<u>European Climate Change Programme – WG Ships</u>

<u>15-16 November 2011</u>

<u>Background document:</u>

<u>Main possible policy options</u>

Disclaimer

The purpose of this background paper is to indicate possible areas for discussion and assist participants with their preparation. This document should not be seen in any way to limit the scope of discussion or to exclude any relevant aspect. ECCP participants are requested to raise and address all relevant aspects. This document is not intended to indicate any preferences of the Commission.

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Introduction

The objective of this document is to explore which policy options are best suited in a regional (i.e. EU) context and how they can be designed. Based on previous meetings, a series of key points have emerged which should be addressed by any EU policy initiative. EU action must:

- Be flag-neutral,
- Be fully compatible with international law,
- Avoid competitive distortions and maintain / enhance competitiveness of EU industry,
- Be simple and effective,
- Stimulate action by others,
- Build on work at IMO level,
- Interact easily or be replicable at the international level.

Possible policy options

1. <u>Levy/Compensation fund</u>

    a. <u>Mandatory EU levy/Compensation fund</u>

- <u>Responsible entity:</u> vessel would be the compliance entity (i.e. ship owner, ship operator or ship manager would be responsible)
- <u>Scope:</u> All or part of emissions from ships visiting EU/EEA ports
- <u>Decision process</u>: A new Regulation or Directive. Unanimity likely to be required.

A levy could be set on fuel. The amount of the levy could be determined in accordance with the carbon content of the fuel. The revenues raised by this levy would be earmarked to a compensation fund which could help the maritime sector to reduce their emissions.

This option is based on submission to IMO from Cyprus, Denmark, the Marshall Islands, Nigeria and IPTA.

b. Industry-managed compensation fund with penalties

- Responsible entity: vessel would be the compliance entity (i.e. ship owner, ship operator or ship manager would be responsible)
- Scope: All or part of emissions from ships visiting EU/EEA ports
- Decision process: Legal basis to be determined.

The maritime sector could be encouraged to implement their own compensation fund to reach the objective set by the EU. However, to ensure that this fund is implemented, the Member States could set penalties for non-members of the fund. The EU could set minimum standard for the penalties.

Such system has already been implemented by Norway to reduce the NOx emissions. Norway combined the voluntary fund with a tax set higher than the subscription fee of the fund

2. Emission trading scheme (ETS)

- Responsible entities: options include ship owner, ship operator, ship manager, ports, groups of ports, or regional organisations
- Scope: All or part of emissions from ships visiting EU/EEA ports
- Decision process: Amend EU ETS Directive (2003/87/EC) or a new directive would be required for an independent ETS

Emissions would be capped based on historical performance. A monitoring/reporting of vessel emissions required. Shipping ETS could be linked to EU ETS or could be independent. Range of options for allocation and use of allowance value, including option to auction and transfer revenue to a global fund once agreed, have also to be considered. There is the possibility to phase inclusion in scheme based on vessel size, type or routes.

This option is based on submission to IMO from France, Germany, Norway and UK.

3. Taxation on fuel or GHG emissions

- Responsible entities: fuel-based tax - fuel suppliers; emissions-based tax - vessel would be the compliance entity (i.e. ship owner, ship operator or ship manager would be responsible)

- Scope: fuel-based tax - all marine fuel supplied within the EU/EEA; emissions-based tax - all or part of emissions of ships from visiting EU/EEA ports

- Decision process: Amendment of Directive 2003/96/EC on taxation of energy products or an other legal instrument - would require unanimity

The level of the tax determines the environmental effectiveness. An excise can be set on fuel (according to the carbon content) or a tax can be set on CO2 emissions. Revenues have to go to Member States.

4. Mandatory ship-level emission reductions

a. Mandatory emission reductions per ship

- Responsible entities: vessel would be the compliance entity (i.e. ship owner, ship operator or ship manager would be responsible)

- Scope: All or part of emissions from ships visiting EU/EEA ports

- Decision process: a new Directive

Mandatory emission reductions targets would be applied to each vessel, based on vessel characteristics (e.g. age, type of ship, etc.). Compliance could be ensured via harmonized EU provisions or national legislations. No revenues would be generated.

This option is based on submission by the Bahamas to the IMO.

b. Mandatory emission reductions per ship with incentives

- Responsible entities: vessel would be the compliance entity (i.e. ship owner, ship operator or ship manager would be responsible)

- Scope: All or part of emissions from ships visiting EU/EEA ports

- Decision process: a new Directive

Mandatory emission reductions targets would be applied to each vessel, based on vessel characteristics (e.g. age, type of ship, etc.). Ships that over-achieve against their targets could be rewarded via the ability to trade "overachievements" thanks to credits that they could trade on the market. Compliance could be ensured via harmonized EU provisions or national legislations. No revenues would be generated. There is a need to ensure that the credits can be tradable on the carbon markets.