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## **MEDIA RELEASE**

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**Fiji, Marshall Islands and Solomon Islands propose ways that revenues accruing from the implementation of the Revised IMO Strategy on the reduction of GHG emissions from ships could be used.**

The three Pacific island countries, in a submission to the IMO's Intersessional meeting of the Working Group on reduction of GHG emissions from ships (Submission ISWG - GHG 14/2/6), emphasised that the management and disbursement of revenue needed to be resolved with satisfactory clarity and urgency to allow selection of the correct basket of measures and related timelines to be identified in the Revised Strategy at the 80th meeting of the Maritime Environment Protection Committee (MEPC 80) of the IMO. They added that failure to do so would delay implementation of the Market-based Measures (MBMs) and therefore impact achieving increased ambition, significantly impeding endorsement of a 1.5°C commensurate Revised Strategy in July this year and would likely lead to both increasing inequality between States and increasing costs of future actions to States, industry and ultimately consumers.

Under the Revised Strategy, revenue could come from multiple sources such as:

- implementation of a revenue-generating MBM, a variation of an emissions trading scheme (ETS) or a GHG levy.
- financial penalties from enforcement of a command-and-control regulation, e.g. a global fuel standard.
- voluntary contributions from Member States.

The Marshall Islands and Solomon Islands proposed an MBM (a levy) which puts a price on GHG emissions from burning fossil fuels in ships so that the price differential with zero carbon fuels reduces, making alternative fuels attractive and fossil fuels less so. A by-product of a successfully implemented levy that significantly speeds up the phasing out of GHG emissions, is a potential revenue that has been valued at \$60 billion to \$80 billion per annum. The primary rationale for an MBM must be to provide a signal to the market that the price differential between fossil fuels and zero and low carbon alternatives including scalable zero emission fuel (SZEf) is being progressively addressed.

Of the different MBMs proposed, a levy is the most appropriate, simplest and easiest to implement. For the levy to be consistent with 1.5, there needs to be an implementation date of 2025 and an initial price of \$100/tonne CO<sub>2</sub>-e, with upward ratchets on a regular basis until price

parity is achieved, given the urgency required by the climate emergency, and the lower costs and risks evidenced to be associated with early action. If a later date for commencing collection of the levy is implemented, then a higher entry price will be required.

The levy would be a charge on the procurer of the bunker fuel. The procurer would then either absorb the charge, or pass it down the value chain where any residual cost would ultimately be borne by the consumer. Any revenue-generating MBM should be advanced under the 'Polluter Pays Principle'. The proposed levy is an MBM applied to all international voyages without exemption. The revenues would not be generated from States directly and there would be no transaction costs to States in administering the levy.

The most vulnerable, smaller and less developed countries are expected to be the prime beneficiaries of revenues. The primary question for most such States is whether the share of revenue received through a disbursement mechanism offset the costs of the measure on their future development interests, or any increases in transport costs that result and impacts on their trade. This involves consideration of risk to each State and their level of trust in the collective global community; however costs and benefits could be reviewed and adjusted over time.

In IMO negotiations to date, there has been no agreement as to whether funds should be invested in or out-of-sector i.e. only spent on international ships, or also on other things like ports, and alternative fuels production. As the Principle of Polluter Pays dictates, revenue should be used to both clean up the pollution and to compensate the victims of that pollution. The last time the IMO considered MBMs over ten years ago they did agree that the majority of revenues should go to developing countries, particularly SIDS and LDCs.

If revenues were to be used exclusively for in-sector investment, States such as the Solomon Islands with no commercial interests or investment in any international shipping would not stand to receive any revenues. The climate vulnerable States, that already face some of the highest shipping costs in the world, are likely to face the highest negative impact from any basket of measures, because of a combination of factors including their geographic remoteness and small economies. Whilst it is likely that MBMs will lead to an increase in transport costs across the world, those increases will be greater for some States, meaning they are disproportionately negatively impacted.

There are a number of recommendations contained within existing proposals for in-sector revenue disbursement which include:

- offsetting, compensating or otherwise remediating those States subjected to disproportionate negative impacts arising from the implementation of IMO-mandated measures;
- feebate mechanisms where some or most of the revenue is passively recycled to reward more efficient international shipping;
- subsidising the research and development of international industry innovation;
- subsidising the research and development of international industry innovation and the deployment of successful innovation globally.

The consideration of out-of-sector investment of revenues may involve categories such as maritime and climate related investments.

The submission also observes that the shipping industry is not expected to solve all the world's problems. The energy transition is an opportunity to remedy the unequal impacts of historical emissions that mostly affect those who did least to cause the climate crisis.

**– End of Media Release –**

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