

LEVY VS ETS for shipping

Green: Positive elements – supporting the principle
Red: Negative elements – working against the principle

In this comparison, the comments on ETS are based on a classic, global or regional open CAP and TRADE system

Issue	ETS	LEVY
<p>IMO principle 1</p> <p>Effective in contributing to the reduction of total global greenhouse gas emissions</p>	<p>The system would contribute to the reduction of total GHG both by way of the incentive to reduce cost by optimizing ships or by the purchase of additional credits from CDM and JI schemes in other sectors.</p> <p>The strength of a cap and trade system is that it places an absolute limit on the total emissions that can occur and therefore has the potential to guarantee ecological effectiveness.</p> <p>The other side of the coin is that the cost is not known in advance.</p> <p>The system is only effective if it is ratified by a sufficient number of countries and applied to all ships including ships from non Annex I countries.</p> <p>In the EU ETS scheme each individual Member State may spend the revenue from selling allowances for other purposes than reduction of greenhouse gas emissions.</p>	<p>The system would contribute to the reduction of total GHG both by way of the incentive to reduce cost by optimizing ships or by the purchase of additional credits from CDM and JI schemes in other sectors.</p> <p>The weakness of the Danish levy system is that it does not place an absolute limit on the total emissions that can occur and therefore cannot guarantee ecological effectiveness. However, that is not necessarily so in any levy system. An alternative levy system could be designed to include a cap.</p> <p>The other side of the coin is that the cost is known in advance.</p> <p>The system is only effective if it is ratified by a sufficient number of countries and applied to all ships including ships from non Annex I countries.</p> <p>The revenue from the levy will only be used for reduction of greenhouse gas emissions.</p>

<p>IMO principle 2</p> <p>Binding and equally applicable to all flag States in order to avoid evasion</p>	<p>A global scheme under IMO could be equally applicable to all flag states if a sufficient number of countries ratified and there was no exclusion for ships registered in non-participating countries. A way to ensure this is to tie the permission for a ship to call at a port to the vessel's participation.</p> <p>Any regional scheme would imply that countries in other parts of the world would be affected only to the extent that they use shipping for trade with participating countries. This feature could lead to evasion.</p>	<p>A global scheme under IMO could be equally applicable to all flag states if a sufficient number of countries ratified and there was no exclusion for ships registered in non-participating countries. A way to ensure this is to tie the permission for a ship to call at a port to the vessel's participation.</p> <p>Any regional scheme would imply that countries in other parts of the world would be affected only to the extent that they use shipping for trade with participating countries. This feature could lead to evasion.</p>
<p>IMO principle 3</p> <p>cost-effective</p>	<p>The theory behind Emissions Trading Schemes is recognised as being effective in driving investment towards the lowest cost of abatement. Although shipping may be net buyers of credits this will, by definition, be cheaper than investing in alternative technologies / other mandatory carbon reduction requirements.</p> <p>The cost of administration would be very large, in particular when verification is also taken into account.</p>	<p>The theory behind Emissions Trading Schemes is recognised as being effective in driving investment towards the lowest cost of abatement. The revenue from the levy is spent on allowances in other sectors. If the abatement cost is lower in the shipping sector, the system will not be cost efficient compared to an emission trading system.</p> <p>The cost of administration would be less than in an emission trading system.</p>
<p>IMO principle 4</p> <p>Able to limit, or at least, effectively minimize competitive distortion;</p>	<p>Evasion could be addressed through flag and port State penalties. It should be noted that the port State could also take action with respect to non-party vessels entering its port if the agreement includes an obligation "to give no more favourable treatment" to non-party vessels.</p> <p>In relation to competition from other</p>	<p>Evasion could be addressed through flag and port State penalties. It should be noted that the port State could also take action with respect to non-party vessels entering its port if the agreement includes an obligation "to give no more favourable treatment" to non-party vessels.</p> <p>In relation to competition from other</p>

	<p>transport modes, any system applied to shipping will benefit less energy efficient transport modes.</p> <p>An ETS offers large shipowners potential trading advantages compared to a levy, that may be gained at the expense of smaller competitors in the same way as they currently enjoy with fuel prices.</p> <p>An emission trading scheme is likely to exempt certain ships or companies. If allowances are distributed based on historical emissions competition will certainly be distorted.</p>	<p>transport modes, any system applied to shipping will benefit less energy efficient transport modes.</p> <p>A levy offers large shipowners less potential trading advantages compared to an ETS, that may be gained at the expense of smaller competitors in the same way as they currently enjoy with fuel prices.</p> <p>A levy would apply to all fuel purchased by all ships.</p>
<p>IMO principle 5</p> <p>Based on sustainable environmental development without penalizing global trade and growth</p>	<p>The concept allows for initiating sustainable developments in other sectors or developing nations and allows for sustainable developments for ships. As such it poses no constraint on the growth of world trade. This constitutes a win-win situation for shipping and other sectors and developing nations. It does add to inflation though as it adds on to transportation costs in general.</p>	<p>The concept allows for initiating sustainable developments in other sectors or developing nations and allows for sustainable developments for ships. As such it poses no constraint on the growth of world trade. This constitutes a win-win situation for shipping and other sectors and developing nations. It does add to inflation though as it adds on to transportation costs in general.</p>
<p>IMO principle 6</p> <p>Based on a goal-based approach and not prescribe specific methods</p>	<p>The aim of an economic instrument is per definition goal based.</p>	<p>The aim of an economic instrument is per definition goal based.</p>
<p>IMO principle 7</p> <p>Supportive of promoting and facilitating technical innovation and R&D in the entire shipping sector</p>	<p>The increased cost to buy allowances will stimulate funding of R&D projects in the shipping sector, but the impact is considered weak. It would not be expected to progress R&D projects if the cost of buying allowances from outside the</p>	<p>The increased cost to buy allowances will stimulate funding of R&D projects in the shipping sector, but the impact is considered weak. It would not be expected to progress R&D projects if the cost of buying allowances from outside the</p>

<p>IMO principle 8</p> <p>Accommodating to leading technologies in the field of energy efficiency</p>	<p>shipping sector is cheaper.</p> <p>See argument above.</p>	<p>shipping sector is cheaper.</p> <p>See argument above.</p>
<p>IMO principle 9</p> <p>Practical, transparent, fraud-free and easy to administer</p>	<p>No – the system described is not particularly practical, would not be fraud free and not easy to administer.</p>	<p>A well established system exists today under which refiners and oil terminals declare volumes of heavy grades of oil on an annual basis to facilitate IOPC Fund contributions. It appears a rather straightforward process to add fuel oil to this system and to collect and control a global levy scheme on marine bunkers in the same manner as in the IOPC Funds.</p>
<p>Credible to stakeholders & able to demonstrate compliance with climate change goals, including monitoring:</p>	<p>The trading system provides a credible means for shipping to demonstrate its commitment to tackling climate change. It promotes sustainability both within and outside the shipping industry. The cap makes it easy to explain.</p>	<p>A levy system that is aimed at offsetting CO2 emissions provides a credible means for shipping to demonstrate its commitment to tackling climate change. It promotes sustainability both within and outside the shipping industry.</p>
<p>Credit for actions already taken which have already resulted in GHG reductions:</p>	<p>This would depend upon how the baseline was defined. Insofar as allowances are issued free of charge, allocating by preference to an industry average level of emissions is seen to be a fairer approach, rewarding those with a performance better than the benchmark. Allocation by historical emissions will not give credit for actions already taken.</p>	<p>A compensation fund / levy system is based upon fuel consumption. This implies that actions already taken that have resulted in the reduction of GHG emissions are credited by definition; less is charged because less fuel is needed.</p>
<p>Certainty – High degree of certainty so that business can invest with confidence.</p>	<p>The carbon price will, by definition, fluctuate in accordance with market conditions. Investment confidence will be linked to the stability of the market.</p>	<p>The carbon price will be known. Investment confidence will be linked to the stability of the market.</p>