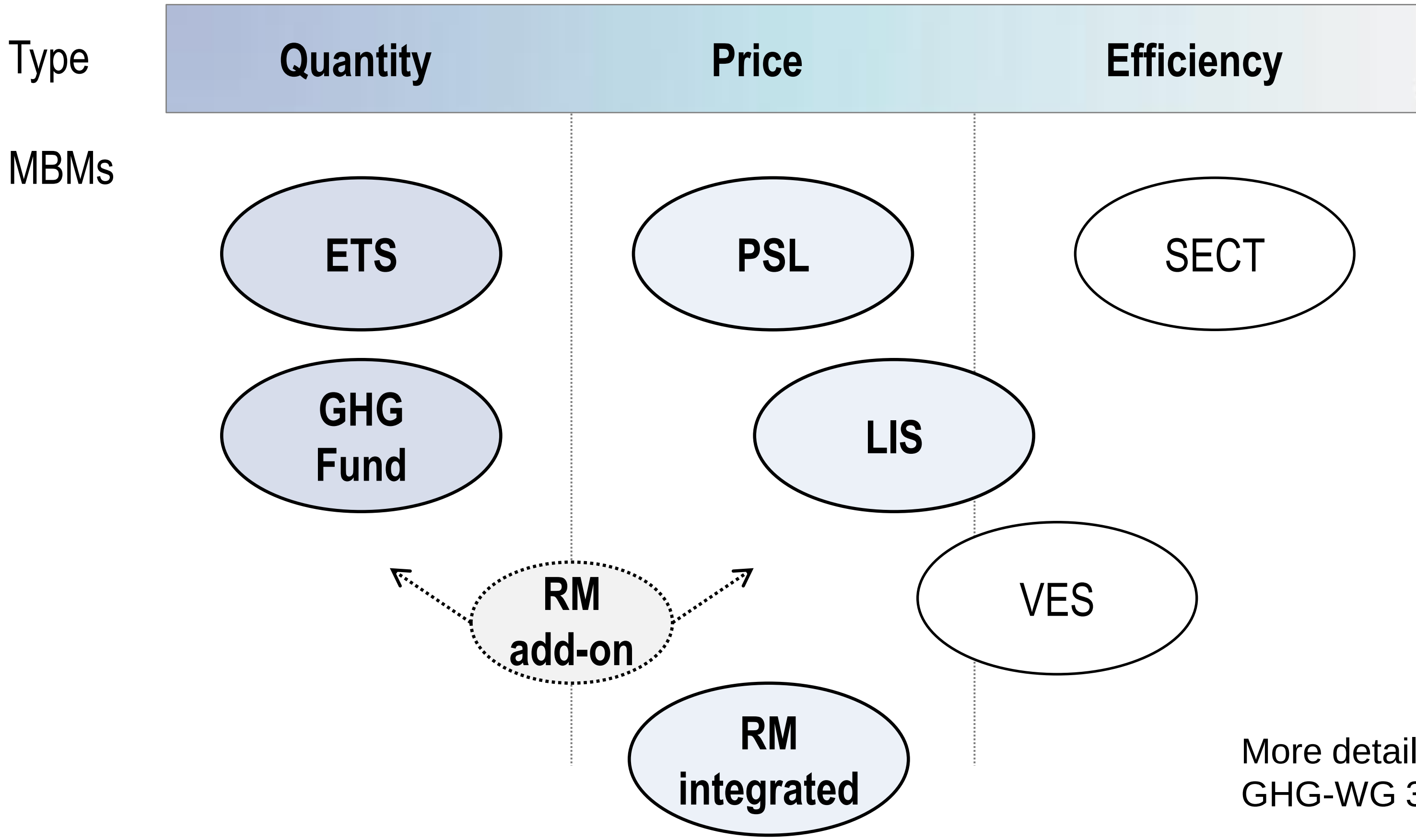
Add-on option (in 30 words)

All ships pay for their emissions. A developing country obtains an annual rebate in relation to its share of global seaborne imports. Remaining revenue – from developed countries – goes to climate change action.

1. Ensures **no net incidence** on developing countries
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 report/analysis**
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 GHG-WG 3/3/11

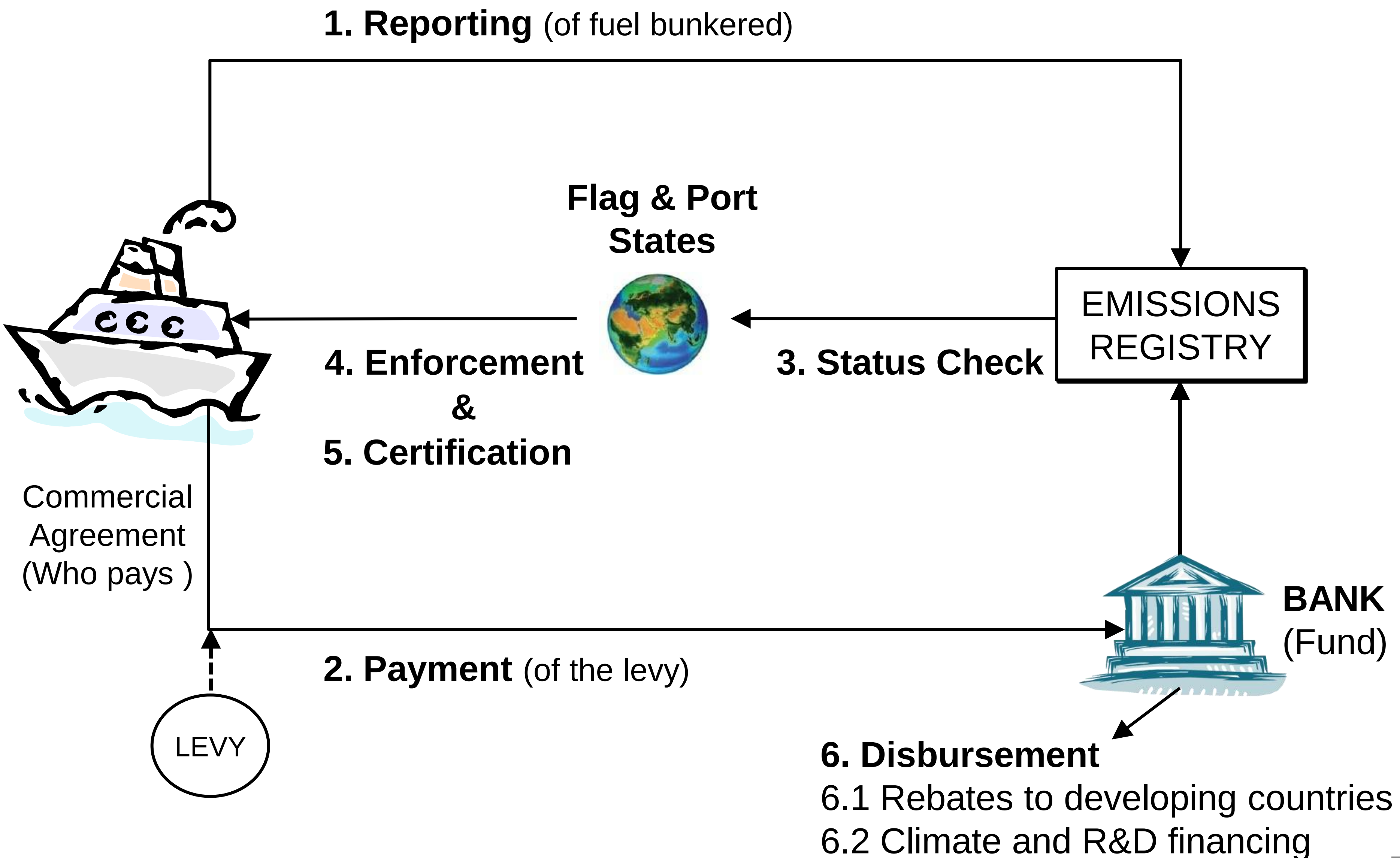
2. **RM integrated** (aka IMERS) is a complete proposal with the RM built-in

Integrated option (IMERS)

A levy on fuel for international shipping with a rebate mechanism for developing countries. Applied worldwide, collected centrally – bypassing national coffers – raising predictable financing for climate change action.

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 20+ years
   - There is no cap on emissions
2. The proposed 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**.
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

Processes (IMERS)



Compliance with UNFCCC Convention

- Disbursement of MBM revenue is to comprise two steps:
  - Cost burden (incidence) incurred by a developing country Party participating in the MBM is rebated (paid) to it, unconditionally
  - The remaining revenue (net revenue), is disbursed through the operating entity of an agreed financial mechanism (UNFCCC/IMO)
- 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 MBM, 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 would also benefit at the 2nd step, potentially through a new global Maritime Technology Fund, or similar

MBM Incidence on Developing Countries

RM

	Optimal* Approach (GHG-WG 3/3/3)	**Initial Approach** (MEPC 60/4/55)
Developing Country/region	**Share of global imports, by sea and air , %**	**Share of global imports, by all transport modes, %**
China	8.35	6.84
Korea, Republic of	3.68	2.55
Africa (all)	3.48	2.56
Singapore	2.36	1.88
India	1.98	1.56
Ethiopia	0.06	0.04
Guyana	0.01	0.01
…	…	…
All developing countries:	**40.19**	**33.16**

Given that some developing countries may pursue the option of foregoing all or part of their rebates, it is still viable to use the previous 30% as an illustrative amount of rebates for developing countries (as used in the MEPC 61/INF.2 and the AGF Report).

* 'Optimal': striking the best balance between accuracy, simplicity of calculation and data availability.

Attribution Key's Usage

RM

(1) **Rebates** for developing countries[1]

Developing Country/region	R Key, %
China	8.35
Korea, Republic of	3.68
Singapore	2.36
China, Taiwan Province of	2.27
China, Hong Kong SAR	2.06
India	1.98
Next 30	15.31
Remaining 120+ countries	4.19
TOTAL non-Annex I	**40.19**

				n	R Key %
					0.3311
					0.0001
					0.1176
					0.2747
					0.0018
					0.0655
					0.0273
					0.0340
					0.1676
					0.5980
					0.2129
					0.0056
					0.0028
					0.0063
				Grenad	0.0034
					0.0027
					0.0000
				e	0.0008
					0.8851
					0.0502
					0.1593
					0.0089
					0.0041
					2.3585
					0.0029
					0.0044
					0.8077
					0.1174
					0.0970
					0.0097
					0.0118
					0.1396
					0.0228
				of	0.0595
					1.3440
					0.0043
					0.0077
					0.0015
Cote d'Ivoire	0.0682	Mauritius	0.0402	Trinidad and Tobago	0.0790
Cuba	0.1123	Mexico	1.4594	Tunisia	0.1872
Cyprus	0.0902	Micronesia (Federated States	0.0004	Turkmenistan	0.0213
Djibouti	0.0044	Moldova, Rep. of	0.0263	Tuvalu	0.0002
Dominica	0.0020	Mongolia	0.0075	Uganda	0.0308
Dominican Republic	0.1415	Montenegro	0.0298	United Arab Emirates	1.2684
Ecuador	0.1196	Morocco	0.3182	Uruguay	0.0354
Egypt	0.2499	Mozambique	0.0210	Uzbekistan	0.0450
El Salvador	0.0790	Myanmar	0.0304	Vanuatu	0.0021
Equatorial Guinea	0.0288	Namibia	0.0089	Venezuela (Bolivarian Rep. o	0.3620
Eritrea	0.0066	Nauru	0.0008	Viet Nam	0.5119
Ethiopia	0.0592	Nepal	0.0274	Yemen	0.0827
Fiji	0.0184	Nicaragua	0.0325	Zambia	0.0388
Gabon	0.0204	Niger	0.0090	Zimbabwe	0.0130

(2) **Credits** for developed countries (for climate financing raised)

Developed Country/region	Attr Key %
European Union*	28.53
United States of America	15.98
Japan	6.42
Canada	1.98
Turkey	1.64
Australia	1.60
Russian Federation	1.40
Remaining 7 countries	2.28
TOTAL Annex-I Parties	**59.81**

UK:4.0%

			Attr Key %
			0.0958
			0.1143
			0.0506
			2.3298
			0.3177
			0.4904
			0.7256
			0.5020
			0.5534
			1.3992
			0.3236
			0.0961
Germany	4.6015	Spain	3.0122
Greece	0.7362	Sweden	0.9112
Hungary	0.4480	Switzerland	0.5129
Iceland	0.0690	Turkey	1.6386
Ireland	0.5932	Ukraine	0.5624
Italy	2.9651	United Kingdom	3.9644
Japan	6.4161	United States of America	15.9771

[1]Developing country can forego rebate or a part of it, and be recognized for such action; Thus the rebates may amount to 30% or less. Values provided in the GHG WG 3/3/11 document.

Add-on’s key points

RM

- Reconciles CBDR with a global IMO regime, as the only proposal, through ‘no net incidence’ on developing countries
- Flexible to accommodate different national circumstances
  - A developing country/region may forego a rebate or part of it
  - Any country could account for its share of international shipping emissions through the attribution key, if needed
- Credits developed countries for financing raised in relation to the attribution key
- It is simple, and based on reliable data
  - Contrary to view expressed in GHG-WG 3/3 (paragraphs 46 and 49-50) the TM is not cumbersome or complicated or costly, given that only requires up to 150 annual rebate transactions
  - It does require though political agreement, but the Cancun Agreements and the recent G20 Communiqué points that this could be reached

IMERS' key points

- The only proposal that integrates RM so far
- No global emission target/cap needed
- Proportionality of effort guaranteed – shipping would pay the same price as others, by linking to (transport) carbon price
- Simple constant levy (automatically adjusted quarterly or less often; thus no need for UN/governments to agree the level)
- Predictability of investment over 20+ years horizon through the predetermined levy price floor and ceiling
- Centralized, direct processes to minimize bureaucracy
- Mature (3rd generation; developed since 2007/MEPC 56)
- Proposed to be a part of the UNFCCC deal, and thus not requiring a separate IMO convention (implementation: yes)
- At least 20% of funding proposed for clean shipping R&D

Conclusions

- The RM is practical and potentially transformative
  - It creatively reconciles the shipping and climate principles
    - All ships pay for CO_2
    - Developing countries receive rebates annually
    - Remaining funds go to climate change, and shipping

- Can be implemented as:
  - **RM add-on**, by integrating with any revenue raising MBM
  - **RM integrated** (IMERS), with the unique additions proposed (such as price floor/ceiling, direct processes, …)

- Optimal attribution keys are calculated for all countries