

Possible use of potential revenues

Introduction

Any regional MBM system for tackling GHG emissions from shipping/ maritime transport sectors is likely to generate revenues, either from a levy or from the auctioning of allowances. Market based measures can also include subsidies. An important element of any possible proposal for a system may be the use of revenues.

Mechanisms exist both at European and national level for funding of projects by revenues generated by levies/auctioning of allowances. Such initiatives include:

- at regional level, between €4 and 5 billion of the EU Emissions Trading System (EU ETS), funded from the sale of 300 million emission allowances, will be used to co-fund demonstration projects for carbon capture and storage (CCS) as well as innovative renewable technologies (RES). This aims to encourage private sector investors and EU Member States to invest in commercial low-carbon demonstration projects. The programme is managed by the European Commission with support from the European Investment Bank. The first call for proposals, covering 200 of the 300 million allowances, was launched on 9 November 2010. In this first round, 13 CCS projects and 65 RES projects, which could also include shipping activities, were submitted for further assessment by a total of 21 Member States.¹

- at national level the German Climate Initiative which receives funding from emissions trading, has been financing climate protection projects in developing and transition countries since 2008. Greece also intends to transfer an estimated 140 million euro from auctioning surplus carbon emission rights to the Green fund used to finance environmental projects. A levy-based example is the Norwegian NOx agreement where industry is exempted from a NOx levy if paying a fee to the NOx fund from which revenues are redistributed to industry projects reducing NOx emissions.

A declaration of Heads of State at the European Council in 2008 refers to the Member States intention to use revenues from auctioning of allowances in the EU ETS to reduce greenhouse gas emissions, mitigate and adapt to climate change, avoid deforestation, etc, both in Europe and in developing countries.

Examples of proposed use of revenues from the auctioning of allowances in the EU ETS are found in art. 3d fourth paragraph of Directive 2008/101/EC and in art.10 of Directive 2009/29/EC states that Member States should use revenues to tackle climate change in the EU and third countries, *inter alia*:

- to reduce greenhouse gas emissions,
- to develop renewable energies,
- to put in place measures to avoid deforestation
- to adapt to the impacts of climate change in the EU and third countries, especially developing countries,
- to fund research and development for mitigation and adaptation,
- to encourage a shift to low-emission and public forms of transport,

¹ For further information, see: http://ec.europa.eu/clima/funding/ner300/index_en.htm.

- to increase energy efficiency,
- to fund contributions to the Global Energy Efficiency and Renewable Energy Fund,
- to cover the cost of administering the Community system.

Use of potential revenues – possible purposes

If revenues were to go to different purposes, a key may be used for defining the proportional allocation. Possible purposes are (not exhaustive):

- Mitigation and adaptation

As foreseen for revenues from aviation, some part of the revenues from a maritime emissions system could go to mitigation and adaptation. Channelling revenues to mitigation and adaptation in non-Annex I countries (i.e. outside the EEA-, OECD members in annex I to the 1992 UNFCCC) could also take up a CBDR aspect. If a part of the revenues were reserved for these purposes, the proportion could reflect to what extent shipping would be able to offset emissions through CDM and similar mechanisms (the bigger the access to CDM allowances/credits, the smaller the part of revenues reserved for mitigation).

- Support to developing countries

It could also be considered if parts of the revenues could be reserved to compensate developing countries for undesirable economic impacts that an MBM could have on them. A survey has shown that in particular small island developing states may be more affected by an increase in maritime transport costs from transport to and from these islands.

- Research and development

Again as for aviation, a part of the revenues could be reserved for R&D projects for the development of less energy intensive shipping, technology with lower emissions and climate change adaptation of maritime transport.

R&D work could link to existing programs.

- Support to industry

Funds exist that foresee a distribution of revenues back to industry to finance emission reduction measures. This mechanism weakens the aspect of the polluter pays principle, but may provide for an efficient mitigation of climate change and has a supplemental allowance trading element as revenues from some parts of industry are allocated to projects in other parts of industry where you find the best cost/benefit ratio. Although the goal of the systems is to see emission reducing solutions implemented across the business, substantial cuts are taken where they are cheapest.

If revenues from MBM measures also (in part) would be redistributed to industry, purposes could encompass a wide range of emission reducing measures that would not otherwise have been taken. Both ships being built and ships in service could be eligible for support, as could be ports and other shipping related facilities. Due consideration would be likely to be taken not to punish early movers.

Support to industry could contribute not only to the shipping industry, but to a wider segment of manufacturers in the EEA also including industry in land-locked Member States. The support allocated could aim at strengthening EEA competitiveness and support broader European maritime transport policies.

Possible purposes may include (not exhaustive):

Port electrification, virtual arrival systems, fleet renewal, retrofitting of ships, energy recovery on ships, industry research and development projects, development of alternative fuel infrastructure, climate adaptation of vessels, renewable energy generation in ports and on ships

- Support for reaching a global agreement

In order to promote the global agreement that is desirable, it could be decided that revenues from a possible regional system could be transferred to a fund under a future global agreement, once countries agree and ratify such an agreement.

- Management/administrative costs

Revenues could also cover management/administration as in other systems.

Material requirements for support

The material requirements for support could be set out in EU legislation to be applied by the administering body (see below).

Eligible projects

Requirements as to the location, nationality of operator, or vessel benefitting from support could be set out in EU legislation – to the extent allowed under WTO agreements and acceptable to EU trading partners. Alternatives could be:

- Projects in EEA states (EU+NO and IC) and to EEA controlled, EEA flagged vessels.
- As above, but not necessarily EEA flagged vessels.
- All vessels/operators calling ports in EEA and falling within the scope of the MBM system.
- No limitation

Administering body

An authority (or several) could manage the revenues including the allocation of revenues to projects. It could be done by:

- a new independent (expert) EU body/agency
- an existing (independent) (expert) EU body
- the Commission

- the Council (after proposal from the EC)
- a combination of some of the above-mentioned possibilities

The body could either be manned by experts or be obliged to seek the advice from an expert panel.

Possible range of potential revenues

Heavily dependent on the scope of a possible system, potential revenues under different geographical scopes based on a regional levy at today's carbon price at around 17 euro, or an emission trading system without free allocation, would be:

- Traffic to and from EU ports (as aviation), 310.6 Mt CO₂: **5.3 billion euro** per year
- From last port of call to EU port, period before entry into EU port and port of laden to EU port, 208 Mt CO₂: **3.5 billion euro** per year
- EU bound cargo only, less than 208 Mt CO₂: **less than 3.5 billion euro** per year
- Intra-EU traffic only, 112 Mt CO₂: **1.9 billion euro** per year
- Territorial waters only, 33-38 Mt CO₂: **646 million euro** per year

The CO₂ emissions figures cover all traffic in 2006, also traffic that is not likely to be covered by a possible regional proposal. If a regional system is pursued, it would not necessarily cover all maritime emissions/ships and it could take a phased approach. The estimates therefore provide a very rough estimate of potential revenues.

In addition to these estimates come emissions from, to and intra Iceland and Norway (EEA members) and candidate countries which may become members before a possible system enters into force.

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 or views of the Commission.