

International Chamber of Shipping

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Mrs Christine Lagarde
Managing Director,
International Monetary Fund
700 19th Street,
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United States.

13 July 2012

Dear Madame Lagarde,

CARBON CHARGES ON INTERNATIONAL SHIPPING

I am writing in my capacity as Chairman of the International Chamber Shipping (ICS), which is the principal international trade association for merchant ship operators, representing over 80% of the world merchant fleet.

ICS represents shipowners globally in the international discussions on reducing shipping's CO₂ emissions which are taking place *inter alia* at the United Nations International Maritime Organization (IMO) and in the context of the UN Framework Convention on Climate Change (UNFCCC).

I refer to the speech which you delivered on 12 June (Back to Rio—the Road to a Sustainable Economic Future).¹

You are quoted as saying that *“charges on international aviation and maritime emissions would raise about a quarter of the \$100 billion needed for climate adaptation and mitigation in developing countries—resources that developed countries have committed to mobilize by 2020”*.

Market Based Measures are very controversial and most shipowners believe, given the severely depressed state of global shipping markets, that now is certainly not the time to impose an additional major cost on international shipping.

The above notwithstanding, the position of ICS and its member national shipowners' associations is that if all governments so decide then shipowners, in principle, will have no objection to contributing, at some point in the future, to the Green Climate Fund, or a similar mechanism that might be established by IMO, provided that such money is indeed used for climate change adaptation or mitigation, and that the same charges apply to all ships internationally regardless of flag. However, there is another important caveat: any contribution by shipping must be proportionate to

¹ www.imf.org/external/np/speeches/2012/061212.htm .

shipping's share of total global emissions (less than 3%) and the forum where the details of such a mechanism should be developed is the IMO.

In the eyes of the shipping industry, IMO is firmly the lead body on this issue having already adopted a mandatory global agreement on technical measures to reduce CO₂ from ships. IMO is now deeply engaged in the process of assessing detailed proposals from its Member States with respect to the adoption of a possible Market Based Measure for shipping (which might involve some kind of 'fuel levy' and which might also in some way be linked to the UNFCCC Green Climate Fund).

These issues are certainly complex, as identified by Chapter 7 of the IMF Paper "Fiscal Policy to Mitigate Climate Change", which in general terms appears to be a balanced document with respect to its treatment of maritime transport. However, the remarks in your speech give rise to serious concerns because they appear to ignore the major impediments to adopting the charges on shipping that you suggest.

In particular, your rough calculation overlooks the fact that about two thirds of the world fleet is registered in Kyoto Protocol 'non-Annex I' nations. Apart from being inequitable in view of shipping's small contribution to the world's total CO₂ emissions, to raise the huge monies that you mentioned would therefore require a much larger charge. This would almost certainly be viewed as a tax on trade by those emerging economies that rely on ships operated by 'Annex I' nations.

Most importantly, you seem to overlook the fundamental principle of international shipping, and its regulator the IMO, which is that our global industry requires a global regulatory framework. If any carbon charges were only to apply to ships registered in Kyoto Protocol 'Annex I' nations these ships would be at a major competitive disadvantage to the ships registered in 'non-Annex I' nations. Because of the serious market distortion that would be created, many of these ships would simply change their flag to a jurisdiction where the carbon charge did not apply.

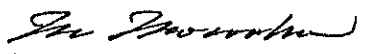
For any carbon charges to be acceptable to the international maritime community it is important to understand that the IMO principle of uniform global rules for shipping will have to be reconciled with the UNFCCC principle of Common but Differentiated Responsibility. This is why the negotiations with respect to shipping, that are taking place at IMO and at UNFCCC, are so complicated.

I wish to stress that the shipping industry is committed to playing its part in further reducing its CO₂ emissions. We fully support the IMO agreement on technical measures which will help shipping achieve its goal of significantly reducing emissions per tonne/km. We are also participating constructively in the international negotiations about a possible Market Based Measure that might apply to international shipping. However, it is vital for all concerned to recognise the global character of the shipping industry which transports about 90% of world trade. The application of any carbon charges to shipping, without causing serious market distortion or impeding the smooth flow of world trade, is a very complex matter.

If it is helpful, we would be very happy to elaborate on these issues with your colleagues as they consider how shipping might contribute to any funding mechanism.

I hope that these comments are helpful and are seen in the constructive spirit intended.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Masamichi Morooka', written over a horizontal line.

Masamichi Morooka
Chairman

Copy: Mr Koji Sekimizu, Secretary General, IMO,
Ms Christiana Figueres, Executive Secretary, UNFCCC