MARINE ENVIRONMENT PROTECTION COMMITTEE
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REDUCTION OF GHG EMISSIONS FROM SHIPS

Further information on a rebate mechanism for a market-based measure for international shipping

Submitted by the International Union for Conservation of Nature (IUCN)

SUMMARY

Executive summary:	This document provides further details on the IUCN proposal for a rebate mechanism for a market-based measure for international shipping. Document MEPC 60/4/55 described a new approach to address international maritime GHG emissions, aiming to reconcile different principles of shipping and climate change conventions.
Strategic direction:	7.3
High-level action:	7.3.2
Planned output:	7.3.2.1
Action to be taken:	Paragraph 16
Related documents:	MEPC 60/4/55 and MEPC 61/5/18

1 This document provides comments on document MEPC 61/5/18 (Secretariat) and further information on the IUCN proposal for a rebate mechanism for a market-based measure for international shipping and is submitted in accordance with the provisions of paragraph 4.10.5 of the revised Guidelines on the organization and method of work of the MSC and the MEPC and their subsidiary bodies (MSC-MEPC.1/Circ.2).

Introduction and Objective

2 The High-Level Advisory Group on Climate Change Financing (AGF) established by the Secretary-General of the United Nations is studying potential sources of revenue for financing climate change actions in developing countries, as outlined in document MEPC 60/5/18.

3 In the AGF, the international civil aviation and maritime transport sectors are recognized as strong potential financial sources. One key consideration criteria of the AGF is equity, as reflected in the UNFCCC principle of common but differentiated responsibilities and respective capabilities (CBDR).

4 In document MEPC 60/4/55, the IUCN proposed a rebate mechanism for a market-based measure (MBM) for international shipping in order to deliver on the CBDR principle. This document provides further details on the two main options of the IUCN proposal:

.1 add-on option; and

.2 integrated option.

Add-on option

5 A rebate mechanism, as proposed in document MEPC 60/4/55 by IUCN, aims to reconcile the different principles of shipping and climate conventions. Through the mechanism developing countries can be rebated the cost or impact of a maritime MBM on their development. The maritime MBM is defined here as any MBM for GHG emissions from international maritime transport. The rebate mechanism can apply, in principle, to any maritime MBM, which generates revenue, such as a contribution/levy on fuel or an emission trading scheme. The mechanism cannot apply to an MBM that does not generate revenue, such as an efficiency-based scheme.

6 The mechanism calculates the rebate in a top-down manner using the global MBM costs and a simple key, country-by-country. The proposed key is a country's share of global imports by value. A developing country could forego its rebate, or part of it, and be internationally credited for such action. Developed countries are automatically credited for the amount of financing raised through the MBM, based on the same key, and are not entitled to any rebates.

7 Consequently, net revenue raised, after rebates have been issued, would come from customers in developed countries only, complying with the principles and provisions of the UNFCCC. The net revenue raised could be split between supporting developing countries in implementing climate change action, and assisting the global shipping sector to accelerate reductions of its growing emissions through technological advances.

Integrated option

8 This unique rebate mechanism has been integrated with the International Maritime Emission Reduction Scheme (IMERS) in order to:

.1 illustrate how it can be operationalized; and

.2 allow the proposal be comprehensively assessed according to the nine criteria assessment criteria agreed at the MEPC 60.

9 Under the IMERS scheme, a market-driven levy is established on fuel bunkered, as an alternative for a levy on greenhouse gas emissions. The levy would apply to all ships over a predetermined size, engaged in international maritime transport, irrespective of their flag and nationality of the shipowner. The liable entity in the scheme is ship, uniquely identified by its IMO number.

10 In order to deliver proportionality of the shipping effort to combating climate change, the levy is linked to a prevailing fee on land transport emissions, or to the rolling average market carbon price, as available. It is set constant for a quarter, at least 30 days in advance of the start of each quarter. In order to increase investment certainty, the levy is bounded by predetermined price floor and ceiling.

11 Fuel bunkered in a given quarter must be electronically reported and is subject to payment of the constant levy for that quarter. The levy is obtained centrally, bypassing national coffers, and aggregated providing gross revenue for the scheme.

12 In order to reduce the burden on the shipping industry, and guarantee a rapid deployment globally, a computer-based system and simple processes are defined. The system is based on a central emissions registry (ER), holding an emission account for each ship, and a predetermined global bank (BK), or banks, providing a payment account for each ship. The scheme operates through six processes:

.1 reporting of fuel bunkered, by ship (manager) to ER;

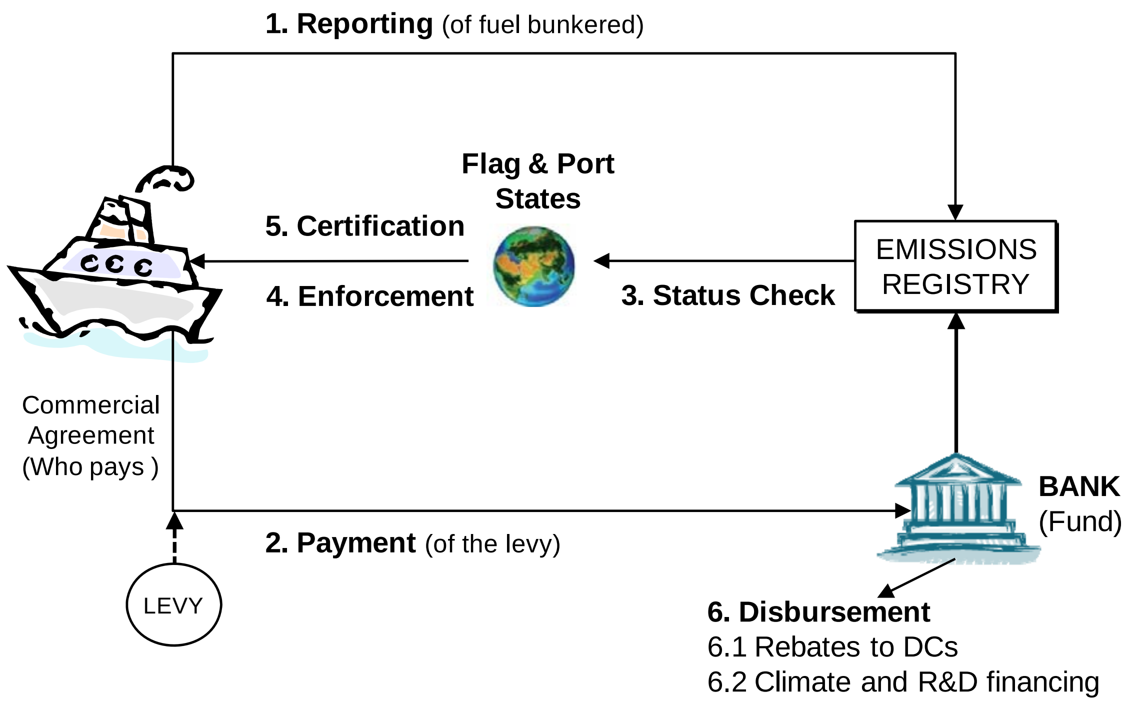
.2 payment of the levy, by ship (charterer) to BK, directly;

.3 status check of ship's compliance, by port and flag State control (PSC and FSC) with ER;

.4 enforcement of compliance, by PSC and FSC;

.5 certification of ship compliance, by FSC; and

.6 disbursement of revenue raised by BK and/or predetermined funds.



13 In order to comply with the UNFCCC principles and provisions, including the principle of common but differentiated responsibilities and respective capabilities (CBDR), the rebate mechanism as introduced above applies, and is the first step of the disbursement process 6.

14 In order to maximize environmental effectiveness and cost-efficiency, the entire net revenue raised is to be disbursed through existing institutions for:

.1 adaptation to climate change in developing countries;

.2 reduction of emissions from deforestation and forest degradation (REDD+); and

.3 Technology R&D, transfer, and transformation in the shipping sector.

15 It is proposed to reserve a significant pool of adaptation funding to the most vulnerable Small Islands Developing States (SIDS) and Least Developed Countries (LDCs). Furthermore, setting of the ship size threshold higher than 400 GT is proposed for an initial period of time.

Action requested of the Committee

16 The Committee is invited to note the information contained in this document and the concept of rebate mechanism to deliver on equity consideration.

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