



MARINE ENVIRONMENT PROTECTION
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PREVENTION OF AIR POLLUTION FROM SHIPS

Cornerstones for an outline of an convention of a Global Emission Trading Scheme for International Shipping

Submitted by France, Germany and Norway

SUMMARY

Executive summary:	France, Germany and Norway wish to provide further input to the in-depth discussion of possible market based instruments to reduce GHG emissions from shipping at MEPC 59. This document identifies cornerstones for a new legal instrument and for the implementation of such an instrument which ensure that the advantages of an ETS for shipping can unfold and the structure of existing instruments used as far as possible.
Strategic direction:	7.3
High-level action:	7.3.1
Planned output:	7.3.1.1 and 7.3.1.3
Action to be taken:	Paragraph 17
Related documents:	MEPC 58/4/15, MEPC 58/4/25, MEPC 58/23, GHG-WG 1/5/3, GHG-WG 1/5/5, GHG-WG 1/5/6, GHG-WG 1/5/7, MEPC 59/4/24 and MEPC 59/4/25

Introduction

1 The purpose of this document is to identify the rights and obligations of Parties and Stakeholders, as well as parts of a structure of a possible future ETS legal instrument and aspects of implementation which ensure that the main advantages of the mechanism can unfold.

2 In the view of the sponsoring States, the main advantages of an ETS for shipping is that it complies with the nine IMO principles established by MEPC 57, and in particular that:

- .1 the instrument can provide precise and effective emission control;
- .2 it would be a cost-effective instrument;

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- .3 it takes advantage of the fact that as a mechanism it has already been or will be introduced in different sectors and regions;
- .4 it can be designed to be practicable for the shipping sector; and
- .5 it will not prejudice the ongoing climate negotiations under the United Nations Framework Convention on Climate Change (UNFCCC).

3 The submitting parties are of the view that an ETS for shipping should be established by a new IMO convention as such a mechanism is of a different nature to the existing air pollution regulations of MARPOL Annex VI and should be established by a comprehensive set of own requirements that fit the purpose. More reasons are given in MEPC 58/4/15 and GHG-WG 1/5/7.

Cornerstones of the structure to be included in the legal instrument

4 **The following aspects should be part of a global Maritime Emissions Trading Scheme (METS) and be taken into account when drafting a new legal instrument:**

- .1 **Instrument** – The ETS should be established by a new legal IMO instrument, the IMO ETS convention;
- .2 **Application** – The legal instrument should define a global scope and be equally applicable for all ships above a certain size if this does not lead to a distortion in competition. The individual ship (not a fleet) would have to comply with the obligations; and
- .3 **Emission Control – setting a cap** – An emission cap and target period will have to be established in the legal IMO instrument in order to guarantee the environmental goals of the scheme. For that purpose the ability of the shipping sector needs to be taken into account, as well as the outcome of the deliberation of the UNFCCC, which may conclude in emission reduction targets for the international transport modes. However, if a target will be established by UNFCCC, it has to be reflected by the cap and target period which will have to be set in the legal IMO instrument to ensure consistency. Usually, an emissions cap is set using a historic level of emissions from the sector and a reduction path. The cap should reflect the necessities of climate protection as well as the respective share and capabilities of the shipping industry and its anticipated development. Broad information about the emissions from shipping is already available for recent years, based on various studies. For setting the cap, reliable sources can be used. An essential prerequisite, however, is a low grade of uncertainty.

Initial allocation – auctioning – allowances

5 The distribution of allowances may be done by auctioning and/or free allocation. In any case the proposed METS will not prejudice the outcome of the climate change negotiations. Nevertheless, auctioning may avoid the generation of windfall profits, would be economically efficient – if designed accordingly, and it would ensure that the allowances are allocated to the actors for whom they have the largest value. One effect of auctioning would be that it creates revenues. Furthermore auctioning would avoid the complex burden to generate the basis for free allocation for a variety of different ships (e.g., calculation of historic emissions for thousands of ships). The legal instrument would have to determine that the initial allowances will be distributed by auctioning. Once the trade is established, the shipping industry can purchase its allowances in the market. The instrument would therefore have to determine which allowances will be acknowledged.

Obligations of the ship

6 Ships are required to monitor their emissions, surrender allowances for each unit of emissions and report them annually to the flag State and the international body charged with administering the scheme, and surrender allowances for each unit of emissions. The emission reports have to be verified by an independent verifier as part of the flag State control. If a ship has emitted more than it has acquired allowances for, it needs to buy extra allowances in the market. With regard to the period for which allowances need to be surrendered, one option is to take a full year, another to choose a shorter period. For port State control purposes, the ship will also have to keep a record book and documentation of its emissions and surrendered allowances. Comparable to other IMO instruments, the ship is required to demonstrate that it has surrendered allowances to competent authorities (flag and port States).

7 In order to allow the shipping industry time to adapt to the new situation a phase-in period is suggested and should be part of the legal instrument in which the share of emissions for which allowances have to be surrendered is gradually increased. Also other phase-in schemes could be established such as starting with specific types of ships or sizes.

Associated administrative burden

8 For each ship, allowances for the emissions of a clearly defined past period have to be surrendered. As a consequence, only once per year – respectively another potentially shorter period – allowances need to be surrendered and a single purchase would be sufficient. Allowances can be acquired at each point of time at existing carbon exchanges so that phases of low prices can be used. The participation in the market is comparable to the purchase of bunker fuel – a standard procedure for operators. Apart from the fact that fuel trading is not associated with additional requirements. Small shipping companies may use professional trading companies. This would increase the costs of allowances accordingly.

Enforcement

9 The ETS should build upon the principles of **Flag State obligations** and **Port State rights**.

Availability of data

10 It should be noted that the CO₂ emissions are not directly monitored but calculated from fuel consumption. Bunker delivery notes can be the basis for monitoring by the flag State. All needed data are already available as they are requested by regulation 18 of MARPOL Annex VI. Emissions, transactions, surrendering of allowances and status of compliance will be recorded in an account for each ship at the registry. In the case that ships will fail to fulfil the obligations of the scheme they will face appropriate consequences.

Flag State control

11 The Flag State has the obligation to ensure that ships flying its flag comply with the requirements. It will control whether ships are compliant with the requirements of the scheme. Flag states will be supported by the international body that administers the scheme in order to keep the administrative burden for each state as low as possible. This support comprises information about the emissions and transactions of their ships. Flag States may use verifiers, e.g., classification societies, to control the compliance of the ships under their flag.

Port State control

12 In addition to the obligation of the Flag State the general principle of port State control (PSC) should apply. This means the port State has the right to inspect ships flying a foreign flag entering its ports. In practical terms this means that port States will control record books and documentation of allowances and be informed by the international body about a ship's compliance status. Comparable to other IMO instruments, PSC officers have the right to check whether the ship can document to have surrendered sufficient allowances.

The Market Place

13 An open system, where trading with other sectors is allowed, is preferred as it guarantees that shipping can limit its climate impact at the lowest possible cost. This may not lead to negative effects for participants in other trading regimes. Furthermore the proposed scheme allows further growth of the shipping sector.

14 The METS as an open scheme will be fully linked to other existing schemes and thereby create a joint market. Currently, the largest existing ETS is the EU ETS with a cap of over 2,000 Mt of CO₂ annually. In the next years it is expected that more emission trading schemes will enter into force and that the European ETS will be linked to ETS in other regions of the world leading to a global ETS market. Thus, by creating a METS, shipping will be part of a global system. The METS will be global in nature and the existing regional schemes and the emerging global scheme will be the basis to acquire allowances and to achieve emission reduction at the lowest available cost. Furthermore, shipping can use project based credits from CDM projects which amounted to 500 Mt already in 2007 and which are expected to increase to several thousands of Mt annually in the mid-term future, i.e. in the same period where a METS would enter into force and be functional. The amount of CDM-credits is also dependent on the regulations of a future climate regime. Allowances can be bought via the existing carbon market exchanges which are already in place or those that will be generated until the potential implementation of emissions trading for the shipping sector – the price for an allowance unit will not differ among the different markets. Furthermore participants may buy allowances directly from other participants. Thus, there is a high level of certainty that there will be no shortage of allowances if METS is linked to existing emissions trading schemes.

15 Therefore, the legal instrument for a METS has to be designed in a way that allows full linking with all other schemes in place and to offset mechanisms that ensure the agreed quality.

Proposal

16 The Committee should develop a detailed outline of an ETS for international shipping to further facilitate the discussion of MBIs and to establish an instrument addressing the reduction of greenhouse gas emissions from ships under IMO.

Action requested of the Committee

17 The Committee is invited to consider the aspects brought forward in this document and to take action as appropriate.