



# **Beyond Offsetting of Emissions from International Transport**

Halving Emissions & Financing Climate Change Action

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# Two Problems ... in this order

## 1. Current mechanisms to finance climate change action in developing countries are inadequate, both in scale and design

- The financing gap for adaptation alone is huge, circa 100:1
  - Tens of \$billions are needed annually
  - Available total: \$0.4bn

Yet the poorest countries are most vulnerable, will be hit hardest by climate change and did not create



the problem



## 2. International shipping CO2 emissions are outside of the Kyoto Protocol

- Significant and rapidly growing
- Double aviation emissions
- Attempts to address them have failed
- Regulation needs to comply with the differentiated climate regime (CBDR)
- Global and complex

### A Core 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.

## ... One Solution (supra-national)



- Int'l shipping CO<sub>2</sub> emissions would form one emission bubble:
  - Price on emissions would be established, and apply to all ships
  - **Market-driven** levy is preferred (levies anticipated under the UNFCCC)
- Ships would be liable to pay a levy on fuel for carrying goods to:
  - Rich countries only: @100% (rich = developed countries)
  - Poor countries only: 0%
  - Both to rich & poor: 60%, on average
    - Based on % of goods carried to rich countries annually by the ship/co.
    - Enforcement in rich ports: pay up 100% or prove you should pay less
- Level of levy determined by the U.S./international carbon price (or by an emission **cap** and the market carbon price → cap-and-charge)
  - **Levy set by market** rather than a political body
  - Paid direct to the central ship account, bypassing national coffers!
  - **100% of revenue generated goes to climate change**

- Worldwide, the share of goods transported to developed countries (Annex I parties) is circa **60%**
  - Day 1 of scheme: 60% of maritime emissions covered, with an ambitious emission cap (e.g. 20% emission reductions by 2020)

- Easily Affordable:**

- Marginal cost: just +0.1% on import prices to Annex I (**\$1 per \$1,000**)
- No impact on imports to non-Annex I



- Significant Impact:**

<b>FUNDS pa*</b>	<b>2013</b>
Mitigation	4
<b>Adaptation</b>	<b>4</b>
Technology	2

\* In \$billions per annum

**TOTAL: circa \$10bn**

For levy = \$15/tCO<sub>2</sub>

- Focusing on **what's politically acceptable** (rather than what's better: a uniform cap-and-trade or a uniform levy, which are equivalent anyway)
  - If a uniform deal will be possible – as part of the package – the easier;
- A central, supra-national differentiated approach would:
  - Resolve the conundrum of reconciling the need for Global rules (as per the IMO) with Differentiated responsibilities (as per the UNFCCC)
- Its implementation would:
  - Provide an effective centralized system rather than patchwork of multiple variants for different flag states, starting from 2013
  - Be future-proof, by being automatically compatible with any CC regime as it allows taking emission deviation commitments, and similar
- Importantly, it would create a **new governance** to effectively address emissions that are inherently beyond national jurisdictions
  - Legal under international laws and rules (UNCLOS, WTO, GATT; would use IOPC Funds as the precedent for direct collection of funds)

# How Will the Scheme Reduce Emissions?



1. It will bring additional incentives and certainty to invest in efficient engines, ships, and practices
2. It will collect data on ship efficiency, thereby giving charterers a mechanism to choose more efficient ships
3. Seed financing provided for R&D will bring forward adoption of hydrogen engines by a decade or so
4. Incentives for infrastructure transformation will increase shipping efficiency and reduce fuel consumption (ports, canals, straits)
5. Financing provided for capacity building of developing countries will increase their openness to globally applicable efficiency measures (through the IMO)
6. Supplemental emission reductions will be achieved through carbon markets, and forestry (REDD+)

- **First a global instrument ... then accounting**, where needed
- **Preferred & alternative options:**
  - **Country shares accounted in the national totals** (carbon budgets)
    - Calculated from the world total
    - Initially through a simple measure such as share of imports
      - e.g. for 1GtCO<sub>2</sub> emissions, USA's share would be 162 MtCO<sub>2</sub>, UK's share: 48 MtCO<sub>2</sub>
      - A better measure could be developed with time; GDP's share is less appropriate
  - **Completely off (above) national totals**
    - Global accountability?
    - Issue → IMO and ICAO are not parties to the UNFCCC
      - If they don't deliver the cap who is in non-compliance → the world? (i.e. all parties ?)

Country	Share of import %	Share of GDP %
USA	16.2	27.4
Japan	4.8	10.1
Germany	7.3	6.2
China	6.2	5.5
UK	4.8	5.0
Brazil	0.7	2.0
Greece	0.5	0.5
Panama	0.04	0.04

\* Source: IMF & World Bank, for 2005

- A market-driven levy on emissions from international shipping, applicable to ships carrying goods to **developed** countries, which is both technically sound and **politically acceptable**
- Applied worldwide, collected centrally – bypassing national coffers – raising circa \$10bn annually for climate action

“It is one of the least controversial and most effective ways to generate significant additional climate change funding”

# Latin America Taking a Lead ?

## Sealing the Deal in 2009?



- IMERS is consistent with the Nicaragua's financing submission
  - On behalf of Guatemala, Dominican Republic, Honduras, and Panama it proposed, as an option, “a levy on international maritime transport freight”
  - Now in the UNFCCC LCA negotiating text as para 173, option 4 (etc.):
    - Levies on emissions from international aviation and maritime transport [for developed countries] [...]
    - Concept endorsed by world leaders & experts (UN Foundation & Club of Madrid, ...)
- A two-track approach:
  1. Financing/market-based part → **UNFCCC**
    - Should be done within the Copenhagen Agreement (in 2009)
  2. Technical, operational, infrastructure → IMO for shipping  
ICAO for aviation
    - Including enforcement of the market-based scheme
- This would allow a high level of ratification, compliance, and speed to results © IMERS 9

- Halving emissions & financing climate action needs vision & scale:
  - A differentiated levy is equitable, clear, predictable and effective
    - It's flexible to allow “national circumstances” (U.S. indirect levy collection, etc.)
  - By being collected centrally provides 100% payout to climate action
  - In contrast to cap-and-trade for shipping, it can be rapidly implemented
    - It will deliver a cap, but neither large bureaucracy nor complex reporting is required
  - It is underpinned by existing law and trade rules; endorsed by leaders
- It's not done yet! At the tipping negotiation point:
  - Panama, with Eduardo Reyes, have already shown leadership
- **Perhaps Latin America with Panama should lead the push for a global *differentiated* scheme for shipping emissions?**
  - It's a perfect opportunity to solve two problems simultaneously  
(i.e. “kill 2 birds with 1 stone”)



## **Back-up slides**

Business Benefits

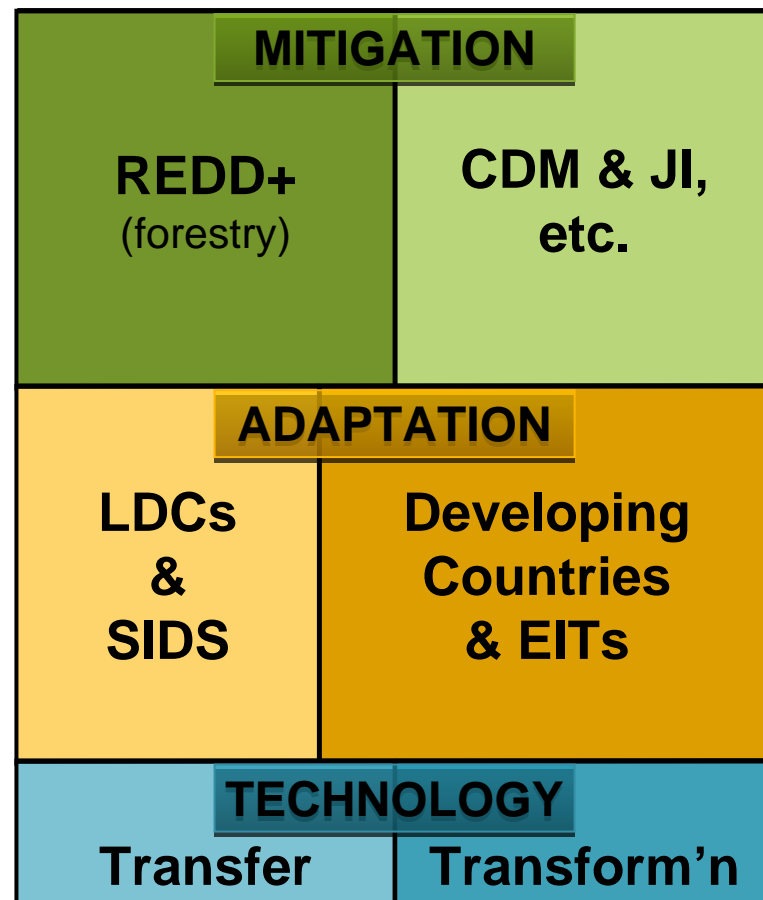
Use of Funds

- Hassle free solution for CO2 emissions with minimal administration costs
  - No allowances to manage, no individual cap to comply with, services provided, no set-up costs, compliance easily verifiable
- No impact on international competitiveness (level playing field)
  - **Equally applicable** to all vessels **irrespective of flag** they fly **and nationality** of the ship-owner
- Stimulation of innovation, investments in R&D, and in infrastructure
- **Increased cash flow** (EBIDTA) as a result of reduced delays, improved operations and reduced fuel (especially to/from developing countries)
- Reduced risk of multiple regulations
- **Benefits of better image** (clean transport, social responsibility)
- Increased demand (with increased trade and development)

**Climate change action makes good business sense**

### 6. What would the funds be used for? Who would benefit most?

- Mitigation, Adaptation & Technology →
  - Note: current preference is to potentially use the entire mitigation financing for REDD+
- LDCs & SIDS would benefit most
  - An option to finance insurance



### 7. Where does the money for adaptation come from?

- Aggregated demand provides access to cheaper emission credits
- Generated gains are utilized to address adaptation issues

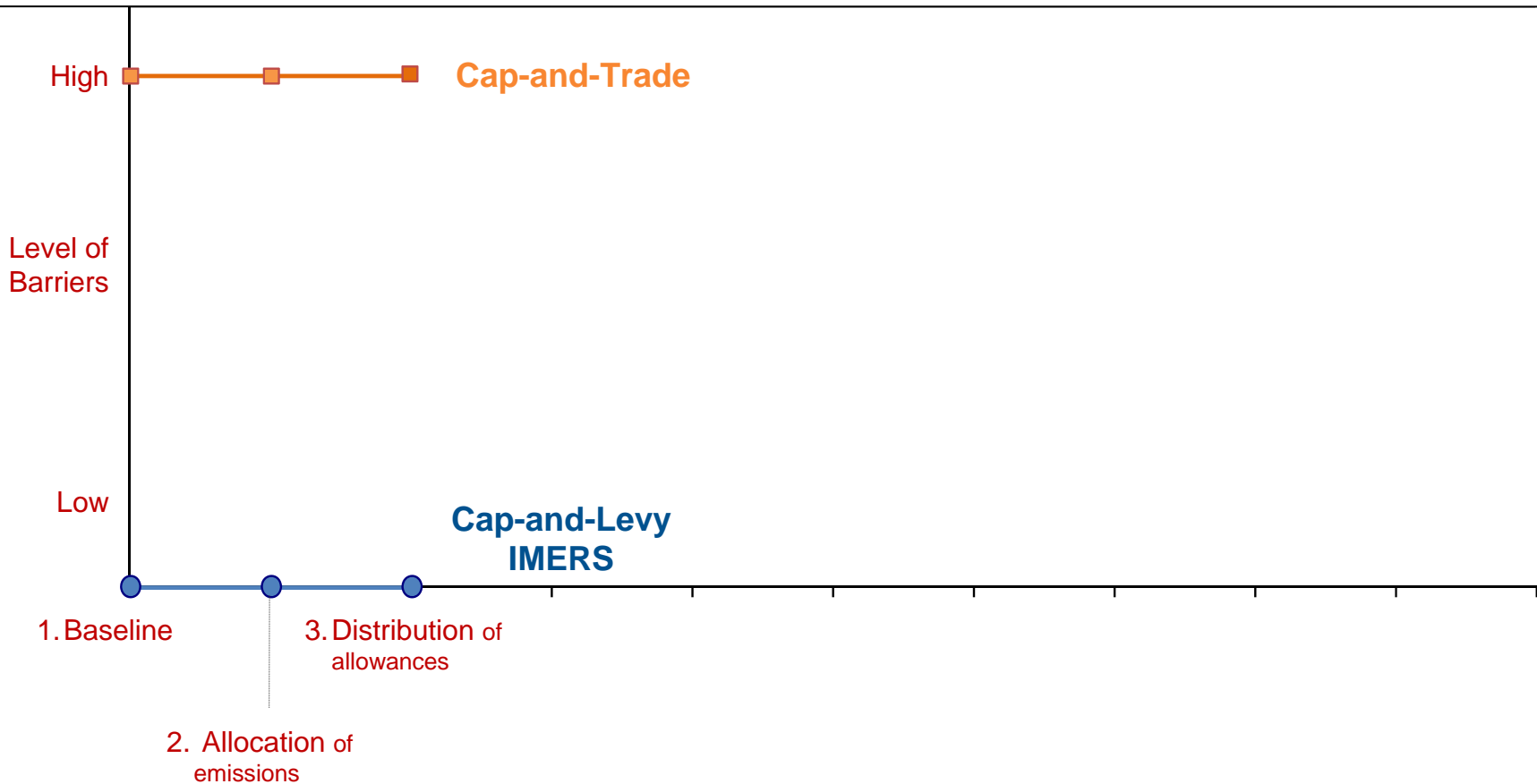
# How does IMERS compare with a cap-and-trade scheme?

## Barriers 1 – 3



Eliminates the three  
central barriers

1 – 3



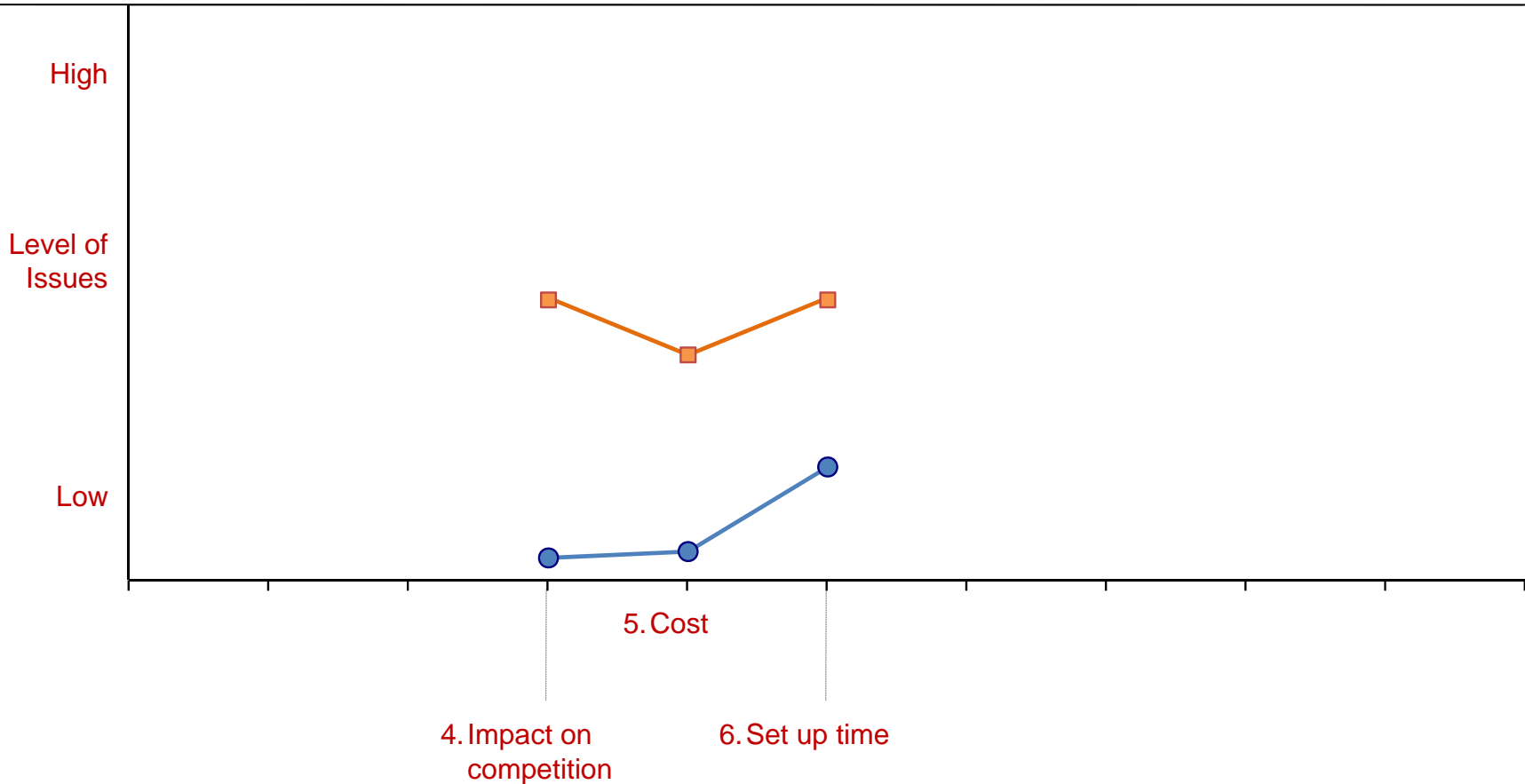
# How does IMERS compare with a cap-and-trade scheme?

Issues 4 – 6



Reduces the negative  
impact of key issues

4 – 6



# How does IMERS compare with a cap-and-trade scheme?

Value 7 – 11

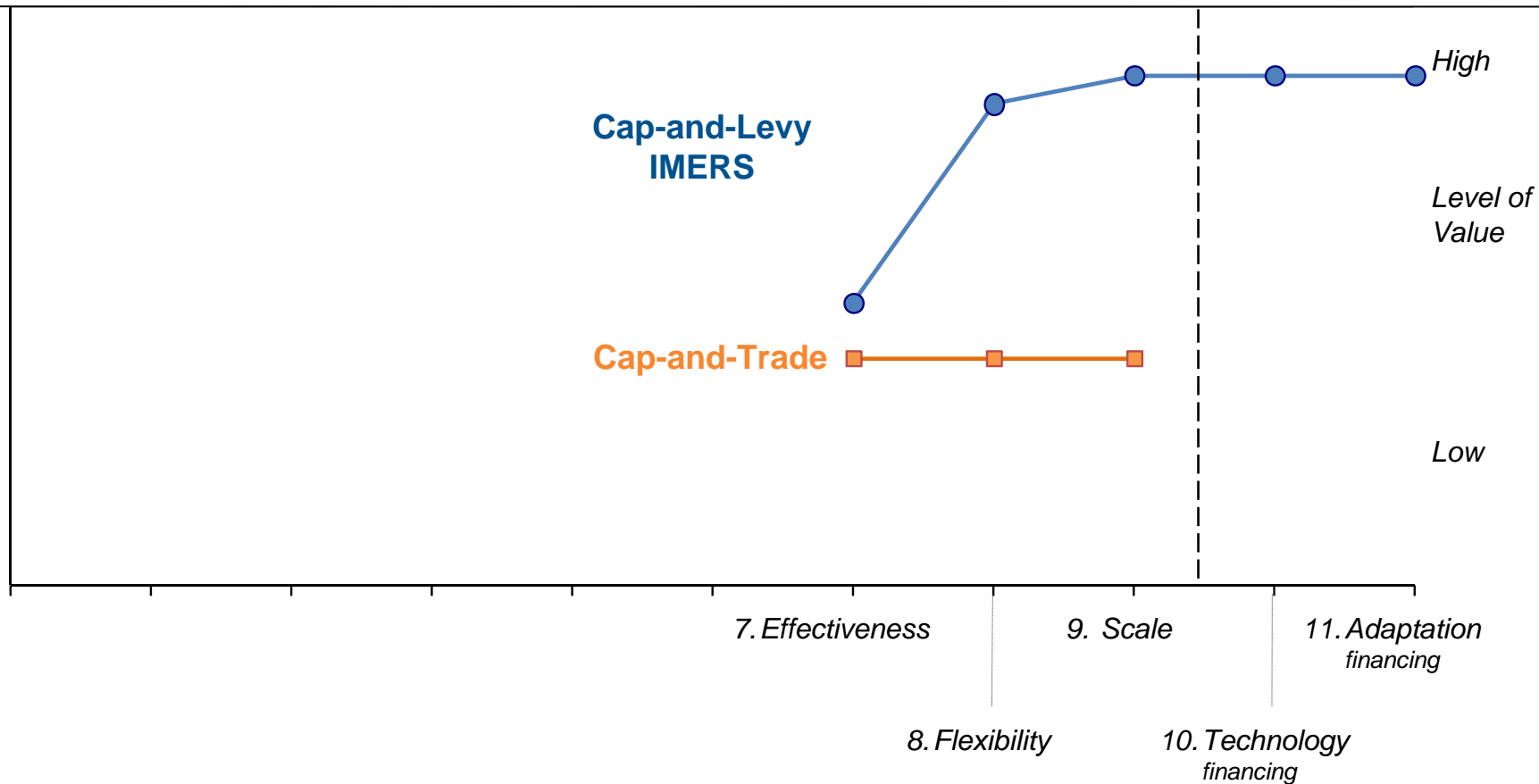


Raises value

7 – 9

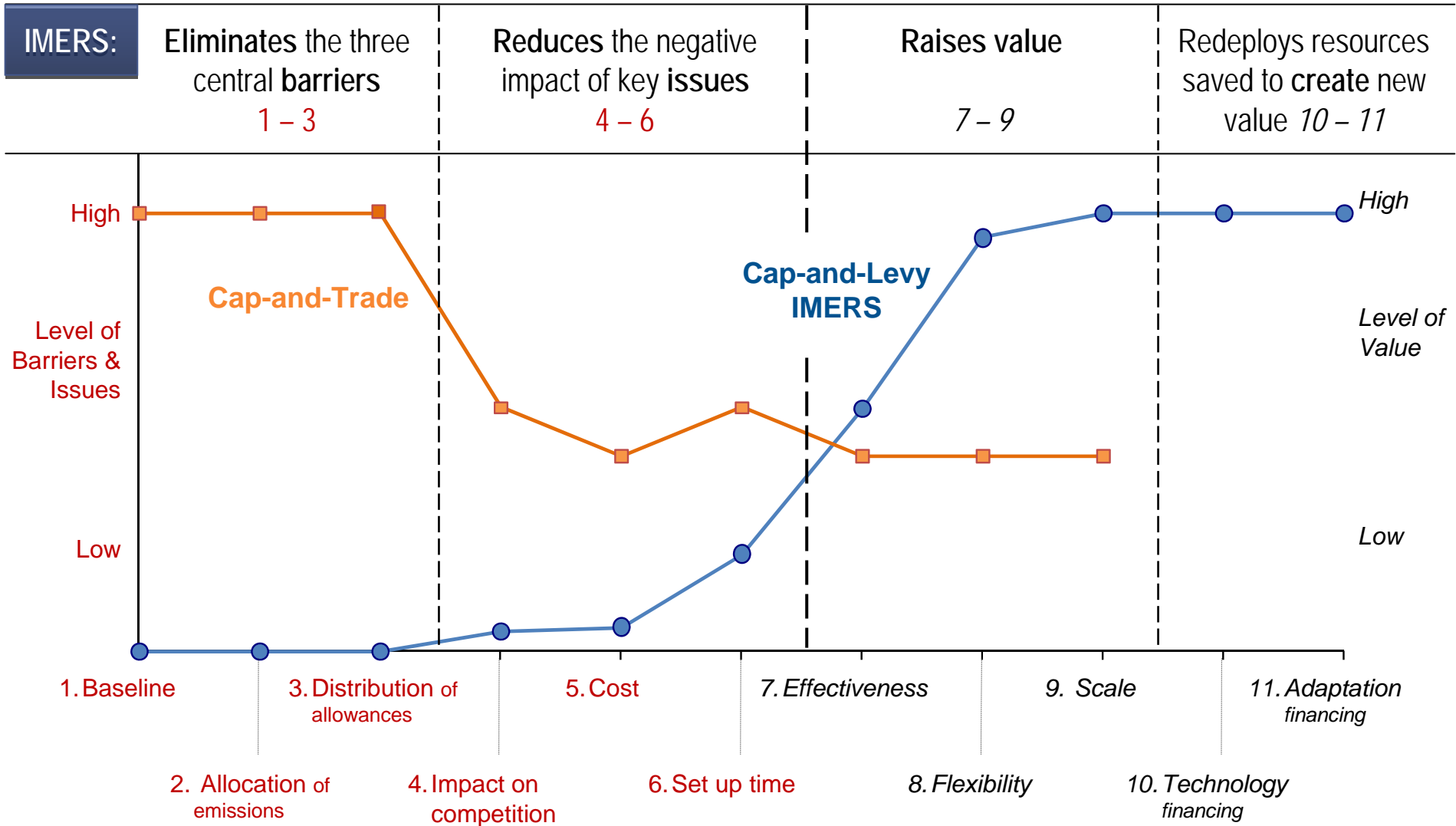
Redeploys resources

saved to create new  
value 10 – 11



# How does IMERS compare with a cap-and-trade scheme?

## Comparison Summary



# Equity Dimension

## World's distribution of population and import freight costs



### Population & Costs Distribution

