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PREVENTION OF AIR POLLUTION FROM SHIPS

A further outline of a Global Emission Trading System (ETS) for International Shipping

Submitted by Norway

SUMMARY

Executive summary: This document presents a detailed outline of a Global Emission Trading System (ETS) for International Shipping. Norway takes the view that an ETS for shipping is the most suitable market-based mechanism for shipping in a global response to climate change. The document presents how the mechanism can combine precise emission reductions with well tested principles for regulating shipping and also address concerns raised by developing countries.

It is underlined in the document that possible disagreement on the approach taken on the various issues in annex 2 should not necessarily lead to the conclusion that an ETS is not desirable for shipping. If concerns are raised, such concerns may be accommodated by modifying or changing the design of the ETS presented in annex 2.

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 23

Related documents: GHG-WG 1/5/5; MEPC 59/4/24, MEPC 59/4/25, MEPC 59/4/26; MEPC 60/1/Add.1, MEPC 60/4/9, MEPC 60/4/23 and MEPC 60/INF.19

Introduction

1 Norway takes the view that the work plan for further consideration of market-based measures adopted by MEPC 59 has wisely outlined the further activity by the Committee on this part of IMO's work on reduction of greenhouse (GHG) emissions from international shipping. Norway appreciated working together with all parties in the development of the work plan.

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2 The work plan clearly identifies that the consideration by the Committee will take into account the relevant outcomes of COP 15 held in Copenhagen, Denmark in December 2009. This document has therefore taken into account the outcome of COP 15, and hence is submitted in accordance with the deadline specified in document MEPC 60/1/Add.1.

The purpose and structure of the document

3 The purpose of this document is to contribute to the follow-up of the IMO's work plan and to demonstrate that an Emission Trading System (ETS) for shipping can be a suitable instrument acting in support of the agreement laid down in the Copenhagen Accord that deep cuts in global emissions are required according to science to hold the increase in global temperature below two degrees Celsius.

4 In the further sections of this document, several issues which need to be thoroughly considered in the further development of a global ETS for international shipping are highlighted.

5 Annex 1 to this document provides a one-page summary of a global ETS for international shipping. The summary may provide a quick introduction to the System.

6 Annex 2 to this document contains more details on the Emission Trading System than previously presented. Norway has chosen to use the format of a legal outline, in order to define the System in clearer terms, and hence make it easier to consider. It should be underlined that this document does not propose to establish such a mandatory regime at present. Therefore, the document is in line with the work plan and should be considered at MEPC 60.

Responding to the Copenhagen Accord

7 In a previous submission on the ETS (MEPC 59/2/25), the co-sponsors (France, Germany and Norway) demonstrated that the System is in line with all the nine fundamental principles for regulation of GHG emissions from ships adopted at MEPC 57. Being aware that the IMO work on GHG is undertaken on the basis of its own mandate, principles and customary practices, it may however be useful to identify how an IMO marked-based GHG mechanism may act in support of the Copenhagen Accord. In this respect, Norway would like to focus on two main aspects:

- .1 **Reduction of GHG emissions.** Paragraphs 1 and 2 of the Copenhagen Accord address the need to limit the global temperature increase, and that according to science deep cuts in global emissions are required.

This key element of the Copenhagen Accord, which corresponds very well with one of the main features of an ETS for shipping, is for precise emission control. One of the main advantages of an ETS for shipping is its ability to precisely meet the emission reductions defined in the System. This implies that the System has the potential for significant emission reduction, and hence to act in support of the two degrees target. Furthermore, the System has the potential to initiate various actions listed in the wide menu of emission reduction measures in shipping as identified in the Second IMO GHG Study 2009.

Given the GHG emissions reductions that are necessary to limit the temperature increase to two degrees Celsius, there should be no doubt about the need for significant emission reductions also from international shipping. The anticipated growth in shipping activities makes the need for controlling GHG emissions from shipping even more important.

.2 Funding enhanced action on mitigation and adaptation in developing countries.

The Copenhagen Accord addresses the need for funding of enhanced action on mitigation and adaptation in developing countries.

An ETS for shipping can, if States so wish, establish a substantial Fund. The use of the Fund will need to be thoroughly discussed in the further development of the System, but it should clearly be in support of the funding channels for actions on mitigation and adaptation in developing countries as defined under the UNFCCC process.

How an ETS may meet the needs of developing countries

8 Potential effects on developing countries have been upfront in the discussions at IMO on market-based instruments (MBI) on GHG from shipping. Such effects should be examined in the evaluation of any MBI. An ETS for shipping can include several assets which will benefit developing countries. Below are six aspects regarding ETS for shipping which cater for concerns raised and/or benefits developing countries.

.1 Party or non-Party to the MBI legal instrument

When a new international legally binding regime is established, a State has always the right to choose whether or not to be a Party to such a regime. If a developing State decides to be a non-Party, it will be less affected by the regime. In this case, it should be noted that the non-Party will not benefit in other aspects of the regime such as receiving financing from the Fund.

.2 An exemption clause

In the draft outline of the ETS for shipping in annex 2 to this document, an exemption clause is included. Such an exemption clause may cater for the transport of cargo to and from small island developing States. This could make it possible for such a State to become a Party and thus supporting the global approach as well as taking benefit from other aspects of the System, e.g., the Fund. The System must however ensure that the exemption clause does not lead to carbon leakage and distortion of competition.

.3 The Technical Co-operation paragraph

The draft outline of the System in annex 2 to this document contains an article on Technical Co-operation which will stimulate such activities.

.4 The Fund

The System can generate a substantial Fund. The size of the Fund will depend on how it is decided to design the System in its further development. If it is decided to aim for full auctioning (sale) of emission allowances the Fund could generate several billion US\$ annually. In Norway's view, the Fund established in an ETS will be essential in the support of actions as called for in the Copenhagen Accord.

.5 Direct funding of mitigation actions in developing countries through the use of the Clean Development Mechanism (CDM)

In order to comply with an emission cap established in the System, there will most likely be a need for shipping to also use emission credits from outside the System.

Credits generated by the Clean Development Mechanism (CDM) will be essential in this respect. Through the CDM an ETS shipping will provide funding of projects in developing countries as well as other benefits such as technology transfer.

.6 Benefits in enhanced emission cuts

The more emission reductions implied by the System the more the world can avoid the negative effects of climate change. This will benefit all States. Developing countries are most vulnerable to climate change, and hence reductions from shipping leading to enhanced global emission reductions, will be of utmost importance for the most vulnerable States.

9 On the basis of the arguments above, it is the view of Norway that an ETS for shipping would act well in support of the Copenhagen Accord as well as it would cater for the special needs of developing countries.

Consideration of some main elements of an ETS

10 An Emission Trading System for international shipping has been briefly outlined in previous documents such as GHG-WG 1/5/5 (Norway), MEPC 59/4/25 and MEPC 59/4/26 (France, Germany and Norway). Building upon the proposals in these documents, a more detailed proposal is presented in annex 2 to this document.

11 The System is drafted as a new free standing legally binding instrument. There are also other drafting options which include various ways for amending an existing instrument. It is suggested that this element is noted at present, and fully considered at the appropriate time if the Committee so decides at a future session.

12 In the following, some main elements of the System are discussed. A general comment is that, disagreement on the approach taken on the various issues in annex 2 should not necessarily lead to the conclusion that an ETS is not desirable for shipping. If concerns are raised, such concerns may be accommodated by modifying or changing the design of the ETS presented in annex 2.

Issue 1: The regulatory approach

13 The draft outline in annex 2 to this document makes use of the traditional and well tested regulatory approach of IMO. It is the ship which is regulated, and not ports nor bunker suppliers. Since the System regulates the ship, the normal approach of flag State obligations and port State rights are included. Hence, the main approach regarding flag State enforcement is through survey and certification. The port State has the right to carry out port State control.

Issue 2: The Emission Cap

14 Annex 2 (regulation 2-2) suggests how to set an emission cap and is based on and complements information provided in the following Norwegian submissions: MEPC 59/4/24, MEPC 60/4/23 and MEPC 60/4/INF.19. An actual emission cap is not proposed in this document, but in the view of Norway, the Committee should ensure thorough consideration on this issue.

Issue 3: Auctioning or other ways of allocating the Emission Allowances

15 As previously stated, there are several ways to provide emission allowances to ships included in the System. These approaches can be briefly characterized as below, and please note that the term “auctioning” is used as a general term for “sale”:

- .1 Full auctioning of the emission allowances with no price control;
- .2 Full auctioning with price control;
- .3 Partial auctioning (various models); or
- .4 Free allocation of the allowances (various allocation models).

The approaches above represent substantial differences in implications of the System regarding its effects and robustness, but also on how it should be designed, implemented and enforced.

16 Annex 2 to this document presents the approach of a phase-in towards full auctioning (all the allowances are sold). In further consideration of an ETS for shipping, the following advantages of the presented approach should be taken into account:

- .1 it will provide shipping with a price on CO₂ emissions, and hence an incentive to undertake the appropriate reduction measures;
- .2 it allows the System to be fully open towards other emission trading Systems (if so wished), i.e. ship emission units can have a value in other systems;
- .3 it will not necessitate allocation of emission allowances to the individual ship (provides for “no allocation”) and fair treatment among all ships included in the System will be ensured;
- .4 it simplifies the design and administration of the System; and
- .5 it will create a substantial Fund.

Issue 4: Administrative tasks for an international administrative body

17 As most mechanisms, an ETS for international shipping will define administrative tasks to be undertaken by an administrative body. These tasks can be divided into two categories:

- .1 **traditional secretariat functions of the Organization (the IMO)** and those of the Secretary-General being the depositary of the instrument; and
- .2 **operational administrative tasks** defined in the instrument which is essential in the daily functioning of the System.

18 There are several approaches to how this may be solved administratively, and there are several ways on how to address this in a legal instrument. Three options are given below:

Option 1

One model may be to put all tasks in relation to the Emission Trading System under the Organization, but to direct the operational administrative tasks of the ETS to a new and separate unit of the Organization. This unit will be under the administrative responsibility of the Secretary-General and thus benefit from the established administrative system of the IMO Secretariat. It is however necessary to keep this unit separate from the other divisions of the IMO Secretariat because of the character of its tasks. This should be expressed clearly in the legal framework establishing the ETS for shipping.

Option 2

Another model will be to establish an Administrative Body outside the Organization.

Option 3

A third model will be to refer to the Organization regarding all administrative tasks of the System and allow the IMO Assembly to decide on how the administrative tasks should be organized in the Secretariat.

19 This document is drafted on the basis of option 1 above. This implies several advantages such as the clarity needed by a State in the consideration of ratification of the instrument. This model can also provide for a clear organization of the secretariat's functions which would normally be in the interest of the IMO Member States. Norway looks forward to the consideration of this issue by the Committee, which we hope will be useful in the further development of the System.

Issue 5: The Fund

20 An important feature of the ETS for shipping is the substantial Fund which will be established by the System. Annex 2 also briefly suggests provisions for steering, use and management of the Fund. At present the details presented in annex 2 should be helpful for proper consideration of this issue by the Committee.

21 It may be useful to illustrate the size of the fund, but numbers at this stage is just illustrations based on simple anticipations. If the total amount of CO₂ emitted from international shipping in 2007 were to be auctioned on the existing market under the Kyoto Protocol/EU ETS (mid January 2010) this would generate (870 MT CO₂ * 18.5 USD) ≈ 16 billion USD annually. Based on decisions taken on the design of the system, such a Fund may be higher, and it may be lower – even significantly lower if that is the international will.

Final remark

22 Norway takes the view that an ETS for shipping is the most suitable market-based instrument for reduction of greenhouse gas emissions from shipping. The mechanism is precise and can be designed to accommodate various political interests. The mechanism's focus is on regulating ship emissions. Norway also takes the view that an ETS can act in support of the Copenhagen Accord and instruments under the UNFCCC. The input provided in annex 2 is a draft for further development. Norway is prepared to contribute actively to such developments.

Action requested of the Committee

23 The Committee is invited to consider the outline of a Global Emission Trading System for International Shipping as presented in this document and decide as appropriate.

ANNEX 1

BRIEF SUMMARY OF A GLOBAL EMISSION TRADING SYSTEM FOR INTERNATIONAL SHIPPING

Introduction

The Global Emission Trading System (ETS) for International Shipping responds to the need for **precise emission control** through the establishment of a cap on total emissions from the sector, and at the same time provides for access to the most **cost-effective emission reduction measures to meet the cap**. Hence, more emission reductions can be achieved with the invested capital. The global system meets the principles of the IMO, as well as providing for **a Fund** which will **assist developing countries** in addressing their needs in response to Climate Change. **No allocation of emissions** to Parties, or to individual ships is needed. The proposal will allow shipping to grow, and to continue to provide energy efficient services to world trade.

Brief outline of the System

It is proposed that States develop the global ETS for international shipping in a **new legal mechanism under the auspices of IMO**. A Cap on the total emissions of the sector will be part of the system, as well as defined commitment periods. **Ships**, to which the system applies, will get **clear and simple requirements**. They need to register and establish an account in an international ETS registry and **acquire emission allowances (quotas)** when they operate. The amount of allowances will have to correspond to their bunker consumption, and be periodically surrendered.

The system follows the **traditional and robust way of regulating shipping**. Through a survey and certification regime the flag Administration/RO will ensure that ships comply at the time when the ship is required to be in a balance. Ships need to **keep record of their bunker consumption**, as well as of their emission account. Port State Control will be able to control both of these elements according to well established procedures.

The emission allowances will be auctioned (sold), and put on the market by an international entity established in the instrument. **Ships will have easy access to the emission allowances at a market place**. They will have access to auctioned (sold) quotas, to excess quotas from other ships, allowances from other sectors and credits from CDM projects in developing countries. Hence, shipping will always have access to emission allowances. At the same time the system ensures that the requirements for ships can be met through the cheapest reduction measures. While the shipping sector can contribute effectively to combat climate change with a tool that provides for control of the emissions, it can still continue to grow and take advantage of the most cost-effective measures.

It is proposed that the maritime ETS is **an open global system**, and therefore excess quotas in the shipping sector can be sold to others provided that the quotas are accepted in other systems. The system will establish robust rules for auctioning and trading.

A Fund will be generated by the auctioning of emission allowances. Since the quotas will be put on the market by an international entity, revenues will go directly to that entity. The Fund will be administered by the international entity which is under the control of the Parties to the System. The Fund can be used for **climate change mitigation and adaption purposes in developing countries**, technical cooperation activities under the IMO as well as research and development within the maritime sector, but the proposal acknowledge that this topic will need to be thoroughly discussed among all States at the IMO.

ANNEX 2

A MANDATORY MECHANISM FOR REDUCING GREENHOUSE GAS EMISSIONS FROM INTERNATIONAL SHIPPING THROUGH EMISSION TRADING

Draft legal outline

INTERNATIONAL CONVENTION FOR REDUCTION OF GREENHOUSE GAS EMISSION FROM SHIPS

PREAMBLE

[To be developed]

ARTICLE 1

Objective

The objective of this Convention is to cater for emissions reductions from international shipping in order to ensure that international shipping undertakes measures in support of the scientific view that the increase in global temperature should be below two degrees Celsius.

ARTICLE 2

General obligation

- 1 Each Party to this Convention undertakes to give full and complete effect to its provisions in order to reduce Greenhouse Gas Emissions from ships to the extent defined by this Convention.
- 2 No provision of this Convention shall be interpreted as preventing a Party from taking, individually or jointly, more stringent measures consistent with international law, with respect to reductions of greenhouse gas emissions from ships.
- 3 Parties shall endeavour to co-operate for the purpose of effective implementation of, compliance with and enforcement of this Convention.
- 4 The Parties undertake to encourage the continued development of technologies and practices which contribute to reductions of greenhouse gas emissions from ships.
- 5 The Annex to this Convention forms an integral part of it. Unless expressly provided for otherwise, a reference to this Convention constitutes at the same time a reference to its Annex.

ARTICLE 3

Definitions

[To be further developed]

For the purposes of this Convention, unless expressly provided otherwise:

1 “Convention” means International Convention for Reduction of Greenhouse Gas Emission from Ships, 20xx.

2 “Administration” means the Government of the State whose flag the ship is entitled to fly, or under whose authority it is operating.

3 “Organization” means the International Maritime Organization.

[4 “ETS Administrative Body” means the body established to undertake defined administrative functions of the Emission Trading System for international Shipping.]

5 “Secretary-General” means the Secretary-General of the Organization.

6 “Committee” means the Marine Environment Protection Committee of the Organization.

7 “Ship” means a vessel of any type whatsoever operating or having operated in the marine environment and includes submersibles, floating craft, floating platforms, self-elevating platforms, Floating Storage Units (FSUs), and Floating Production Storage and Offloading Units (FPSOs).

8 “Gross tonnage” means the gross tonnage (GT) calculated in accordance with the tonnage measurement regulations contained in Annex I to the International Convention on Tonnage Measurement of Ships, 1969, or any successor convention.

ARTICLE 4

Application

1 Unless expressly provided otherwise in this Convention, this Convention shall apply to ships entitled to fly the flag of a Party or operating under its authority.

2 This Convention shall not apply to any warships, naval auxiliary, or other ships owned or operated by a Party and used, for the time being, only on government non-commercial service. However, each Party shall ensure, by the adoption of appropriate measures not impairing operations or operational capabilities of such ships owned or operated by it, that such ships act in a manner consistent with this Convention, so far as is reasonable and practicable.

3 With respect to ships entitled to fly the flag of non-Parties to this Convention, Parties shall apply the requirements of this Convention as may be necessary to ensure that no more favourable treatment is given to such ships.

ARTICLE 5

Emission control

1 Parties shall through the provisions established in the Convention ensure that total CO₂ emissions from ships are limited as defined in the Annex to this Convention.

2 Each Party shall require that ships entitled to fly its flag or operating under its authority comply with the requirements set forth in this Convention and shall take effective measures to ensure such compliance.

ARTICLE 6

Survey and certification of ships

Each Party shall ensure that ships flying its flag or operating under its authority and subject to survey and certification are surveyed and certified in accordance with the regulations in the Annex.

ARTICLE 7

Inspection of Ships

1 A ship to which this Convention applies may, in any port or offshore terminal of another Party, be subject to inspection by officers duly authorized by that Party for the purpose of determining whether the ship is in compliance with this Convention. Except as provided in paragraphs 2 and 3, any such inspection is limited to verifying that:

- .1 there is on board an International Emission [Trading] Certificate, which, if valid, shall be accepted;
- .2 that the emission allowances for the latest commitment period is surrendered and corresponds to the reported emissions for that period; and
- .3 that other documentation and record-keeping required by this Convention is on board and fulfils the requirements of this Convention.

2 Where a ship does not carry a valid certificate or there are clear grounds for believing that:

- .1 the condition of the ship does not correspond substantially with the particulars of the certificate; or
- .2 there is no procedure implemented on board the ship for recording GHG emissions,

a detailed inspection may be carried out taking into account guidelines developed by the Organization.

3 The inspection may address earlier commitment periods than the last accounted for if information in the detailed inspection provide such grounds.

ARTICLE 8

Detection of violations

1 Parties shall co-operate in the detection of violations and the enforcement of the provisions of this Convention.

2 When there is sufficient evidence that a ship is operating[, or] has operated[or is about to operate] in violation of any provision in this Convention, a Party holding the evidence may request an investigation of this ship when it enters the ports or offshore terminals under the jurisdiction of another Party. The report of such an investigation shall be sent to the Party requesting it, to the Administration of the ship concerned and to the Organization, so that action may be taken as appropriate.

3 If the ship is detected to be in violation of this Convention, the Party carrying out the inspection may take steps to warn, detain, dismiss, or exclude the ship from its ports. A Party taking such action shall immediately inform the Administration of the ship concerned and the Organization.

ARTICLE 9

Violations

1 Any violation of the requirements of this Convention shall be prohibited by national laws and:

.1 in the case of a ship, sanctions shall be established under the law of the Administration, wherever the violation occurs. If the Administration is informed of such a violation by a Party, it shall investigate the matter and may request the reporting Party to furnish additional evidence of the alleged violation. If the Administration is satisfied that sufficient evidence is available to enable proceedings to be brought in respect of the alleged violation, it shall cause such proceedings to be taken as soon as possible, in accordance with its law. The Administration shall promptly inform the Party that reported the alleged violation, as well as the Organization, of any action taken. If the Administration has not taken any action within one year after receiving the information, it shall inform the Party which reported the alleged violation, and the Organization, of the reasons why no action has been taken.

2 Any violation of the requirements of this Convention within the jurisdiction of any Party shall be prohibited and sanctions shall be established under the law of that Party. Whenever such a violation occurs, that Party shall either:

.1 cause proceedings to be taken in accordance with its law; or

.2 furnish to the Administration of the ship such information and evidence as may be in its possession that a violation has occurred.

3 The sanctions provided for by the laws of a Party pursuant to this Article shall be adequate in severity to discourage violations of this Convention wherever they occur.

ARTICLE 10

Undue delay

1 All possible efforts shall be made to avoid a ship being unduly detained or delayed under Article 7, 8 or 9 of this Convention.

2 When a ship is unduly detained or delayed under Article 8, 9 or 10 of this Convention, it shall be entitled to compensation for any loss or damage suffered.

ARTICLE 11

Communication of information

1 Each Party shall report to the Organization and the Organization shall disseminate, as appropriate, the following information:

- .1 a list of the recognized organizations and nominated surveyors which are authorized to act on behalf of that Party in the administration of matters relating to the control of Greenhouse gas emissions in accordance with this Convention, and the specific responsibilities and conditions of the authority delegated to the recognized organizations or nominated surveyors; and
- .2 information concerning violations of this Convention.

2 [The Organization] [The Administrative Body] may inform Parties and/or the Committee on any relevant matter related to the robust implementation, enforcement and general functioning of the Convention.

ARTICLE 12

Technical assistance and co-operation

1 Parties undertake, directly or through the Organization and other international bodies, as appropriate, in respect of reduction of greenhouse gas emissions from ships, to provide support for those Parties which request technical assistance:

- .1 to train personnel;
- .2 to ensure the availability of relevant technology, equipment and facilities;
- .3 to initiate joint research and development programmes; and
- .4 to undertake other actions aimed at the effective implementation of this Convention and of guidelines developed by the Organization related thereto.

2 Parties undertake to co-operate actively, subject to their national laws, regulations and policies, in the transfer of management systems and technology in respect of reduction of greenhouse gas emissions from ships.

ARTICLE 13 **Implementation**

[To be developed. Placeholder for the follow-up of resolution 1018(26). Work plan on the further development of the voluntary IMO Member State Audit Scheme.]

ARTICLE 14 **Establishment of the Administrative Body and its functions**

1 An Administrative Body undertaking administrative functions identified in this Convention shall be established by the Assembly of the Organization.

2 [The Administrative Body] and [The Organization] shall be entrusted by the Parties to undertake administrative tasks as defined in the Annex to this Convention in order to ensure its robustness and functioning.

Comment: There will be a need for establishment of the Administrative Body prior to the entry into force of the Convention. Hence, there will also be a need for funding the Administrative Body prior to the entry into force. These elements need to be settled in a Conference resolution.

ARTICLE 15 **The Fund**

Parties shall ensure that any fund generated under this Convention shall be used for climate change purposes in accordance with the provisions in the Annex to this Convention.

ARTICLE 16 **Dispute settlement**

Parties shall settle any dispute between them concerning the interpretation or application of this Convention by negotiation or any other peaceful means agreed upon by them, which may include enquiry, mediation, conciliation, arbitration, judicial settlement, or resort to regional agencies or arrangements.

ARTICLE 17 **Relationship with international law and other international agreements**

1 Nothing in this Convention shall prejudice the rights and obligations of any State under the United Nations Convention on the Law of the Sea, 1982, and under the customary international law of the sea.

2 Nothing in this Convention shall prejudice the rights and obligations of Parties under other relevant and applicable international agreements.

ARTICLE 18
Signature, ratification, acceptance, approval and accession

- 1 This Convention shall be open for signature by any State at the Headquarters of the Organization from [date] to [date] and shall thereafter remain open for accession by any State.
- 2 States may become Parties to this Convention by:
 - .1 signature not subject to ratification, acceptance, or approval; or
 - .2 signature subject to ratification, acceptance, or approval, followed by ratification, acceptance or approval; or
 - .3 accession.
- 3 Ratification, acceptance, approval or accession shall be effected by the deposit of an instrument to that effect with the Secretary-General.
- 4 If a State comprises two or more territorial units in which different systems of law are applicable in relation to matters dealt with in this Convention, it may at the time of signature, ratification, acceptance, approval, or accession declare that this Convention shall extend to all its territorial units or only to one or more of them and may modify this declaration by submitting another declaration at any time.
- 5 A declaration under paragraph 4 shall be notified to the Secretary-General in writing and shall state expressly the territorial unit or units to which this Convention applies.

ARTICLE 19
Entry into force

[To be developed]

ARTICLE 20
Amendments

- 1 This Convention may be amended by either of the procedures specified in the following paragraphs.
- 2 Amendments after consideration within the Organization:
 - .1 Any Party may propose an amendment to this Convention. A proposed amendment shall be submitted to the Secretary-General, who shall then circulate it to the Parties and Members of the Organization at least six months prior to its consideration.
 - .2 An amendment proposed and circulated as above shall be referred to the Committee for consideration. Parties, whether or not Members of the Organization, shall be entitled to participate in the proceedings of the Committee for consideration and adoption of the amendment.

- .3 Amendments shall be adopted by a two-thirds majority of the Parties present and voting in the Committee, on condition that at least one-third of the Parties shall be present at the time of voting.
- .4 Amendments adopted in accordance with subparagraph 3 shall be communicated by the Secretary-General to the Parties for acceptance.
- .5 An amendment shall be deemed to have been accepted in the following circumstances:
 - .5.1 An amendment to an article of this Convention shall be deemed to have been accepted on the date on which two-thirds of the Parties have notified the Secretary-General of their acceptance of it.
 - .5.2 An amendment to the Annex shall be deemed to have been accepted at the end of a period to be determined by the Committee at the time of its adoption, which period shall not be less than ten months after the date of adoption. However, if by that date more than one-third of the Parties notify the Secretary-General that they object to the amendment, it shall be deemed not to have been accepted.
- .6 An amendment shall enter into force under the following conditions:
 - .6.1 An amendment to an article of this Convention shall enter into force, for those Parties that have declared that they have accepted it, six months after the date on which it is deemed to have been accepted in accordance with subparagraph .5.1.
 - .6.2 An amendment to the Annex shall enter into force with respect to all Parties six months after the date on which it is deemed to have been accepted, except for any Party that has:
 - .6.2.1 notified its objection to the amendment in accordance with subparagraph .5.2 and that has not withdrawn such objection; or
 - .6.2.2 notified the Secretary-General, prior to the entry into force of such amendment, that the amendment shall enter into force for it only after a subsequent notification of its acceptance.
 - .6.3 A Party that has notified an objection under subparagraph .6.2.1 may subsequently notify the Secretary-General that it accepts the amendment. Such amendment shall enter into force for such Party six months after the date of its notification of acceptance, or the date on which the amendment enters into force, whichever is the later date.
 - .6.4 If a Party that has made a notification referred to in subparagraph .6.2.2 notifies the Secretary-General of its acceptance with respect to an amendment, such amendment shall enter into force for such Party six months after the date of its notification of acceptance, or the date on which the amendment enters into force, whichever is the later date.

3 Amendment by a Conference:

- .1 Upon the request of a Party concurred in by at least one-third of the Parties, the Organization shall convene a Conference of Parties to consider amendments to this Convention.
- .2 An amendment adopted by such a Conference by a two-thirds majority of the Parties present and voting shall be communicated by the Secretary-General to all Parties for acceptance.
- .3 Unless the Conference decides otherwise, the amendment shall be deemed to have been accepted and shall enter into force in accordance with the procedures specified in paragraphs 2.5 and 2.6 respectively.

4 Any Party that has declined to accept an amendment to the Annex shall be treated as a non-Party only for the purpose of application of that amendment.

5 Any notification under this Article shall be made in writing to the Secretary-General.

6 The Secretary-General shall inform the Parties and Members of the Organization of:

- .1 any amendment that enters into force and the date of its entry into force generally and for each Party; and
- .2 any notification made under this Article.

ARTICLE 21
Denunciation

1 This Convention may be denounced by any Party at any time after the expiry of two years from the date on which this Convention enters into force for that Party.

2 Denunciation shall be effected by written notification to the Secretary-General, to take effect one year after receipt or such longer period as may be specified in that notification.

ARTICLE 22
Depositary

1 This Convention shall be deposited with the Secretary-General, who shall transmit certified copies of this Convention to all States which have signed this Convention or acceded thereto.

2 In addition to the functions specified elsewhere in this Convention, the Secretary-General shall:

- .1 inform all States that have signed this Convention, or acceded thereto, of:
 - .1.1 each new signature or deposit of an instrument of ratification, acceptance, approval or accession, together with the date thereof;

- .1.2 the date of entry into force of this Convention;
- .1.3 the deposit of any instrument of denunciation from this Convention, together with the date on which it was received and the date on which the denunciation takes effect; and
- .1.4 other declarations and notifications received pursuant to this Convention; and
- .2 as soon as this Convention enters into force, transmit the text thereof to the Secretariat of the United Nations, for registration and publication in accordance with Article 102 of the Charter of the United Nations.

ARTICLE 23

Languages

This Convention is established in a single original in the Arabic, Chinese, English, French, Russian and Spanish languages, each text being equally authentic.

DONE AT [location], [date].

IN WITNESS WHEREOF the undersigned, being duly authorized by their respective Governments for that purpose, have signed this Convention.

* * *

ANNEX

Chapter 1

General Provisions

Regulation 1-1 Definitions

[To be further developed]

1 *Auctioning* means arrangements established under this Convention to sell emission allowances to ships this Convention applies to.

2 *Shipping Emission Units* means the emission allowances established under commitment periods defined in this Convention.

[3 *Surrendering* means ...]

[4 *Cancelling* means ...]

Regulation 1-2 General applicability

1 Unless expressly provided otherwise, the present regulations apply only

.1 to ships of [size] gross tonnage and above in international voyages; and

.2 to ships of [size] gross tonnage and above, engaged in international voyages, operating in waters to the sovereignty or jurisdiction of a Party.

2 Regulations 3-3 and [3-x] apply from 1 January [2 years] after the entry into force of this Convention.

Comment:

If the first period after entry into force shall require reporting only, one will have to identify when the requirements regarding surrendering of emission allowances apply. This can be done in this regulation as proposed, or in each of the relevant regulations.

Regulation 1-3 Rights of non-Party Ships

1 Ships flying the flag of non-Parties have the right to operate compliant to the provisions in this Annex provided that these ships register in the ETS registry, and provide for the same level of compliance, verification and documentation as ships flying the flag of a Party.

[Regulation 1-4 Exemptions]

1 Parties to this Convention may [in their waters] exempt ships on international voyages to destinations under their jurisdictions from [regulations 3-3 and 3-5] provided that:

- .1 the exemption is considered and approved by the Organization; and
- .2 the criteria listed in Appendix 1 are met.

2 The Administration [of a Party] may grant exemptions from [regulation 3-3 and 3-5] for ships on a voyage to destinations exempted in accordance with this regulation.

3 The Administration [of a Party] may exempt ships which are normally not engaged on international voyages but which, in exceptional circumstances, are required to undertake a single international voyage, from the regulations in this Annex.

4 Parties shall report all exemptions to [the Administrative Body] [the Organization] which shall disseminate these exemptions, as appropriate.

Comment:

The criteria to be listed in Appendix 1 should enable Small Island Developing States (provided that such a State is not too developed, i.e. such a State may also be a LDC. In addition, a time limitation should be established for the exemption (e.g., 5 years) to ensure that the criteria for exemptions are always fulfilled. A new application should be required to prolong the exemption.

Chapter 2

Emission Cap

Regulation 2-1 Emission Cap for international shipping

1 The maximum total amount Ship Emission Units to be issued and made available for ships falling under the scope of the Convention is identified in Appendix 2 to this Annex.

Comment:

A resolution with the following content may be adopted:

If the Convention does not enter into force prior to [1 January 2022], the Committee shall review this commitment, and decide as appropriate. However, in considering new commitments, the principles in regulation 2-3 of the Convention shall be taken into account by the Committee. The Committee is invited to start this review at the first meeting of the Committee in 2020.

Note: *It will be the existing text of the Convention/Instrument which enters into force. If a review ends with an amendment, there should be sufficient time for the amendment to enter into force prior to the auctioning of allowances start. In that respect it should be noted that the first two years after the Convention takes effect, will require reporting only.*

Regulation 2-2 Procedure for establishment of new Emission Caps in new commitment periods

1 The Parties to this Convention shall, at the first meeting of the Committee in the calendar year [four] years prior to the ending of the ongoing commitment period in Appendix 2 to this Annex, initiate a process to establish a new commitment period including its emission caps. The new commitment period shall be defined as an amendment to Appendix 2.

2 The Parties may for the consideration of such an amendment establish any arrangement appropriate under the relevant rules of procedure of the Organization.

3 The Parties shall at least consider the following regard:

- .1 consequences of climate change taking into the latest recommendations of IPCC;
- .2 cost-efficiency, taking into account the marginal costs of abatement measures on ships;
- .3 technical and operational information regarding possible measures on ships; and
- .4 effects on the ETS market relevant for ships falling under the scope of this Convention [including the consequence of possible breaks in the System].

Regulation 2-3 Emission monitoring

1 The total amount of CO₂ emissions from ships falling under the scope of the Convention shall be monitored by the [Organization] [Administrative body] taking into account guidelines developed by the Organization.

2 A report on total annual emissions shall be developed, circulated to the IMO Member States and be made publicly available.

Regulation 2-4 Direct cancelling of emission allowances

1 On the basis of information identified in the Emission Monitoring activities of the Organization, the [Administrative Body] [Organization] may undertake direct cancelling of emission allowances defined in regulation 2-1 in order to ensure that the objectives of the Convention are met.

2 The information sources for the Administrative body to take into account when direct cancellation of emission allowances are considered are identified in the guidelines developed by the Organization, but in any case the following information shall be taken into account:

- .1 the total amount of emissions which are not captured by the system; and
- .2 the total amount of emission which are exempted in accordance with regulation 1-4.

3 In the case the [Administrative Body] [Organization] identifies a need for direct cancelling of emission allowances the following procedure shall be followed:

- .1 the identified amount of emission allowances recommended to cancel directly shall be banked for [period] until a final decision is taken;
- .2 a recommendation on direct cancelling of allowances shall be submitted to the Executive Board for its approval;
- .3 the Executive Board shall consider the recommendation at its first meeting after the recommendation is submitted by the [Administrative Body] [Organization];
- .4 the decision taken by the Executive Board may include conditions for the direct cancellation as provided for in the rules of procedure of the Executive Board; and
- .5 the decision for direct cancellation shall be circulated to all Parties, and made publicly available [prior to][well in advance of] the cancellation is undertaken.

Comment:

- *Rules of procedure for the Executive Board need to be established.*
- *Further criteria might be developed.*

Chapter 3

Requirements for ships

Regulation 3-1 Emission Permit

1 All ships [falling under the scope of this Annex] [this Annex applies to] shall within one year after entry into force of the Convention acquire an Emission Permit in accordance with regulations [3-7] and [3-8].

Regulation 3-2 Registration

1 All ships [falling under the scope of this Annex] [this Annex applies to] shall within one year after entry into force of the Convention register and open an account in the International ETS Registry.

2 Ships which no longer undertake international voyages within the commitment period, or are taken permanently out of service may be deleted from the ETS registry. Deletions shall be reported by the Administration.

Regulation 3-3 Emission Allowance

1 All ships [in service] shall, from 1 January the third calendar year after the entry into force of the Convention, acquire Emission Allowances in accordance with the provisions of this Annex.

2 The emission allowances can be:

.1 Shipping Emission Units, or

.2 other units recognized under the UNFCCC, and

the allowances are allowed to be traded.

Regulation 3-4 Emission reporting

1 All ships shall report to the Administration by [date] [1 March] the total amount CO₂ emitted the previous calendar year [and the corresponding amount of emission allowances to be surrendered]

2 The CO₂ amount shall be calculated in accordance with the methodology in Appendix 3 to this Convention, and be reported to the Administration in accordance with the format in Appendix 4.

3 The report shall be approved by the Administration[/RO]. The Administration shall in its approval clearly identify any corrective action, especially regarding the amount allowances to be surrendered by the defined surrendering date.

4 If the Administration does not respond within [date] [21 days prior to the surrendering date], the report shall be regarded as approved.

5 If the ship does not submit an emission report as required by this regulation, the Administration may take proceedings as identified in Articles 9 and 10 of this Convention. The minimum corrective action by the Administration is to set the emission for the ship as follows:

$$\Sigma(\text{Specific fuel consumption on main engines on 75\% load}) \times (24 \text{ h operation}) \times (365 \text{ days})$$

For the case addressed in this paragraph, the ship shall be required to surrender allowances corresponding to the emission estimation as identified above.

Regulation 3-5 Surrendering of allowances

1 All ships shall, taking into account guidelines developed by the Organization, surrender Emission Allowances referred in regulation 3-3 to the International ETS Registry by [date] [1 May] every year.

2 The minimum quantity of surrendered allowances shall, for each ship, not be less than the amount of carbon dioxide (CO₂) emitted the previous calendar year. The CO₂ amount shall be calculated in accordance with the methodology in Appendix 3 to this Convention.

3 The surrendered allowances shall have a tag which is valid and accepted by [the ETS registry] [Administrative body]

Comment: *The following paragraph may be located elsewhere.*

4 If the amount of surrendered allowances is less than the emitted amount of CO₂, the Administration shall:

- .1 order the ship to be in compliance within 14 days; and
- .2 surrender excess allowances equal to the deficient amount.

If the order by the Administration is not complied with, the party shall take proceedings in accordance with Articles 9 and 10.

5 If the Administrative Body identifies that the amount of surrendered allowances for a ship is less than the emitted amount of CO₂, it shall report to the Administration on the above, inform on the relevant requirements of the Convention and await the cancellation of the allowances until the surrendered allowances corresponds to the emitted amount of CO₂. In the case the ship flies the flag of a non-Party the Administrative Body shall communicate with the shipowner on the above. For both cases described in this paragraph, the Administrative Body shall provide an appropriate entry in the ETS Registry.

6 In the case a ship is deregistered and taken out of service, the Administration shall ensure that the ship surrenders allowances for the period 1 January until the date of deregistration. In the case the ship does not surrender the allowances for this period, the Administration shall ensure that the allowances are surrendered.

Comment:

Ships change flag. The flag Administration of the ship shall ensure that all the requirements for that ship, at any time, are complied with, i.e. it is the flag Administration, at the point of reporting of emissions, which shall ensure that the emissions are reported in accordance with this Convention even if the ship was flying another flag for the period it reports on.

Regulation 3-6 Emission Trading

[To be developed if needed]

Comment:

A relevant question is whether some requirements which apply to the ship when trading shall be outlined here, or whether such requirements should be outlined in the chapter on Emission Trading.

Relevant elements are the requirement to register in the Emission Registry, and that all transactions need a serial number.

Regulation 3-7 Surveys

- 1 Ships to which this Convention applies shall be subject to the surveys specified below:
 - .1 an initial survey before the ship is put in service, or before the International Greenhouse Gas Emission [Trading] Certificate is issued. This survey shall verify that the ship is registered in the registry, that a system for emission record-keeping and reporting is in place, and that all main and auxiliary engines are included in the emission reporting and surrendering of allowances;
 - .2 a renewal survey at intervals specified by the Administration, but not exceeding five years. This survey shall verify that [*more to come*]; and
 - .3 an additional survey if there are relevant repairs, modifications to, replacements or additions of engines included in the emissions reporting of the ship. The survey shall be such as to ensure that any such change, replacement, or significant repair has been made in the way that the ship continues to comply with the requirements of this Convention, and that the [Emission Record Book] is amended as necessary.
- 2 Surveys of ships for the purpose of enforcement of the provisions of this Convention shall be carried out by officers of the Administration, taking into account the guidelines developed by the Organization. The Administration may, however, entrust the surveys either to surveyors nominated for the purpose or to organizations recognized by it.
- 3 An Administration nominating surveyors or recognizing organizations to conduct surveys, as described in paragraph 2 shall, as a minimum, empower such nominated surveyors or recognized organizations to:
 - .1 require a ship that they survey to comply with the provisions of this Convention; and
 - .2 carry out surveys and inspections if requested by the appropriate authorities of a port State that is a Party.
- 4 In every case, the Administration concerned shall be responsible to ensure the completeness and efficiency of the survey and shall undertake to ensure the necessary arrangements to satisfy this obligation.
- 5 The initial and renewal surveys should be harmonized with the surveys required by other applicable statutory instruments of the Organization.

Regulation 3-8 Issuance and endorsement of certificates

This is to certify that the ship is registered in the emission registry, and that the ship has the required elements/system in order to take part in the ETS.

- 1 An International Greenhouse Gas Emission [Trading] Certificate shall be issued either by the Administration or by any person or organization authorized by it after successful completion of an initial or renewal survey conducted in accordance with regulation 3-7, to any ships to which regulation 3-7 applies, taking into account the guidelines developed by the Organization.

2 The International Greenhouse Gas Emission [Trading] Certificate issued under paragraph 1, at the request of the shipowner, shall be endorsed either by the Administration or by any person or organization authorized by it after successful completion of an additional survey conducted in accordance with regulation 3-7.

3 The Certificate shall be endorsed either by the Administration or by any person or organization authorized by it after the regular surrendering of emission allowances in accordance with the provisions of this Convention. Such endorsement shall be issued within [30 days] after the final date for surrendering provided that the surrendering are in accordance with the requirements of this Convention.

4 Notwithstanding regulation 3-11.2 and the requirements of regulation 3-7.1.2, when the renewal survey is completed within three months before the expiry date of the existing certificate, the new certificate shall be valid from the date of completion of the renewal survey to a date not exceeding five years from the date of expiry of the existing certificate.

5 When the renewal survey is completed after the expiry date of the existing certificate, the new certificate shall be valid from the date of completion of the renewal survey to a date not exceeding five years from the date of expiry of the existing certificate.

6 When the renewal survey is completed more than three months before the expiry date of the existing certificate, the new certificate shall be valid from the date of completion of the renewal survey to a date not exceeding five years from the date of completion of the renewal survey.

7 If a certificate is issued for a period of less than five years, the Administration may extend the validity of the certificate beyond the expiry date to the maximum period specified in regulation 3-7.1.2.

8 If a renewal survey has been completed and a new certificate cannot be issued or placed on board the ship before the expiry date of the existing certificate, the person or organization authorized by the Administration may endorse the existing certificate and such a certificate shall be accepted as valid for a further period which shall not exceed five months from the expiry date.

9 If a ship at the time when a certificate expires is not in a port in which it is to be surveyed, the Administration may extend the period of validity of the certificate but this extension shall be granted only for the purpose of allowing the ship to complete its voyage to the port in which it is to be surveyed and then only in cases where it appears proper and reasonable to do so. No certificate shall be extended for a period longer than three months, and a ship to which an extension is granted shall not, on its arrival in the port in which it is to be surveyed, be entitled by virtue of such extension to leave that port without having a new certificate. When the renewal survey is completed, the new certificate shall be valid to a date not exceeding five years from the date of expiry of the existing certificate before the extension was granted.

10 A certificate issued to a ship engaged on short voyages which has not been extended under the foregoing provisions of this regulation may be extended by the Administration for a period of grace of up to one month from the date of expiry stated on it. When the renewal survey is completed, the new certificate shall be valid to a date not exceeding five years from the date of expiry of the existing certificate before the extension was granted.

11 In special circumstances, as determined by the Administration, a new certificate need not be dated from the date of expiry of the existing certificate as required by paragraph 4, 8 or 9 of this regulation. In these special circumstances, the new certificate shall be valid to a date not exceeding five years from the date of completion of the renewal survey.

12 A certificate issued under the authority of a Party shall be accepted by the other Parties and regarded for all purposes covered by this Convention as having the same validity as a certificate issued by them. Certificates shall be issued or endorsed either by the Administration or by any person or organization duly authorized by it. In every case, the Administration assumes full responsibility for the certificate.

Regulation 3-9 Issuance or endorsement of a certificate by another Party

1 At the request of the Administration, another Party may cause a ship to be surveyed and, if satisfied that the provisions of this Convention are complied with, shall issue or authorize the issuance of a certificate to the ship, and where appropriate, endorse or authorize the endorsement of that certificate on the ship, in accordance with this Annex.

2 A copy of the certificate and a copy of the survey report shall be transmitted as soon as possible to the requesting Administration.

3 A certificate so issued shall contain a statement to the effect that it has been issued at the request of the Administration and it shall have the same force and receive the same recognition as a certificate issued by the Administration.

4 No certificate shall be issued to a ship entitled to fly the flag of a State which is not a Party.

Regulation 3-10 Form of certificate

The Certificate shall be drawn up in an official language of the issuing Party, in the form set forth in Appendix 4. If the language used is not English, French or Spanish, the text shall include a translation into one of these languages.

Regulation 3-11 Duration and validity of certificates

1 An International Greenhouse Gas Emission [Trading] Certificate issued under regulation 3-8 or 3-9 shall cease to be valid in any of the following cases:

- .1 if the condition and performance of the ship does not correspond substantially with the particulars of the certificate;
- .2 upon transfer of the ship to the flag of another State. A new certificate shall only be issued when the Party issuing the new certificate is fully satisfied that the ship is in compliance with the requirements of regulation 3-7. In the case of a transfer between Parties, if requested within three months after the transfer has taken place, the Party whose flag the ship was formerly entitled to fly shall, as soon as possible, transmit to the Administration copies of the certificates carried by the ship before the transfer and, if available, copies of the relevant survey reports;

- .3 if the renewal survey is not completed within the periods specified under regulations 3-7.1 and 3-8; or
- .4 if the certificate is not endorsed in accordance with regulation 3-8 or 3-9.

2 An International Greenhouse Gas Emission [Trading] Certificate shall be issued for a period specified by the Administration, which shall not exceed five years.

Regulation 3-12 Record-keeping

1 All ships shall have on board details of fuel oil for combustion purposes delivered to and used on board shall be recorded in the form of a Bunker Delivery Note (BDN) that shall contain at least the information specified in Appendix 5 to this Annex. The Bunker Delivery Note shall be kept on board for [period] and be available for inspection.

2 Daily fuel consumption shall be recorded in accordance with the Emission Record Book in Appendix 6 to this Annex. The record book shall be kept on board the ship and be available for inspection if requested.

Chapter 4

Administrative body

Regulation 4-1 Functions of the Administrative Body

Taking into account guidelines developed by the Organization, the Administrative Body shall undertake functions in support of the effective operation of this Convention, and in addition to the functions specifically identified in the relevant provisions of this Convention, the Administrative Body shall:

1 establish and maintain an ETS Registry in which all ships the Convention applies to shall be registered, and in that respect:

- .1 ensure that the ETS Registry is transparent and that [relevant] information is open for all Parties,
- .2 include accounts for all ships in the registration of ships, and
- .3 ensure that all transactions are logged,

2 make the emission allowances available for the ships the Convention apply to, and undertaking this task in accordance with the following principles:

- .1 assurance of sufficient liquidity at the emission trading market,
- .2 regularity in the supply of emission allowances,

- .3 traceability by ensuring that the Ship Emission Units are tagged,
- .4 transparency, and

provide for cost-efficient operation of the emission trading market,

3 receive surrendered allowances from all ships which are registered in the ETS Registry, and cancel the surrendered allowances when the amount corresponds to the emissions identified in the emission report approved by the Administration/RO,

4 administer any Fund generated by the System; and

5 issue an annual report on which at least includes the following:

- .1 reported CO₂ emissions
- .2 amount of surrendered allowances
- .3 an overview of surrendered emission credits other than Ship Emission Units
- .4 exemptions
- .5 amount of directly cancelled Ship Emission Units
- .6 a detailed report on the use of the Fund.

Regulation 4-2 Executive Board

1 The Parties to this Convention shall establish an Executive Board with the following functions:

- .1 to provide steering of the Administrative Body on the tasks explicitly specified in this Annex;
- .2 [to be further developed];
- .3 [to be further developed].

2 The Executive Board shall be elected by the Parties to this Convention. The election shall take place at the IMO Assembly.

3 The Executive Board shall report on its decisions and activities to the IMO Assembly or the appropriate body designated by the Assembly.

Regulation 4-3 Funding of the Administrative Body

1 The administrative costs of the Administrative Body shall be covered by a registration fee established for the registration in the ETS Registry.

Comment:

Prior to entry into force of this Convention, IMO shall be entitled to decide how the costs of the Administrative Body may be covered.

Chapter 5

Emission Trading

Regulation 5-1 Auctioning

1 Auctions of [Ship Emission Units] [emission allowances] shall be organized by the Administrative Body taking into account guidelines developed by the Organization. The Administrative Body may establish agreement with entities which can provide assistance or fully undertake the auctions on behalf of the Administrative Body. Such agreements shall be approved by the Executive Board.

2 Revenues generated by the auctions shall be administered by the Administrative Body.

Regulation 5-2 Inclusion of other Emission Units

Other emission units or certified emission reductions identified under the UNFCCC and its Protocol(s) shall be accepted by as compliant emissions units if used by ships falling under the scope of this Convention.

Regulation 5-3 Emission Trading

The Emission Allowances referred to in regulations 5-1 and 5-2 are allowed to be traded. All units traded shall have a tag, and all transactions shall be logged in the ETS Registry.

Regulation 5-4 Banking and borrowing

1 Emission allowances acquired in one commitment period can be banked and be valid for [period] in the next commitment period.

2 A ship which for unforeseen circumstances cannot acquire sufficient emission allowances are allowed to borrow allowances from future auctions provided that the conditions the following conditions are met:

3 If a ship borrows future emission allowances the ship shall in the succeeding surrendering year surrender allowances [20%] above what is required according to the emission report of the ship.

Chapter 6

The Fund

Regulation 6-1 Steering the Fund

1 Revenues generated by the auctioning of Ship Emission Units, shall be deposited at an account administered by the [Organization] [Administrative Body]. The Administrative Body shall ensure secure deposits of the revenues hereafter called the Fund.

2 Parties shall elect a Fund Steering Committee which shall safeguard that the Fund is managed and used in accordance with principles established in this Convention. Parties may at the IMO Assembly or at the relevant IMO Committee if the Parties to this Convention so decides at the IMO Assembly, provide relevant instructions to the Steering Committee and/or the Administrative Body to ensure that the Fund is managed in accordance with the objective and principles of this Convention.

Regulation 6-2 Principles for using the Fund

1 The Fund shall give priority to funding:

- .1 projects, programmes, policies and other activities in developing countries related to mitigation including REDD-plus, adaptation, capacity-building, technology development and transfer in line with priorities established for funding mechanisms under the UNFCCC, but also:
- .2 research and development activities within the maritime sector with a view to support the objective of this Convention may receive funding,

taking into account guidelines developed by the Organization.

2 In general, only Parties or actions under the jurisdiction of a Party to this Convention are entitled to receive funding. In case funding is provided to non-Parties or actions under the jurisdiction of a non-Party to this Convention, such funding shall be agreed upon by all Parties to this Convention. The requirements of this paragraph shall also be safeguarded by the Administrative Body if it is decided to support existing funds under the UNFCCC.

3 All projects, programmes, policies and other activities funded by this System shall be transparent and be measured, reported, verified and open for audits taking into account guidelines developed by the Organization.

Regulation 6-3 Fund Management

The Fund shall be managed in a secure and cost-efficient manner. The Administrative Body shall distribute the funds as efficiently as possible. Direct but not compromising Regulations on the management of the Fund should be developed.

Appendices

Appendix 1 Exemptions and criteria for evaluation of exemption

[To be developed]

Appendix 2 Emission Commitment

1 The [CO₂] Emission baseline is [the estimated emissions for ships above [size] for the calendar year two years prior to the adoption of the Convention].

Comment:

Note: A scientific group of experts should be used. The numbers should consequently be approved by the Committee and adopted by the Conference.

2 For the commitment period 1 January of the [sixth to the tenth] succeeding year after the entry into force of this Convention the total annual amount Ship Emission Units that can be issued by the ETS Registry shall be [10/15/20/xx]% below the emission baseline. Table 1 below identifies the Shipping Emissions Units to be auctioned for the total commitment period.

Table 1

e.i.f date + 1	0%	of the annual Shipping Emission Units from[seventh to the tenth]
e.i.f date + 2	0%	of the annual Shipping Emission Units from[seventh to the tenth]
e.i.f date + 3	20%	of the annual Shipping Emission Units from[seventh to the tenth]
e.i.f date + 4	40%	of the annual Shipping Emission Units from[seventh to the tenth]
e.i.f date + 5	60%	of the annual Shipping Emission Units from[seventh to the tenth]
e.i.f date + 6	80%	of the annual Shipping Emission Units from[seventh to the tenth]
e.i.f date + 7	100%	of the annual Shipping Emission Units
e.i.f date + 8	100%	of the annual Shipping Emission Units
e.i.f date + 9	100%	of the annual Shipping Emission Units
e.i.f date + 10	100%	of the annual Shipping Emission Units

Appendix 3 Methodology for calculating the annual CO₂ emission for the individual ship

[To be developed]

Comment:

Needs to include conversion factors for various fuel oils

Appendix 4
Form of the International Emission [Trading] Certificate

[To be developed]

Appendix 5
Information to be included in the Bunker Delivery Note

[To be developed]

Appendix 6
Form of the Emission Record Book

[To be developed]
