Kluwer International Tax Blog

Carbon Pricing and the Equitable Energy Transition of International Shipping

Goran Dominioni (Assistant Professor, School of Law and Government, Dublin City University) · Wednesday, June 7th, 2023

The International Maritime Organization (IMO) is currently considering the implementation of a basket of measures to decarbonize international shipping. These are to be in line with the climate mitigation targets included in the Initial IMO GHG Strategy — including reducing GHG emissions from shipping by at least 50 percent by 2050 over 2008 levels — and its ongoing revision. Many stakeholders have called for the adoption of a revenue-raising market-based measure — i.e., a carbon price — alongside a technical measure in this basket. A key issue in the negotiations is: ***How to best address equity concerns in the energy transition of international shipping.***

Key equity concerns relate both to: i) ensuring that countries that have contributed (or are projected to contribute) less to climate change, or have less capacity to address it bear a lesser burden in the energy transition — the so-called common but differentiated responsibilities and respective capabilities (CBDRRC) principle; ii) addressing potential disproportionately negative impacts on states from the implementation of global climate mitigation measures for international shipping. Negative impacts could include both an increase in transport costs and a reduction in the availability of maritime transport services on some routes. Some developing countries, especially SIDS and LDCs, are expected to suffer greater adverse impacts than others.

Two main ways to address equity concerns in international shipping are exemptions and the use of carbon revenues that could be raised by implementing a market-based measure. Route-based exemptions could avoid, at least partially, an increase in transport costs on these routes, thereby reducing negative impacts on states. Similarly, using carbon revenues could help reduce the rise in transport costs if spent on improving port efficiency or on shipping's decarbonization — thereby allowing the achievement of the IMO mitigation targets with less stringent climate policies. Interest in using carbon revenues from shipping is growing, as existing estimates indicate that these revenues could be substantial – between 40-60 billion US dollars per year up to 2050 – a significant amount compared to current climate finance flows.

Which approach–carbon revenues or exemptions– should be favoured in addressing equity concerns related to implementing a carbon price in international shipping? Recent research compares these two options in terms of their *climate effects* and ability to *address equity*-related concerns and finds that, overall, ***an adequate use of carbon revenues is likely to deliver better climate and equity outcomes than exemptions***. Scholars and policymakers highlight that exemptions weaken GHG mitigation incentives from carbon pricing. In international shipping, exemptions can also reduce the climate benefits of carbon pricing by opening opportunities to avoid or evade the price signal and creating uncertainty on the price applied to vessels that do not follow a fixed schedule (so-called tramp sector). Exemptions also reduce incentives for the production and deployment of zero-carbon bunker fuels in exempted countries, with adverse effects in terms of lost opportunities related to the economic gains of the green energy transition, the achievement of other environmental co-benefits —such as improved air quality— and building a skilled workforce that can thrive and contribute to achieving a zero- or low-carbon economy.

Sometimes it is also challenging to identify who benefits from route-based exemptions. For instance, if voyages to/from developing country *A* are exempted from the carbon price, developed countries *B* and *C* could benefit from the exemption if cargo traveling from country *B* to country *C* changes its route to call first at a port located in country *A* (and perhaps moves the cargo to a new vessel).

On the contrary, if adequately used, carbon revenues could deliver significant *additional* climate mitigation and adaptation benefits, both in the international shipping sector and beyond, and additional climate co-benefits (e.g., local environmental improvements and additional labour opportunities). It is also easy to identify which country benefits from carbon revenue use — at least as long as carbon revenues are distributed to governments (not the private sector).

Of course, the actual climate and developmental benefits of carbon revenue use depend on how carbon revenues are spent, both in terms of the activities that can be financed and the overall management and governance of carbon revenues. ***Experience from climate and development finance can provide many insights into the dos and don'ts of distributing carbon revenues from international shipping***. At the latest round of IMO negotiations, the World Bank, an observer at the IMO, proposed a framework to distribute carbon revenues from shipping. Recent academic research has also further elaborated on some aspects of an equitable distribution framework for carbon revenues from international shipping.

Overall, I believe ***there are many reasons to favour using carbon revenues over exemptions as the primary way to address equity concerns related to shipping's decarbonization***. This is not to say that carbon revenues alone are necessarily sufficient to address equity concerns. Other important aspects of an equitable transition include, for instance: i) ensuring that all countries have access to technologies needed to decarbonize maritime transport; and ii) procedural justice matters, for example, concerning the governance structure of carbon revenue use, are also crucial for an equitable transition of the sector. Nonetheless, for the reasons discussed above, in the choice between using carbon revenues and exemptions, the former should be favoured.

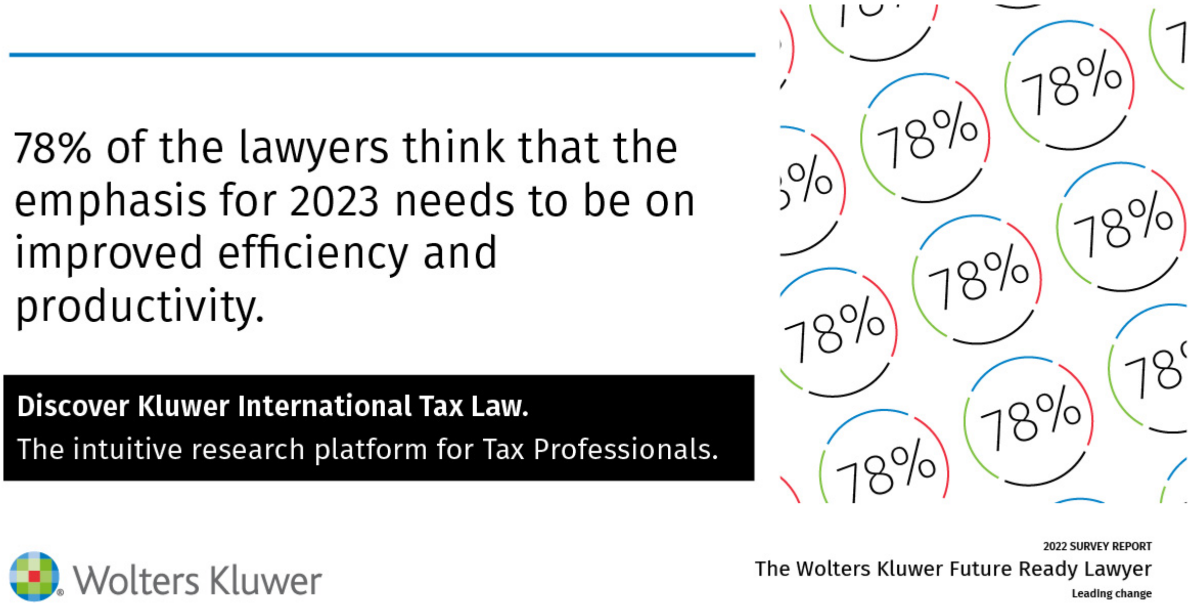
As various sub-global actors —including the EU— are moving to put a price on GHG emissions embedded in international trade, ***the IMO has an opportunity to implement ambitious climate policies for international shipping, thereby reducing the risks of regulatory fragmentation***. Besides potentially increasing compliance costs for the shipping sector, sub-global policymaking is often based on a unilateral understanding of what constitutes an equitable energy transition and risks leaving behind smaller economies, including many SIDS and LDCs. Getting the design of GHG policies for shipping right will be crucial for delivering the needed level of ambition that lessens the likelihood of sub-global action.

To make sure you do not miss out on regular updates from the Kluwer International Tax Blog, please subscribe here.

Kluwer International Tax Law

The **2022 Future Ready Lawyer survey** showed that 78% of lawyers think that the emphasis for 2023 needs to be on improved efficiency and productivity. Kluwer International Tax Law is an intuitive research platform for Tax Professionals leveraging Wolters Kluwer's top international content and practical tools to provide answers. You can easily access the tool from every preferred location. Are you, as a Tax professional, ready for the future?

Learn how **Kluwer International Tax Law** can support you.



This entry was posted on Wednesday, June 7th, 2023 at 8:39 am and is filed under Carbon offset, Carbon pricing, Energy, Environment, Transportation
You can follow any responses to this entry through the Comments (RSS) feed. You can leave a response, or trackback from your own site.