



MARINE ENVIRONMENT PROTECTION
COMMITTEE
58th session
Agenda item 4

MEPC 58/4/22
14 August 2008
Original: ENGLISH

PREVENTION OF AIR POLLUTION FROM SHIPS

The feasibility of an International Compensation Fund for GHG Emissions from Ships

Submitted by Denmark

SUMMARY

<i>Executive summary:</i>	This document comments on the main concerns raised at the first intersessional meeting of the Working Group on Greenhouse Gas Emissions from Ships (GHG-WG1) relating to the development of market-based mechanisms with GHG reduction potential and further elaborates on the feasibility of establishing an International Compensation Fund for GHG Emissions from Ships
<i>Strategic direction:</i>	7.3
<i>High-level action:</i>	7.3.1
<i>Planned output:</i>	7.3.1.1 and 7.3.1.3
<i>Action to be taken:</i>	Paragraph 20
<i>Related documents:</i>	MEPC 58/4; GHG-WG 1/5/1, GHG-WG 1/5/4; MEPC 57/4/4; MEPC 57/INF.13, MEPC 57/WP.8 and MEPC 57/21

Introduction

1 This document provides comments on the outcome of the first intersessional meeting of the Working Group on GHG Emissions from Ships (GHG-WG1) and is submitted in accordance with the provisions of paragraph 4.10.5 of the Committees' Guidelines.

2 The Committee has recognized the need to address GHG emissions from the maritime sector in co-operation with the UNFCCC. At MEPC 57, the Committee instructed GHG-WG1 further to develop mechanisms with GHG reduction potential for international shipping with a view to selecting the most promising measures for consideration at MEPC 58, *inter alia*, a global levy/hybrid mechanism.

3 At GHG-WG1, such a scheme was considered with reference to GHG-WG1 1/5/1 and GHG-WG1 1/5/4. During discussions different views were expressed. A few delegations expressed the view that a scheme of this nature could have merit and would only have a minor

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effect on the demand for, and continued growth of, shipping. However, some of these delegations also expressed the view that the design, implementation, and funding aspects of such a scheme, as well as the issues of hypothecation and sovereignty required further careful examination.

4 Other delegations regarded the scheme as an international tax, and opposed implementation as it entailed a range of difficult legal issues and that the establishment of such a scheme would generally be outside the scope of IMO's mandate. A number of delegations emphasized that such a measure, if agreed, should follow the principles of common but differentiated responsibilities agreed under UNFCCC and the Kyoto Protocol. Some delegations also pointed out that funding of the lean Development Mechanisms (CDM) under the Kyoto Protocol should and must be done by developed countries only.

5 On this basis, the Chairman of GHG-WG1 concluded that in the present circumstances it was not possible to bridge the views and that further development had to be undertaken by Member States and observers and submitted to MEPC 58 for consideration.

Objective

6 Drawing on the conclusions reached at MEPC 57, as well as the discussions at GHG-WG1 and based on the Danish and the Norwegian submissions to GHG-WG1 (GHG-WG 1/5/1 and GHG-WG 1/5/4), the objective of this document is to comment on the main concerns raised and further elaborate on the feasibility of establishing an International Compensation Fund for GHG Emissions from Ships in preparation for the acquisition of CO₂ allowances.

A contribution to global environment

7 The funding mechanism for an International Compensation Fund for GHG Emissions from Ships has to be based on a market-based mechanism, which contributes to reduce global GHG emissions, enables future growth in international shipping, and ensures that the interests and capabilities of developing countries are properly taken into account.

8 Assuming that the increased costs of carriage by sea as a result of contributions to an International Compensation Fund for GHG Emissions from Ships will be passed on to the customers, the scheme will not have a direct effect on the owners/operators. Although, as contributions will be independent of the value of the goods being transported at sea, the increase of the total transportation costs might have potential different impacts according to the value of the transported goods.

9 As a matter of principle, contributions based on consumed marine bunkers are independent of flag. To this end, it has to be borne in mind that approximately 80% of the total world tonnage is registered in non-Annex I Parties. At the same time, it is a fact that only approximately 40% of the total world tonnage is owned by shipowners in non-Annex I Parties. Hence new regulation must apply globally, regardless of flag. Otherwise, there will be little benefit for the environment as a whole, in particular taking into account how fast ships can be transferred to another flag to escape any such regulation.

Complementary objectives of IMO and UNFCCC

10 If reductions in CO₂ emissions from ships are to benefit the environment and climate as a whole, they must apply globally to all ships in the world fleet, regardless of flag. Furthermore, there is no precedence in any of the IMO treaty instruments currently in existence, where measures are applied selectively to ships according to their flag.

11 On the basis of this, contributions to an International Compensation Fund for GHG Emissions from Ships should be based on the *nine fundamental principles for future regulations on GHG emissions from ships* agreed by a majority at MEPC 57, including the principal of equal applicability to all flag States. Furthermore, a scheme of this nature should be based upon the legal framework of the United Nations Convention on the Law of the Sea (UNCLOS) and the principle of *no more favourable treatment of ships* applied through port State Control.

12 At the same time, a scheme based on an International Compensation Fund for GHG Emissions from Ships should respect the UNFCCC principle of *common but differentiated responsibilities and capabilities*.

13 Contributions to an International Compensation Fund for GHG Emissions from Ships are not to be conceived as tax. By nature, such international contributions, which would be allocated to specific compensation aims to be decided by the contracting parties (mitigation, adaptation, technology transfer, etc.), are usually not regarded as being in conflict with issues on hypothecation and sovereignty.

14 If necessary, and to avoid unintentional confusion on whether the financial sources for an International Compensation Fund for GHG Emissions from Ships is subject to hypothecation or in conflict with national sovereignty, it could be considered setting up a frame that allows the sector to purchase CDMs as an alternative to contributing to a fund. Such a frame may, however, prove to be less transparent and less operational than setting up a fund to facilitate the purchase of credits.

15 Finally, it must be born in mind that it is not the first IMO example of a global contribution mechanism as contributions to the International Oil Pollution Compensation Funds (IOPC) have specific aims regarding compensation and insurance.

Preferential treatment of developing countries

16 According to the Danish and Norwegian submissions to GHG-WG1 (GHG-WG 1/5/1 and 1/5/4), the contributions collected could, if deemed appropriate, be targeted exclusively at developing countries thereby respecting, combining, and fulfilling both the nine fundamental principles for future regulations of GHG emissions from ships agreed by a majority at MEPC 57, as well as the UNFCCC principle of *common but differentiated responsibilities and capabilities*.

17 Funds targeted at developing countries could be achieved by directing the acquisition of emission allowances to relevant industry sectors in developed countries, as well as by funding climate change mitigation and adaptation projects in these countries. Another viable option could be to encourage innovation and development of new technology by financing technology transfer to developing countries, as well as fully utilizing the benefits of the IMO Technical Co-operation programme designed to assist such countries, as appropriate, with general knowledge and resources needed successfully to operate a shipping industry.

18 Correspondingly, deciding on the legal framework, *inter alia*, decisions regarding an International Compensation Fund for GHG emissions from Ships, specific interests of developing countries could be taken into account. Reflections would be needed as to whether for instance the majority of the Board of the Fund could be assigned to developing countries, as well as to the possibilities of improving capacity building in developing countries in order for them to be able to administer and fully utilize the scheme.

19 Clear guidelines for the specific use of the funds could be developed by the contracting parties on the basis of such considerations.

Action requested of the Committee

20 The Committee is invited to consider the document in its further discussions on developing viable and binding market-based mechanisms for the reduction of GHG emissions from ships.
