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REDUCTION OF GHG EMISSIONS FROM SHIPS

Proposal for IMO to establish a universal mandatory greenhouse gas levy

Submitted by the Marshall Islands and Solomon Islands

SUMMARY

Executive summary:	This submission proposes that the Committee considers and adopts a mandatory high ambition levy on all greenhouse gas (GHG) emissions from international shipping as an immediate priority measure alongside a requisite revised level of ambition in the Revised IMO Strategy on the reduction of GHG emissions from ships
Strategic direction, if applicable:	3
Output:	3.2
Action to be taken:	Paragraph 29
Related documents:	Resolution MEPC.304(72); MEPC 60/INF.9; MEPC 68/5/1; MEPC 73/19/add.1; MEPC 75/7/4, MEPC 75/7/13, MEPC 75/7/17; ISWG GHG 3/2/4, ISWG GHG 3/2/9; ISWG GHG 4/2/3 and MEPC 76/INF.23

Revising IMO's GHG Reduction Strategy, aligning IMO ambition to the climate science

1 The co-sponsors recall and restate their submission to MEPC 68 calling for the implementation of targets for this sector commensurate with a no more than a 1.5°C temperature trajectory (MEPC 68/5/1).

2 The co-sponsors recall the commitment of the Committee in adopting the Initial Strategy to be governed by the principle of an evidence-based approach and the increased science available since the adoption of the Initial Strategy.

3 The co-sponsors recall documents ISWG GHG 3/2/4 (Kiribati et al.), ISWG GHG 3/2/9 (Belgium et al.), ISWG GHG 4/2/3 (Antigua and Barbuda et al.) and MEPC 75/7/17 (Marshall Islands and Solomon Islands) calling for greater urgency and increased ambition and note that since the Initial Strategy level of ambition was agreed, science concurs that much greater ambition is required across all sectors to limit the temperature increase to 1.5°C

(IPCC 2018).[1] The co-sponsors note that since the adoption of the Initial Strategy, an increasing number of economies are committing to GHG emission reduction plans in line with the updated IPCC evidence. 127 countries, 112 of whom are IMO Member States, are now considering or have adopted net zero targets, the vast majority by 2050.[2]

4 It was agreed in the debate on the Initial Strategy that shipping should bear a proportionate responsibility for its share of global emissions and that emission reductions need to be achieved in-sector. An evidence-based approach now requires that IMO must, in its Revised Strategy, significantly update its interim level of ambition and ensure that its 2050 GHG emissions pathway is in line with the Paris Agreement temperature goals. Measures adopted in the Revised Strategy will need to be cognizant of such revision and so it is critical that the revision of the Initial Strategy and its corresponding levels of ambition is initiated in 2021, as agreed in the Initial Strategy and its Programme of follow-up actions up to 2023 as set out in annex 9 to document MEPC 73/19/Add.1.

5 Noting that measures currently under consideration by the Committee are inadequate to align the international shipping sector on the trajectory required to limit temperature increase to 1.5°C, which leads to the conclusion that far more substantive mid-term measures must now be agreed promptly if they are to be defined and "shovel ready" by 2023.

Establishing an ambitious, global GHG levy

6 The co-sponsors recall that in 2003 IMO adopted a resolution setting out policies and priorities for reducing GHG emissions from ships. Among other items, IMO directed the Committee to prioritize its consideration of market-based solutions.[3]

7 The co-sponsors recall the report of IMO to UNFCCC in 2009, as it embarked on its previous deliberation of market-based measures (MBMs).[4] At that juncture, IMO found MBMs to be an essential component of the requisite basket of measures needed to reduce GHG emissions. In the Initial Strategy, MBMs are categorized as a candidate mid-term measure; however, the co-sponsors submit here that a strong MBM, namely an ambitious GHG levy levied on either fuel consumption or GHG emissions, must be considered immediately so that it can be discussed and be ready for implementation prior to 2023.

8 The co-sponsors recall document ISWG-GHG 4/2/3 requesting inclusion of debate on MBMs within the consideration of short-term measures and urge the Committee to now move rapidly, and without further delay, to the consideration of these as its highest priority.

9 An alternative to an international measure is a collection of regional and national measures and it is noted that the European Union (EU) has clearly signalled its intentions to introduce a regional emissions trading scheme (ETS). The co-sponsors note that such a "patchwork quilt" is a poor substitute for a universal regime and is likely to create widening inequity for the most disadvantaged nations and the climate vulnerable in particular. The EU commitment to introduce such a measure signals that IMO must regain its leadership role in developing a universal GHG levy regime if a global regime is desired.

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1 IPCC, 2018, *Global warming of 1.5°C,* an IPCC Special Report. https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_Low_Res.pdf

2 https://climateactiontracker.org/documents/829/CAT_2020-12-01_Briefing_GlobalUpdate_Paris5Years_Dec2020.pdf

3 Resolution A.963(23), IMO Policies and Practices Related to the Reduction of Greenhouse Gas Emissions from Ships

4 Document MEPC 60/INF.9, United Nations Climate Change Conference 2009, IMO submissions and activities

10 The co-sponsors have reviewed all available work on the efficacy of international MBMs published since the last IMO debate on this matter was abandoned in 2013[5] and an ambitious, mandatory and universal levy is considered by experts, on available evidence, to be the best economic tool available to control GHG emissions from the international shipping sector.

11 The co-sponsors note further that the International Chamber of Shipping (ICS) has stated that a globally applied GHG levy is also the industry's MBM preference[6] and point to the now widespread and increasing adoption of zero-by-2050 policies by leading industry actors.

12 There are two principal purposes for such a levy:

.1 to send the market an unequivocal signal that a transition to fully decarbonized shipping, leaving none behind, commensurate with the Paris Agreement temperature goals and science, is irrevocable and inescapable. Providing a clear signal as early as possible as to the scale and speed of the requisite transition provides the highest certainty to the market, to minimize the disruption to industry and trade; and

.2 to address the price differential between business-as-usual (BAU) emission-based technology options, including fuels, and decarbonized alternatives. The ultimate price at which a levy achieves transformational change is currently unknown. The current evidence implies this likely requires a price on all GHG emissions in the range of $250-300 tonne carbon dioxide equivalent on heavy fuel oil by 2030.[7] A low entry rate is unlikely to have any marked or noticeable impact. The co-sponsors therefore propose an entry level by 2025 of $100 per tonne with upward ratchets on a 5-yearly review cycle. Even though below the necessary $250-300 tonne price, it would still enable take-up, if some portion of revenues raised are reinvested into the sector's decarbonization and used in subsidizing research, development and deployment (RD&D). The first review would coincide with the introduction of long-term measures under the IMO Initial Strategy, allowing for the deployment of a strong command-and-control regulatory framework (e.g. regulation on the carbon content of fuel used) by 2030 should the market not demonstrate sufficient reaction to the levy.

13 For the levy to be effective it needs to be levied universally, preferably without exceptions. The levy could either be levied at point of bunker or emissions but the co-sponsors note that most evidence reviewed suggests efficiency and ease of a levy on bunker. The co-sponsors also note with appreciation the work done by the co-sponsors of document MEPC 75/7/4 (ICS et al.) to demonstrate a practical collection regime for such a levy.

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5 Nuttall et al. (2021) *To tax or not to tax*, submitted as document MEPC 76/INF.24

6 26 Nov 2020 https://www.ics-shipping.org/submission/comments-on-the-inception-impact-assessment/

7 Frontier et al. 2019 – *Scenario Analysis: Take-up of emissions reduction options and their impacts on emissions and costs.* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/816018/scenario-analysis-take-up-of-emissions-reduction-options-impacts-on-emissions-costs.pdf

Impacts on States

14 An initial assessment finds that the long-term impact of the proposed GHG levy is most likely positive overall for the sector. Should negative impacts occur, most are likely short- to medium-term in nature, and in the vast majority of instances are likely no more than minor and are routinely already absorbed from oil market and freight price variations currently. Disproportionate negative impacts are most likely found in the case of a small and narrow number of States. Such States are highly likely to already experience disproportionately high shipping costs combined with low security of transport supply.

15 Any impacts must be balanced against the negative impacts of maintaining a business-as-usual (BAU) emission trajectory where the international shipping sector continues to contribute to an exacerbating climate crisis that takes us over a 1.5°C threshold.

16 The typical consideration for remedying disproportionate impacts from measures in IMO usually includes some form of exemptions for affected routes or States. However, exemptions would likely be counterproductive in this instance, providing an inadequate short-term fix and exacerbating the problem in the longer term by reducing the environmental effectiveness of the policy and the rate of GHG emission reductions it can achieve.

17 Inability to reach agreement on how to address potential and perceived impacts of MBMs is largely responsible for this debate being abandoned in 2013. The co-sponsors therefore propose, as an alternative solution, that the mitigation of impacts be addressed via the process used for disbursement of revenue generated by the levy.

Disbursement of revenue

18 The levy will generate significant revenue. The co-sponsors recognize that agreeing the disbursement formula will likely be challenging and recall the principles under which the Committee has agreed to be guided in such deliberation.

19 It is proposed that this GHG levy be brought under the Principle of Polluter Pays (PPP) and revenue be therefore directed to address environmental and societal externalities resulting from the combustion of fossil fuels within the maritime sector, most likely disproportionately high for the climate most vulnerable nations. PPP is a guiding principle already enshrined in IMO instruments. However, this may miss an opportunity to also use the revenue to help support RD&D to address market barriers and failures preventing the technological change and cost reduction needed to fully decarbonize the sector. The co-sponsors note that reinvesting revenue raised creates a greater effective carbon price and can help reduce the level of carbon price needed to create a business case for zero carbon options.

20 Therefore the co-sponsors propose that revenue collected be divided into 1) a fund to support climate change mitigation and adaptation efforts in vulnerable countries, administered under the mandate of the UN Framework Convention on Climate Change (UNFCCC), for which a potential candidate could be the existing Green Climate Fund (GCF), and 2) a separate fund to subsidize RD&D of new technologies and fuels administrated under the mandate of IMO. If the levy was collected at the point of bunker, the architecture recommended by document MEPC 75/7/4 could be adapted, with the funds diverted to individual ship accounts in a special fund administered by GCF or similar and the RD&D to a derivative of the proposed IMRB, assuming the changes to structure suggested in document MEPC 75/7/13 (Solomon Islands and Tonga) are adopted. Support for the transaction costs incurred would take up the final portion of the revenue, both for port and flag States, in administering collection of revenues and administration of the disbursement.

21 The co-sponsors note also that the cost and efficacy of the subsidization of RD&D incentivization can likely be greatly improved through the inclusion of a "feebate" or similar mechanism to reward first movers and innovators.

22 The co-sponsors acknowledge that the question of the formula to derive these portions is likely to generate most debate. The co-sponsors again recall the 2009 IMO position as reported to UNFCCC, that the majority of funds should be dedicated to the priority needs of developing countries. However, the co-sponsors acknowledge that a balance will need to be struck between the two main funding streams so that the levy continues to drive market investment forces. Again, the co-sponsors defer to the agreed guiding principles for this negotiation.

23 Using the 2009 IMO position as reported to UNFCCC as a starting point and using the 2019 GCF administration rate of 16%[8] as a proxy for the administrative and transaction costs involved, a formula for disbursement is suggested in figure 1.

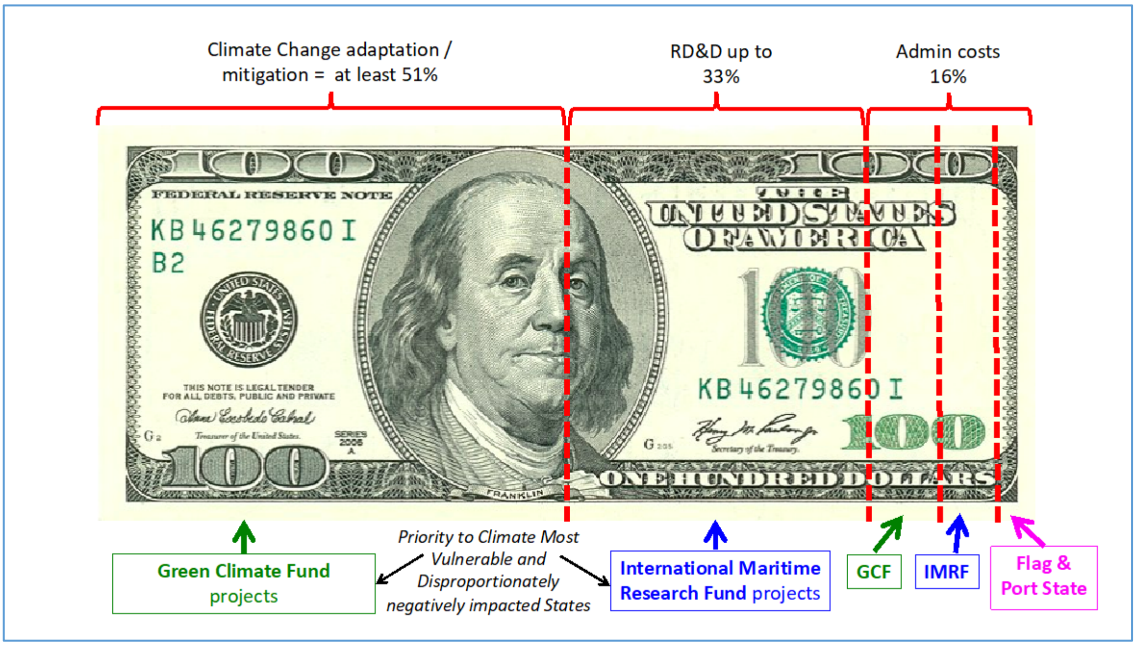

Figure 1: Suggested formula for disbursement of the funds collected through the proposed levy

24 The measure would be the best available MBM mid-term option for IMO to comply with the Principle of Highest Possible Ambition enshrined under existing UNFCCC instruments.

25 The measure would not discriminate between ships, or types of bunker to ships (except with respect to their GHG emissions). The levy would be mandatory and, preferably, universal. Exemptions would be discouraged. All ships of all flags would be levied equitably on all fossil fuels bunkered. No ship would be treated more favourably than another.

26 The principle of CBDR-RC is addressed through the transfer of a significant portion of revenue generated to fund climate change projects in countries that are most vulnerable to the effects of climate change. For example, the UN-sanctioned GCF process is available to 154 nations and its activities are aligned with the priorities of developing countries through

8 https://www.greenclimate.fund/sites/default/files/decision/bbm-2020/decision-bbm-2020-09-annnex-i-bbm-2020-09-audited-financial-statements-gcf.pdf

the principle of country ownership. The Green Climate Fund pays particular attention to the needs of societies that are highly vulnerable to the effects of climate change, in particular least developed countries (LDCs), small island developing States (SIDS) and African States.[9]

27 The IMO Initial Strategy created a new principle requiring that impacts on States must be assessed. Disproportionate negative impact on States arising from the GHG levy can therefore be mitigated through access to dedicated climate financing.

28 The allocation of the RD&D subsidy component administered under the IMO-sanctioned process will require evidence-based decision-making balanced with the precautionary approach to provide maximum efficiency. The guiding principles imply that this spending needs to ensure that fleets owned by/serving SIDS/LDCs and other States shown to be disproportionately negatively impacted would receive priority access to the RD&D fund.

Action requested of the Committee

29 The Committee is invited to:

.1 consider the contents of this document with a view to agreeing a GHG levy capable of incentivizing a rapid shift away from fossil fuel use by international shipping with the highest priority;

.2 reopen the debate on increasing the level of ambition required in the Revised Strategy;

.3 being cognizant of the evidence reported by science since 2018, recognize that all further negotiations on measures be conducted in the light of the need for such revision of the Initial Strategy; and

.4 recommend the convening of a dedicated intersessional meeting prior to MEPC 77 to report to MEPC 77 on the detail of an ambitious and universal GHG levy on either bunker or GHG emissions for inclusion in the Revised Strategy in 2023.

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9 https://www.greenclimate.fund/about