

INTERNATIONAL MARITIME ORGANIZATION



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MARINE ENVIRONMENT PROTECTION
COMMITTEE
57th session
Agenda item 4

MEPC 57/4/4
21 December 2007
Original: ENGLISH

PREVENTION OF AIR POLLUTION FROM SHIPS

A global levy on marine bunkers, primarily to be applied for the acquisition of CO₂ emission quotas through the purchase of CO₂ credits

Submitted by Denmark

SUMMARY

Executive summary: This document proposes a global bunker levy as a way forward to achieve Green House Gas Emission reductions throughout the maritime industry. It is furthermore suggested that a levy should primarily be applied for the acquisition of CO₂ emission quotas through the purchase of CO₂ credits. This submission is complemented by the information provided in document MEPC 57/INF.13.

Action to be taken: Paragraph 11

Related documents: A.963(23); MEPC 57/4/2; MEPC 57/4/3 and MEPC 57/INF.13

Introduction

1 In document MEPC/57/4/3 it is proposed to create a substantially strengthened incentive for implementing both existing and new technology by means of the development of a mandatory CO₂ design index for new ships. Furthermore, in the comprehensive report from the MEPC Correspondence Group on 'GHG emissions from ships' co-ordinated by Australia and the Netherlands (MEPC 57/4/5) a series of technical measures for ship design have also been recommended for further consideration. Such measures, however, will only have full impact and effect in a longer term perspective.

2 It is, therefore, crucial for the shipping industry to show leadership in relation to the climate change issue, and contribute actively with a short term impact perspective as well.

Objective

3 An ambitious objective with a view to achieving reductions in energy consumption throughout international shipping will most likely not be possible on the basis of available technical measures in a short-term perspective. Therefore, the only short-term solution available appears to be the use of cost-efficient and well-established market-based measures, such as emissions trading.

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4 The objective of this document is therefore to initiate a debate, and a decision-making process, potentially leading to the establishment of a global levy on marine bunkers, primarily to be applied for the acquisition of CO₂ emission quotas through the purchase of CO₂ credits.

5 As a market-based measure with broad coverage, the concept of a global levy on marine bunkers is believed to have considerable merit. Moreover, it would serve as a major statement by the international maritime community of the importance of addressing climate change in a comprehensive manner.

6 However, it is clear that the effectiveness of such a proposal is to a high degree dependent on the detail of the scheme and its implementation across countries. Similarly, its introduction would need to be built on broad international consensus.

7 Realizing that such a proposal requires further development and consideration, Denmark is forwarding this submission, complemented by the information provided in document MEPC 57/INF.13, for further discussion and evaluation on the relevant elements in a levy scheme on marine bunkers.

Key features of the scheme

8 The following key features should apply to a levy scheme on marine bunkers:

- .1 All ships in international trade will become subject to a bunker levy, established at a given cost level per ton of fuel bunkered. Such a levy should apply to all marine fuels taking due account of different emissions factors.
- .2 Revenue collected nationally by parties to be established through further deliberations will be channelled to an independent international maritime greenhouse gas (GHG) emission fund, managed by parties/organizations yet to be determined.
- .3 Any revenue generated is to be applied for the following purposes;
 - Acquisition of emission quotas/credits generated in other industrial sectors.
 - Funding of adaptation projects in developing countries, or adaptation under the United Nations Framework Convention on Climate Change (UNFCCC).
 - Funding of the IMO Technical Corporation programme, as appropriate.
- .4 Revenues should not be perceived as an alternative revenue source for mainstream IMO activities or other activities not closely related to emission mitigation objectives.
- .5 Revenues are explicitly not to be utilized for vessel specific GHG emission reduction projects, e.g., retrofitting measures for specific vessels or fleets, whereas there might be merit in considering R&D projects with all-embracing benefits to the shipping industry to be funded under the scheme.
- .6 The appropriate level for the CO₂ emissions from international shipping in the future remains to be established.

Preliminary conclusions

- 9 A preliminary consideration leads to the following main conclusions:
- .1 A levy applied to marine bunkers would generally be less likely to have significant impact on total CO₂ emissions from international shipping. However, a favourable effect would be the encouragement of (presumably limited) ship efficiency improvements, thus possibly achieving a reduction in the present emission growth rate.
 - .2 A levy can be utilized to achieve significant CO₂ emission reductions elsewhere through the purchase of CO₂ credits. A key issue in determining the impact would be the definition of the extent to which the maritime industry should counterbalance its CO₂ emissions and consequently how or if the bunker levy level should be linked to the market price of CO₂ credits. In relation to the latter, considerations might also be given to a concept of a fixed per-litre levy set periodically by the IMO as it might be simpler and lessen the potential for inaccuracies or fraud as well as provide greater certainty to industry about medium-term carbon prices to inform investment decisions.
 - .3 The funds generated by a bunker levy will have an impact in the existing carbon markets, possibly generating adverse cost consequences for other industrial sectors purchasing credits in the same market. Further economic modelling and analysis may be required to evaluate this in detail.

For a bunker levy system to prevail successfully, it is crucial to prevent non-participating countries from circumventing the system. Should this not take effect, a number of evasive strategies would be the result. The principles of no more favourable treatment would have to apply.

Summary

10 In summary, the process of designing a bunker levy scheme, which satisfactorily fulfils relevant evaluation criteria, is indeed a challenge. However, Denmark does not see feasible alternatives for the time being. More importantly, the establishment of a transparent and fraud proof levy collection, transfer and disbursement system appears viable, even if complex.

Action requested of the Committee

11 The Committee is invited to consider the information and the proposal provided in this document and in the supporting document MEPC 57/INF.13, and take action as appropriate.