



INTERNATIONAL ASSOCIATION OF DRILLING CONTRACTORS

MEMORANDUM

TO: IMO Distribution List

FROM: Alan Spackman, Vice President, Offshore Technical and Regulatory Affairs

SUBJECT: Report on the 3rd Intersessional Meeting of IMO Working Group on Greenhouse Gas Emissions from Ships

DATE: 4 April 2011

The 3rd Intersessional Meeting of the IMO Working Group on Greenhouse Gas Emissions from Ships (GHG-WG 3) was held from 28 March to 1 April 2011, under the Chairmanship of Mr. Andreas Chrysostouou (Cyprus). Representatives attended the session from: 35 IMO member countries, one Associate Member of IMO, three UN specialized agencies, three intergovernmental organizations and 20 non-governmental organizations were represented. IADC was not represented.

The purpose of the Meeting was to examine and provide the Groups' opinion to the Marine Environment Protection Committee (MEPC) on various matters relating to the use of Market-based Measures (MBM) as a possible mechanism to reduce greenhouse gas emissions from international shipping. The following is a summary of the deliberations of the meeting that may interest:

Need and purpose of a Market-Based Measure

The Meeting debated the need and purpose of a Market-Based Measure as a possible mechanism to reduce greenhouse gas emissions from international shipping. The debate revealed two groups of opinion:

- One group considered that a compelling need for an MBM had been clearly demonstrated and its purpose is to reduce GHG emissions from international shipping.
- The other group considered that a compelling need for an MBM had not been clearly demonstrated and as such there was no purpose for it.

A significant issue in the debate is whether or not technical and operational measures have been assessed for their adequacy or inadequacy in meeting the goal.

Although the two groups were not of equal size the Intersessional Meeting agreed to forward both opinions to the Committee with a summary of the supporting arguments put forward by each group.

Presentation of MBM proposals

Presentations were provided to the Meeting on MSMs, as follows:

MBM Proposal	Proponents
Market-Based Instruments: a penalty on trade and development	The Bahamas
International Fund for GHG emissions from ships (GHG Fund)	Denmark, Cyprus, the Marshall Islands, Nigeria, and IPTA
Achieving reductions in GHG emissions from ships through port State arrangements utilizing the traffic, energy and environment model, STEEM (PSL)	Jamaica
The Global Emissions Trading System (ETS)	Japan and WSC
The Ship Efficiency and Credit Trading (SECT)	The United States
A Rebate Mechanism (RM) for a MBM for international shipping	IUCN

In debating the measures, some delegations indicated a preference for certainty in emission reductions while other delegations opted for certainty in price (cost). Some delegations considered certainty in emission reductions and certainty in price to be equally important, and other delegations considered that some of the MBM proposals might achieve both certainty in emission reductions and certainty in price. The Meeting agreed that there was a need to further consider the appropriate balance between certainty in emission reductions and certainty in price to achieve optimal emission reductions and cost effectiveness.

The Meeting noted that there were several possible uses for revenues generated by an MBM for international shipping, as identified in the MBM proposals, including:

- Incentivizing shipping to achieve improved energy efficiency;
- Offsetting – purchase of approved emission reduction credits;
- Provide a rebate to developing countries;
- Finance adaptation and mitigation activities in developing countries;
- Finance improvement of maritime infrastructure in developing countries (e.g. Africa);
- Support research and development to improve energy efficiency of international shipping; and
- Support the Organization’s Integrated Technical Cooperation programme.

The Intersessional Meeting agreed that all MBM proposals:

- Provide an incentive for shipowners to improve their ships technically or their operational efficiencies;
- Some of the MBM proposals (e.g., EIS and SECT) expressly seek to incentivize shipping to reduce emissions through energy efficiency improvements by the adoption of new technology and improved operational practice;
- Revenues raised through the introduction of an MBM for international shipping could be used to fund technology transfer to developing countries; and
- Encouraging research and development to develop new technology may also be a goal for the use of possible revenues.

The Meeting noted that, if an agreed cap is set on ship emissions, then, for the predicted scenarios of growth to 2050, international shipping would be required to make use of out-of-sector emission reductions, to a greater or lesser extent, depending on the stringency of the chosen MBM. The Meeting confirmed that the extent to which the shipping industry is required or chooses to make use of out-of-sector emission reductions will be dependent upon the MBM adopted and/or the success of in-sector reductions, as well as the access to cost effective and verifiable offsets.

The Meeting therefore agreed to include in its report to MEPC a matrix identifying and listing the strengths and weaknesses as understood by the proponents of the MBMs.

The Meeting noted that there was a need to reflect the principles of the UNFCCC and to take the special needs and socioeconomic circumstances of developing countries into account in the design of an MBM under IMO. All delegations agreed that it is indeed possible to reconcile the IMO principle of no discrimination with the UNFCCC principles but diverging views existed on how they should be addressed in an MBM for international shipping. The Meeting noted that States which consumers and industries that would be impacted by introduction of an MBM, could be compensated, and that this could be one option for reconciling the UNFCCC and IMO principles. The Meeting noted that all MBM proposals sought to address UNFCCC principles but not all delegations were satisfied with the manner in which they had done so. The Meeting agreed that further discussion is required on the issue and that focus on the goal of the reduction of GHG emission from ships should not be lost.

The Meeting agreed that a further impact study was needed to address the impact on developing countries due to the introduction of an MBM from international shipping, and, in doing so, any impact study should address both positive and negative impacts for developing countries, including possible cost if no action by international shipping was taken. The Meeting agreed also that further studies would be more meaningful and comprehensive when proposals are more mature and MBM proponents were urged to fully mature their proposals in the shortest possible time so that the necessary impact studies could be undertaken.

When it becomes available, a complete (password protected) copy of the Meeting report, as prepared by the IMO Secretariat, will be posted on the IADC website at: <http://iadc.org/committees/offshore/IMO.html>

Please feel free to contact me by phone (+1 713 292-1964) or e-mail (alan.spackman@iadc.org) with any questions you may have regarding this report.