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PREVENTION OF AIR POLLUTION FROM SHIPS

Outcomes of COP 15 and the work of MEPC on market-based instruments in 2010

Submitted by World Wide Fund for Nature (WWF) and Greenpeace International[1]

SUMMARY

Executive summary:	This document comments on document MEPC 60/4/9, and contains the views of its co-sponsors on the outcome of COP 15 and its implications for the work of MEPC 60 and MEPC 61. Although there was no formal decision on emissions from international shipping at COP 15, Parties have agreed that emissions cannot be attributed to particular countries.
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 30
Related documents:	MEPC 58/4/39; MEPC 59/4/47, MEPC 59/24/Add.1; MEPC 60/1/Add.1, MEPC 60/4/8, MEPC 60/4/9, MEPC 60/4/10, MEPC 60/4/12, MEPC 60/4/28, MEPC 60/4/37, MEPC 60/4/39 and MEPC 60/INF.7

Introduction

1 This document is submitted in accordance with paragraph 4.10.5 of the Guidelines on the organization and method of work of the Committees and their subsidiary bodies (MSC-MEPC.1/Circ.2) and the revised deadlines for commenting on the outcome of COP 15 as set out in document MEPC 60/1/Add.1 (Chairman) and comments on document MEPC 60/4/9 by the Secretariat.

2 Document MEPC 59/4/47 (FOEI, Greenpeace and WWF) set out the need for a global market-based instrument (MBI) to address international shipping emissions and the co-sponsors' views on its design parameters. In this document, the co-sponsors comment on political developments since MEPC 59, and their implications for work on shipping MBIs in 2010, in both UNFCCC and IMO.

[1] This submission is supported by Seas at Risk, Cook Islands Climate Action Network, Transport and Environment, AirClim, Earthjustice, the Bellona Foundation and the Danish Ecological Council.

3 This document comments on document MEPC 60/4/9, and contains the views of its co-sponsors on the outcome of COP 15 and its implications for the work of MEPC 60 and MEPC 61. Although there was no formal decision on emissions from international shipping at COP 15, Parties have agreed that emissions cannot be attributed to particular countries. It follows that a global sectoral approach applied to ships of all flags is the best way to tackle shipping emissions. In order to make such a policy equitable, it should be designed to raise revenues that are used for climate change adaptation and mitigation in developing countries. Most industrialised countries, the group of Least Developed Countries, and many other developing countries supported this approach at COP 15.

4 Market-based instruments (MBIs) for international shipping must include a cap on emissions commensurate with keeping global temperature rise as far below 2°C above pre-industrial levels as possible, and returning to no more than 1.5°C. Given the slow pace of developments in IMO, the co-sponsors welcome the recent EU proposal to develop regional legislation.

COP 15 in Copenhagen

5 The main relevant outcomes of COP 15 were a three-page political agreement known as the Copenhagen Accord (CA), which was noted by the Conference of the Parties, and the extension of the mandate of the *Ad Hoc* Working Groups that have been preparing detailed negotiation texts until COP 16, to be held in Mexico from 29 November to 10 December 2010.

6 The CA makes no direct reference to international shipping (or aviation) emissions. However, the Accord (paragraph 8) commits to "a goal of mobilising 100 billion dollars a year by 2020 to address the needs of developing countries", and to this end agrees to establish a High Level Panel (paragraph 9) "to study the contribution of the potential sources of revenue, including alternative sources of finance, towards meeting this goal.".

7 A number of "alternative sources of finance" were debated in the run-up to and during COP 15. The three most prominent were: auctioning of Assigned Amount Units (the emissions allowances issued to Annex I Parties to the Kyoto Protocol), a Financial Transaction Tax, and "bunker finance" – revenue from policies to reduce international aviation and shipping emissions.

8 It is as yet unclear what the composition or schedule of the High Level Panel on climate finance will be. What seems likely is that it will consider revenues from international shipping as a potential source of finance for climate change adaptation and mitigation purposes in developing countries, and as NGOs the co-sponsors will work to ensure that this is the case.

9 As described in paragraphs 12 to 15 of document MEPC 60/4/9, work under the AWG-LCA on international aviation and shipping emissions proceeded in informal consultations under the guidance of two co-facilitators, and later at Ministerial level. Furthermore, the mandate of the AWG-LCA was extended by a COP decision until COP 16, and negotiations will continue in 2010 on the basis of document FCCC/AWGLCA/2009/L.7/Rev.1, which contains the following placeholder at paragraph 32:

> *To be elaborated: policy approaches and measures to limit and reduce greenhouse gas emissions from aviation and marine bunker fuels.*

10 Due to the informal nature of the consultations, the text prepared by the co-facilitators was not included in the report of the AWG-LCA to the COP, but is expected to form the basis of ongoing negotiations. That text encouraged IMO "to continue development of policy approaches and technical and operational measures to address greenhouse gas emissions" and specifically:

.1 "to establish sufficiently ambitious mid-term and long-term [global goals] for the mitigation of greenhouse gases" from the sector;

.2 "to take fully into consideration all the relevant principles and provisions of the Convention";

.3 "to ensure that such policy approaches do not lead to competitive distortion or carbon leakage";

.4 "to ensure that revenue from the implementation of such policy approaches be made available to support climate change adaptation and mitigation in developing countries"; and

.5 to support the transfer of clean technologies in the shipping sector.

11 The co-sponsors stress that these are not formally adopted UNFCCC decisions. The text is reproduced here to give a flavour of the debate at COP 15. Parties have agreed that emissions cannot be attributed to individual countries. The clear consequence of this is that policies to reduce them cannot apply to a limited number of countries or ships flying certain flags only. For the most part, Parties are prepared to co-operate in the development of mitigation policies, on the condition that they take into account the circumstances and needs of developing countries and the principle of Common But Differentiated Responsibilities. The most logical way to do so, given that attribution of emissions is not possible, is to design policies that generate revenues which are then used for climate change adaptation and mitigation actions in developing countries, and for the promotion of clean shipping technologies, in particular, in developing countries. The issue of thresholds that would exempt routes to countries most vulnerable to any adverse impacts of the introduction of an MBI for international shipping (such as Small Island Developing States or Least Developed Countries) was also raised as a further equity safeguard.

12 Progress has been made under the AWG-LCA at its Barcelona, Bangkok and Copenhagen meetings. While the lack of a formal outcome was disappointing, the basis for decisive progress in 2010 was established. As NGOs, the co-sponsors will continue to press for resolution of the issue by COP 16, including the setting of a target if the IMO has not done so by then.

The work of MEPC in 2010

13 Two of the three MEPC meetings scheduled for this biennium fall before UNFCCC COP 16, which begins in November 2010. According to the work plan on the development of an MBI adopted by MEPC 59 and contained in annex 16 to document MEPC 59/24/Add.1:

> "*the Committee would be able, preferably by MEPC 61, to clearly indicate which market-based measure it wishes to evaluate further and identify the elements that could be included in such a measure*".

14 The sponsoring NGOs were disappointed with the lack of urgency displayed in the MBI work plan, and slippage from this timetable risks serious damage to the reputation of the IMO and the shipping industry, as well as sub-optimal regional regulation (see paragraphs 16 to 18 below).

15 It is therefore vital that work proceeds urgently at MEPC 60 and MEPC 61, building on the spirit of the debate in Copenhagen. It will be totally unacceptable if work stalls on the pretext that the Committee must await the outcome of COP 16. There is no barrier whatsoever to MEPC 60 commissioning an in-depth technical analysis of the proposed measures, and a choice being made at MEPC 61 of which to pursue, as envisaged in the work plan.

16 It will also be vital in achieving consensus for the potential impacts of any scheme to be well understood by all actors. For this reason, the co-sponsors urge the Committee to agree the terms of reference for an independent impact assessment at MEPC 60, to be completed well in advance of MEPC 61, and to agree any intersessional meetings required in 2010 to ensure that the MBI work plan is adhered to.

Heightened scrutiny and alternative regulation

17 Lack of progress in MEPC is likely to lead to an increased (and more hostile) media and NGO focus on the shipping industry, as well as sub-optimal regional or even national regulation. For instance, there is growing recognition amongst grass-roots environmental activists that shipping is one of the last unregulated sources of emissions. It is now commonly understood that shipping emissions exceed aviation emissions and are growing as fast if not faster. The aviation industry is subject to close scrutiny of its environmental performance and a great deal of criticism in the media; in the United Kingdom it has even acquired a dedicated direct action group ("Plane Stupid") who have forced it into a highly defensive position. In addition, flights to and from the EU will be covered by the EU ETS from 2012, and in the United Kingdom, the Government has set an absolute (no offsets), sector-specific target for aviation to return emissions to 2005 levels by 2050. This will entail more than halving the planned rates of growth.

18 The shipping sector must now choose its course – it could drift down the route described above, or proceed at full steam towards a multilateral, negotiated solution that protects both the reputation and the interests of the industry. It needs to choose fast, because regional regulation is already on the horizon. The European Commission has published its assessment of options for tackling shipping emissions at an EU level,[2] and Climate Commissioner-designate, Ms. Connie Hedegaard, has publicly expressed her enthusiasm to pursue the issue. In the United States, both the Waxman-Markey House Bill and the latest draft Senate Bill cover emissions from international shipping under an "upstream" cap from 2014, i.e. the fuel supplier will be liable for the carbon content of bunker fuels under the terms of the proposed ETS.

19 Under these two regional proposals, developing country operators would still be covered when they travelled to the EU or the United States, but (as with aviation in the EU ETS), the revenues generated would most likely be kept for domestic use. Thus developing countries would have lost the opportunity to participate in the design of the scheme, and the measures would cover their operators but generate no international climate finance in return.

20 This scenario is sub-optimal from a mitigation point of view and would foreclose an important source of climate finance. However, it is preferable to a total lack of action, as it would establish an incentive to cut emissions for a substantial fraction of global shipping. The co-sponsors will therefore encourage the development of these schemes in parallel to the work in IMO. The best outcome, however, would be a global measure agreed in IMO by the end of 2011, preventing the need for regional action.

Specific submissions related to MBI

21 The co-sponsors welcome the various submissions from Parties elaborating on MBI proposals. However, as argued in document MEPC 59/4/47, the purpose of an MBI must be to control the overall volume of emissions to the atmosphere, this being the determining factor in limiting atmospheric concentrations of greenhouse gases and therefore temperature rises.

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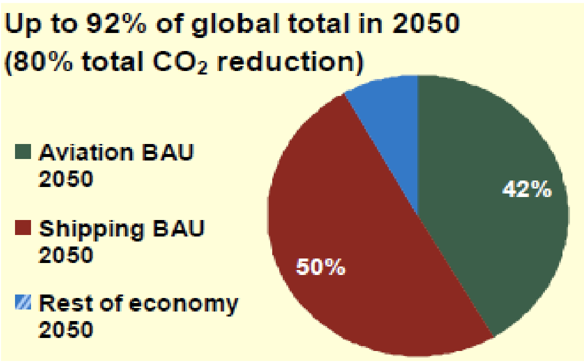
[2] Available at http://ec.europa.eu/environment/air/transport/ships.htm.

One critical factor by which any MBI will be judged is whether it includes a cap on emissions that is commensurate with keeping global temperature rise as far below 2°C (above pre-industrial levels) as possible, and returning to no more than 1.5°C over time.

22 The Alliance of Small Island States (AOSIS) fought for and succeeded in retaining a reference to the 1.5°C goal in the Copenhagen Accord. The goal is critical to many AOSIS countries, since sea-level rise associated with 2°C may make their territories uninhabitable. To achieve even the 2°C goal with a high probability will require global emissions reductions of at least 80% from 1990 levels by 2050, with negative global emissions in the second half of the century.[3] The share of Business as Usual (BAU) Shipping Emissions in such a scenario is illustrated below:



Source: AEA Technology[4]

Figure 1: share of BAU international bunker emissions in carbon-constrained world

23 Furthermore, the World Bank estimates that $75 to $100 billion will be needed annually for adaptation to climate change (leaving aside the financing of clean development), and Small Island States have a strong moral claim to be amongst the first to receive this funding. In this context, the co-sponsors are surprised that the Government of the **Bahamas**, an AOSIS Member State, believes it is a sufficient response to pursue efficiency improvements alone (MEPC 60/4/10), since these would not limit overall emissions or generate revenue that could help to fund adaptation. The reasons given are that MBIs would function as a penalty on trade and development, but no quantitative argument is advanced to support this view.

24 Research carried out for WWF (presented in document MEPC 58/4/39) and supported by the findings of a document submitted to this meeting by Denmark (MEPC 60/INF.7) indicates that these impacts would be small. A possible exception is remote islands, where the cost of imports could rise by around 1%. However, the co-sponsors acknowledge that further studies are required. The co-sponsors therefore call on the Committee to make the examination of impacts of MBIs on developing countries central to the Terms of Reference of the Impact Assessment to be agreed at MEPC 60, along with an examination of possible *de minimis* thresholds that exempt traffic on routes to vulnerable countries. The timely provision of this information, possibly with an intersessional meeting to present the results of the study, should allow for a more informed debate at MEPC 61.

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3 See "Sharing the effort under a global carbon budget" Ecofys and WWF 2209, page 11 http://assets.panda.org/downloads/wwf_ecofys_carbon_budget_final.pdf. Negative global emissions can be achieved by capturing and storing CO_2 released from burning biomass.

4 Taken from a presentation given at COP 15 by AEA Technology, using data from "Report on International Aviation and Maritime Emissions in a Copenhagen (post 2012) Agreement, AEA 2009, see www.dft.gov.uk/about/eibr/int/intcopenhagenagreement.pdf.

25 It is not inevitable for island States who have large ship registries to oppose a global MBI. The co-sponsors commend the Government of the **Marshall Islands** for supporting the proposal on the International Fund for Greenhouse Gas emissions from ships (MEPC 60/4/8).

26 In the view of the co-sponsors, the proposal for efficiency credit trading by the **United States** (MEPC 60/4/12) also falls short of what is required, as it would allow overall emissions to continue to increase, without triggering compensatory reductions in other sectors. The proposal also risks confusing two tracks of the Committee's work that are best kept separate: on energy efficiency measures, and on MBIs.

27 The proposal by **Japan** (MEPC 60/4/37) for an enhanced efficiency incentive risks rewarding operators for implementing measures that are already in their commercial interest (unless the baseline is carefully defined). It would also recycle revenues to those sections of the industry that are already the best resourced. This would be inequitable, and might in fact generate less additional reductions than using the same revenues to improve environmental performance elsewhere in the industry, or in other sectors where reductions are cheaper. A balance needs to be struck, with some proportion of revenues supporting in-sector mitigation, but the Japanese proposal is in the co-sponsors' view far too skewed towards rewarding the industry. A carbon price, levied on all shipping emissions, should provide a sufficient incentive to implement fuel-saving measures, when combined with robust, universal and mandatory efficiency standards.

28 While the proposal for a Vessel Efficiency System by the **World Shipping Council** (MEPC 60/4/39) is a welcome contribution to the debate on applying efficiency standards, it must not be offered as an alternative to a genuine MBI. The co-sponsors are very disappointed by the lack of ambition demonstrated by the WSC in its submission (MEPC 60/4/28) on emissions caps, and a number of their arguments are incomplete or inaccurate. "Governments have *not* chosen to establish limits to the aggregate emissions associated with transportation sources" (paragraph 5) because with the exception of aviation (for which a sectoral cap has been agreed at EU level), those sources are attributable to countries, and are therefore covered (in the case of Annex I Parties) under economy-wide national caps – an approach the industry has resisted. As noted by WSC, these sources are often subject to technical standards, and road transport is additionally subject to very substantial fuel taxes in many countries: the equivalent for shipping would be a mandatory EEDI, a fuel levy *and* a capped ETS.

29 It is untenable to argue that a shipping MBI would unduly penalize the shipping industry *vis-à-vis* other transport modes, and arguing for delay until a "global, cross-sectoral emissions trading scheme" is established (paragraph 9) is precisely the kind of tactics that will damage the shipping industry's reputation.

Action requested of the Committee

30 The Committee is invited to consider the information and views contained in this document and take action as appropriate.

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