REPUBLIC OF FIJI

REPUBLIC OF THE MARSHALL ISLANDS

The Pacific Blue Shipping Partnership

Call for capacity building and blended finance enabling a large-scale transition to sustainable, resilient and low-carbon sea transport for Pacific Island Countries (PICs).[1]

Coordinated by the Republics of Fiji and the Marshall Islands (RMI) in partnership with the Governments of Samoa, Vanuatu, Solomon Islands, Tuvalu and others. Reflecting inter-governmental discussions at the 3rd Climate Action Pacific Partnership (CAPP) Conference, Suva, May 2019.

Key Actions

- 10-year country-driven programme of investment (from 2020–2030) in low-carbon sea transport infrastructure for PICs, including ports, ships, renewable energy generation, and supporting infrastructure.
- Initial investment from 2020 in retro-fit and purchase of low-carbon passenger and cargo ferries, including locally-appropriate combinations of eco-diesel, wind-hybrid, and/or electric propulsion supported by operational efficiency measures.
- Complementary investments to establish a self-sustaining revolving Finance Facility for Business and Entrepreneurship; Policy and Governance Capacity Programme; and Research, Innovation and Capacity Hub; each supporting a broad-based transition to sustainable, resilient and low-carbon sea transport for PICs.

Summary

1. The sustainable development of PICs is undermined by urgent and large-scale sea transport challenges, which are compounded by the Climate Change Crisis acknowledged by the Nadi Bay Declaration.[2] Current evidence highlights the significant and enduring potential benefits (social, economic, and environmental) of a rapid transition to sustainable, resilient and low-carbon sea transport in PICs.[3]

2. This transition and its wider benefits for climate change, sustainable development and the ocean economy will depend on sectoral infrastructure development and deployment, private sector innovation and entrepreneurship, education and capacity building, policy and governance reform, and a large-scale financial investment from diverse sources following a blended finance approach.

3. To coordinate these activities the above-mentioned Governments have agreed to establish a **Pacific Blue Shipping Partnership** (PBSP), including an initial emissions reduction target for Pacific shipping of **40% by 2030, and full decarbonisation by 2050.**

4. The Partnership calls on international partners to support a **blended finance package of USD 500 million** enabling a 10-year work programme of activities from 2020–2030 in 6-8 PICs. In 2019–2021 investment will be catalysed by bilateral technical assistance and capacity building collaborations, and by grants from multilateral institutions. From 2021 onwards, further large scale investment will be supplemented by concessional loans from bilateral and multilateral sources, debt finance in the form of a regional blue bond, and by direct private sector investment.

5. The PBSP will be announced by relevant Heads of Government in New York in September, in association with the UN Secretary General's Climate Action Summit, 74th Session of the UN General Assembly, and plenary meeting of the High-Level Panel for a Sustainable Ocean Economy. Further details will be announced at the Santiago Climate Change Conference. The PBSP builds on efforts previously endorsed by the Pacific Regional Energy and Transport Ministers in 2017, 18th Micronesian Presidents' Summit, Pacific Island Transport Forum, and 3rd CAPP in 2018.

[1] This document was prepared by the Advisory Committee Finance Working Group of the Pacific Blue Shipping Partnership, co-chaired by the Governments of Fiji and RMI. Points of contact: Dr Ben Milligan (Finance Working Group Coordinator, b.milligan@unsw.edu.au) cc Taholo Kami (Government of Fiji Oceans Representative, tkami@cop23.com.fj), H.E. Albon Ishoda (RMI Ambassador to the Pacific, rmiambassador.fiji@gmail.com).

[2] See: https://cop23.com.fj/nadi-bay-declaration-on-the-climate-change-crisis-in-the-pacific/

[3] See: https://unfccc.int/topics/2018-talanoa-dialogue-platform.

Urgent and large-scale challenges for the sea transport sector in PICs

6. The critical importance of sea transport to PICs and its interrelationship to all levels of socio-economic development are widely recognised and documented.[4] The sector currently has a range of challenges including the prevalence of old, inefficient and undermaintained vessels, and a lack of supporting modern infrastructure including ports, facilities for bunkering, ship building, maintenance, and repair. Existing vessels service and underpin micro-economies at the end of long and narrow operating routes, with the consequence that sea transport within and between PICs is the most expensive per unit distance and per capita in the world. Transportation and mobility is a cross-cutting issue central to the sustainable development of PICs.[5] These challenges have several urgent and large-scale implications:

7. *Dependency on imported fossil fuels* — PICs are precariously dependent on imported fossil fuels raising critical issues of fuel price vulnerability and security of supply.[6] The Pacific is the most dependent region in the world on imported fuels at 95% dependency, or 99% if Papua New Guinea and Fiji are excluded.[7] Imported petroleum products account for an average of ~40% of GDP in PICs, with the transport sector often the largest user of fuel.[8]

8. *Negative impacts and risks for the local and global environment* — The sector's reliance on fossil fuels increases the risk of environmentally damaging spills, and ecosystem damage associated with fuel transport, storage and vessel-source pollution.[9] Pacific Small Island States leaders have called for an end to all fossil fuel subsidies.[10] Leaders have also called for use higher quality fossil fuels that are less damaging to the environment than those currently in use.[11]

9. *Social, livelihood and employment implications* — The lack of regular connectivity amongst many islands in the Pacific is considered one of the binding constraints to both domestic social and economic development and international trade.[12] In the 2015 Hiri Declaration on Strengthening Connections to Enhance Pacific Regionalism, the importance of people-to-people relations, improved institutional governance and enhanced physical connectivity in the Pacific was underscored. It notes that a key component of better connectivity will be improved shipping, which remains the most important mode of transport and trade[13].

10. *Climate change commitments and risks* — Climate change compounds the above challenges, as a driver of the need to reduce GHG emissions from sea transport, and of the urgent need to adapt the fleet and maritime infrastructure to strengthen its resilience to changes (e.g. severe weather and sea-level rise) already visible in the region. Climate change is an urgent threat to the maritime transport sector (and sustainable development generally) in PICs, which can be addressed in part through accelerated efforts to decarbonise and adapt the sector in accordance with the 2015 Paris Agreement on Climate Change,[14] and 2030 Agenda for Sustainable Development,[15] supported by the Talanoa Dialogue and other regional and global platforms.

Benefits of a sustainable, resilient and low-carbon transition

11. Addressing the challenges described above could yield a range of enduring social, economic and environmental benefits,[16] across the full range of topics covered in the UN Sustainable Development Goals[17] and Framework for Resilient Development in the Pacific.[18] Key potential benefits of decarbonised sea transport sector across PICs include:

[4] See: Nuttall et al, *Frontiers in Marine Science*, https://doi.org/10.3389/fmars.2014.00020.
[5] See: UN SIDS SAMOA Pathway (2014) paras 66-67, http://prdrse4all.spc.int/sites/default/files/samoa-pathway.pdf
[6] See: Woodruff, A. (2007). The Potential for Renewable Energy to Promote Sustainable Development in Pacific Island Countries, SOPAC.
[7] See: AusAID. (2008). '08 Pacific Economic Survey: Connecting the Region. Canberra, ACT: Pacific Affairs Group.
[8] See: See: Nuttall et al, *Frontiers in Marine Science*, https://doi.org/10.3389/fmars.2014.00020.
[9] See e.g.: https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5274615/
[10] Tuvalu Declaration on Climate Change for the Survival of Pacific Small Island Developing States, 12 August 2019.
[11] See: Communiqué of the Third Pacific Regional Energy and Transport Ministers' Meeting, Nuku'alofa, Tonga, 26–28 April 2017, para. 18; and https://www.forumsec.org/wp-content/uploads/2019/08/50th-Pacific-Islands-Forum-Communique.pdf
[12] See: Holland et al, Carbon Management (2014): https://www.tandfonline.com/doi/pdf/10.4155/cmt.13.78
[13] See: https://www.unescap.org/commission/73/document/E73_4E.pdf
[14] See: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement.
[15] See: https://sustainabledevelopment.un.org.
[16] See: https://unctad.org/en/PublicationsLibrary/ditcted2014d5_en.pdf
[17] See: https://sustainabledevelopment.un.org/post2015/transformingourworld
[18] See: http://gsd.spc.int/frdp/

12. *Macro-economic and fiscal sustainability* — reducing the need for public expenditure on fuel subsidies, and freeing up private sector resources for investment in more productive activities. Fuel duty concessions and other subsidies in PICs are associated with adverse long-term macro-economic, social and environmental outcomes.[19]

13. *Poverty alleviation and support for local livelihoods* — fuel shortages and price volatility have major impacts on local communities across PICs, and on productive sectors such as fisheries which are key contributors to food security and local livelihoods in the region.[20]

14. *Technology development, local innovation and skills* — The regional sea transport sector is currently heavily dependent on imported technology, commodities and skills. A major structural transition of the sector to low- or no-carbon options presents opportunities for the development of nationally appropriate vessels, ports and supporting services, interlinked to regionally-based enterprise, education and training, and underpinned by revitalised pride in the Pacific's rich seafaring heritage.

15. *Opportunities to demonstrate global leadership on climate change mitigation* — the opportunities described above exist in a global context where more sustainable and low carbon sea transport is gaining momentum. Norway is pursuing a domestic maritime decarbonisation target for its fjords of 100% by 2026.[21] Numerous technological advances are either at proof of concept or market readiness stage. The International Maritime Organisation (IMO) has agreed an initial decarbonisation target for international shipping of at least 50% by 2050.[22] Major industry leaders such as Maersk, MAN and Wartsila have committed to carbon neutrality by 2050. A coalition of maritime leaders have also committed—through the Getting to Zero Coalition—to pre-competitive development of commercially viable and scalable deep-sea zero emissions vessels by 2030.[23] An ambitious country-driven Pacific strategy for sustainable, resilient and low carbon sea transport could make a significant contribution to the ongoing development of Nationally Determined Contributions (NDCs) in the region,[24] serve as a powerful example of global leadership and be a catalytic contributor to efforts to limit global warming to below 1.5°C, immediately scalable to other SIDS and LDCs.

Priority activities of the Partnership: 10-year work programme

16. Supported by a combination of finance modalities (see Financing the Transition below), the PBSP seeks to deliver the above benefits through an initial 10-year work programme comprised of the following activities:

17. *Bespoke sea transport infrastructure development and deployment*—including an *intensive pilot phase* (5 years) and *deployment–at–scale phase* (5 years) with a holistic focus covering all relevant vessel types, including efficient and sustainable hull design for vessels, low-carbon energy propulsion, climate-resilient ports, and support services (e.g. charging and sustainable generation infrastructure). This 'whole of sector' programme seeks to catalyse *sustainable development of sea-transport, including net-zero emissions and climate-proofing of sector infrastructure by 2050.* The programme features a coordinated portfolio of country-driven projects, in the following contexts:

    - Intra- and Inter- island or atoll transport
    - Inter-country transport
    - Fast passenger transport
    - Bulk cargo sector
    - Medical evacuation, search and rescue, and disaster response
    - Maritime heritage revival and cultural resilience
    - Fisheries at subsistence, artisanal and commercial scales
    - Land-sea inter-connections and maritime support services
    - Maritime manufacturing, ship construction and maintenance

[19] See: https://ieep.eu/publications/greening-taxes-and-subsidies-in-the-pacific-islands
[20] See: https://www.adb.org/sites/default/files/publication/27511/pacific-fisheries.pdf
[21] See: https://maritimecleantech.no/2018/05/03/norwegian-parliament-adopts-zero-emission-regulations-fjords/
[22] See: http://www.imo.org/en/MediaCentre/HotTopics/GHG/Pages/default.aspx
[23] See: https://www.globalmaritimeforum.org/content/2019/05/ZEV2030_Overview_Context.pdf
[24] See: https://unfccc.int/process/the-paris-agreement/nationally-determined-contributions/ndc-registry

Short-term investment in retro-fit and purchase of low-carbon cargo and passenger ferries (including combinations of inceased efficiency measures, eco-diesel, wind-hybrid, and electric propulsion) has been selected by Partnership Governments as the primary deployment priority for 2020–2021 (see "Financing the transition" below).

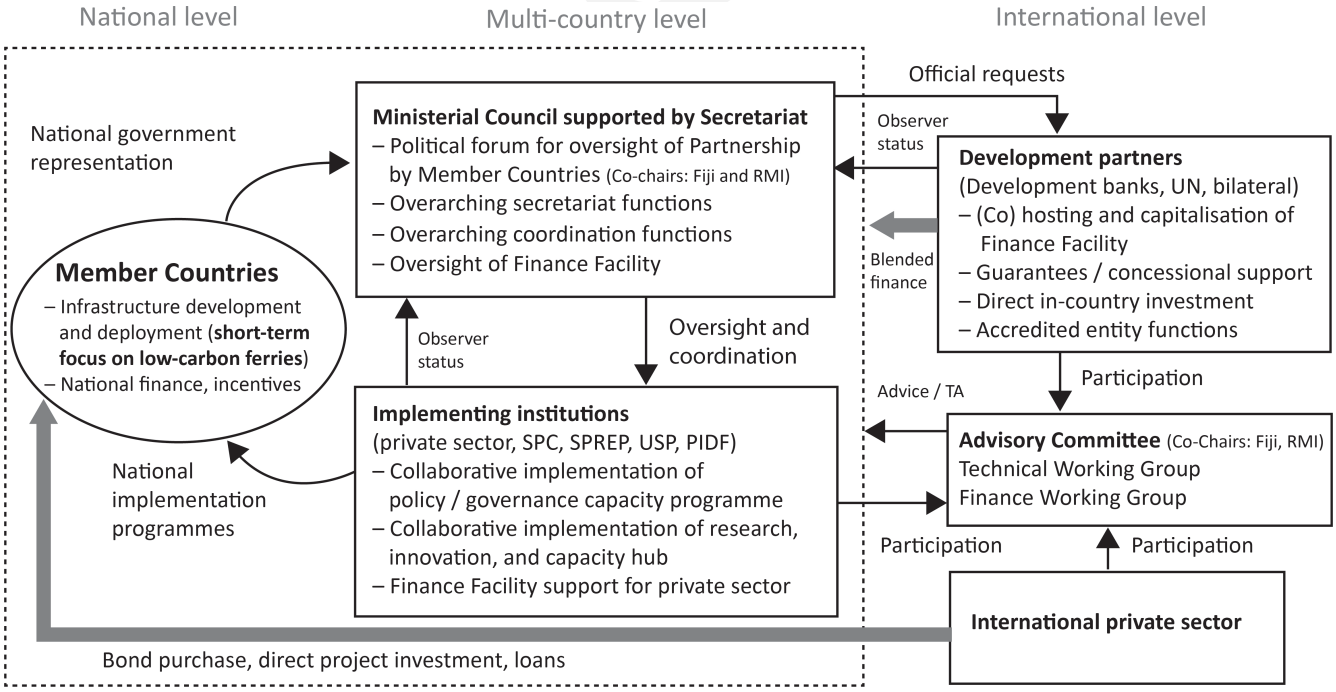
18. *Business and entrepreneurship Finance Facility*—offering loans, guarantees, and equity investment in small-to-medium scale enterprises located in PICs, for commercial activity aligned with the sustainable development of sea transport and relevant policy priorities in light of national and international commitments. Facility activities will continue beyond the initial 10-year term of the programme.

19. *Policy and Governance Capacity Programme*—focusing on review, co-development and implementation of sustainable low-carbon sea transport policy, including an integrated package of fiscal measures, infrastructure planning processes, community development programmes, and maritime regulation. A key focus is incorporating sea transport into the ongoing development of NDCs underpinned by capacity building for national reporting and ocean accounting.[25]

20. *Research, Innovation and Capacity Hub*—building on the leadership shown by the Micronesian Center for Sustainable Transport (MCST) and the IMO Maritime Technology Cooperation Centre (MTCC)[26] with support from international partners, establish a decentralised regional institution focusing on locally-relevant R&D, and development and delivery of training and implementation programmes with particular attention to creating opportunities for women and marginalised groups. PBSP training programmes will cover all professions, trades and institutions (public and private) involved in the maritime transport sector, and include apprenticeships and other technical training, degree programmes, short-courses, and specialised workshops.

Coordinating the transition: Governance of the Pacific Blue Shipping Partnership

21. The PBSP is a country-driven initiative, supported by an institutional structure for coordination and programme delivery that links member countries with international development partners and other relevant stakeholders. The components of this governance and institutional structure are illustrated below:



22. The national governments of the Member Countries have overarching responsibility for setting the objectives of the Partnership and will oversee implementation in accordance with a bespoke inter-governmental agreement. Co-chaired by Fiji and RMI, their representatives will meet regularly under the auspices of a dedicated Ministerial

[25] See: https://unfccc.int/process/the-paris-agreement/nationally-determined-contributions/ndc-registry#eq-3 (GHG accounting and reporting); https://www.unescap.org/events/asia-and-pacific-regional-expert-workshop-ocean-accounts (holistic ocean accounting supported by UN Ocean Accounts Partnership); and https://seea.un.org (UN standards on environmental-economic accounting).

[26] See: https://gmn.imo.org/mtcc/pacific/

Council, supported by a Partnership Secretariat with certain delegated oversight responsibilities for the operation of the Finance Facility, including reporting and submission of official requests to development partners (e.g. for disbursement from trust funds held by those partners).

23. Multilateral and bilateral development partners can support the Partnership in a range of capacities, including as: donors supporting specific activity areas (e.g. policy, governance, capacity building); co-hosts and/or providers of funds capitalising the Finance Facility; accrediated entities for climate finance; providers of loan guarantees and other concessional support; participation in the Advisory Committee; and as observers contributing to formal discussions between Member Countries.

24. The Advisory Committee brings together technical, finance and other experts from various institutions (e.g. universities, UN agencies, development banks, private sector) and coordinates technical assistance/advisory activity provided to the Partnership as a whole.

25. Consistent with priorities determined by Member Countries and officially communicated through the Secretariat, participating institutions (including the local/regional private sector and key regional institutions will be responsible for implementation of the Policy and Governance Capacity Programme, and Research, Innovation and Capacity Hub, including delivery of national implementation programmes developed in accordance with national policies and priorities determined by each Member Country. Private sector implementing institutions located in PICs will also access loans, guarantees and equity investment from the Finance Facility as outlined above.

26. Relevant international businesses will also be encouraged and incentivised to support Partnership objectives *via* bond purchases, direct project investment, commercial loans and related activities.

Financing the transition

27. A transition to sustainable, resilient and decarbonised sea transport at this scale will require substantial investment, including at least **USD 500 million** to support implementation of the 10-year work programme outlined above. In comparison to other major economic sectors, investment in the sustainable development (including climate change mitigation and adaptation) of sea transport for PICs has been extremely limited to date. As a first step, willing PICs convened in Suva in May 2019 to discuss and commit to the PBSP. On behalf of the Leaders present Fiji Prime Minister Frank Bainimarama made the following announcement:

> *"Fiji, with Marshall Islands, Samoa, Vanuatu, Solomon Islands and Tuvalu, have agreed to work together to reduce fossil fuel use in our marine transportation by up to 40% by 2030 and 100% by 2050. This demands a transformation of our maritime sectors which will require new kinds of financial partnerships with bilateral and multilateral assistance and, potentially, a regional blue shipping bond."*

28. Large-scale financial investment in sustainable sea transport requires input from diverse sources, taking a blended finance approach, catalysed in the short and medium term by bilateral donor assistance and grants from multilateral development partners. A key subsequent step will be developing proposals for a large-scale regional investment (in the order of USD 150 million) for the Green Climate Fund (GCF). This allows for an integrated programme portfolio of both grant and revolving loan modalities, targeting public and private sectors and all scales of shipping from village to inter-country. PBSP countries and regional development partners are also exploring options for securing debt finance for the Partnership's infrastructure development and deployment objectives, in the form of guaranteed bond.

29. The preliminary investment pathway–to–scale for PBSP is summarised below:

Year	Cumulative investment (USD)	Specific actions
2019	1–2 million	**Initial donor investment** focusing on support for: • Dialogue between Member Countries • Establishment of the Partnership Governance Framework and Advisory Committee • Scoping and feasibility assessments • GCF concept note
2020	50+ million	**Catalytic donor investment** and **GCF Readiness Support** focusing on:

		• Purchase and deployment of low-carbon cargo and passenger ferries: eco-diesel and wind-hybrid, electric, other appropriate technology/operational options supplemented by operational efficiency measures. • Secretariat set up and formal establishment of Ministerial Council • Policy and governance capacity building • Detailed preparatory analysis: modelling of techno-economic pathways, national needs assessment and plans, design of financial structures and models
2021	100+ million	**Donor investment** and **concessional loans** for national implementation programmes
2022	200+ million	**Larger scale donor** (including GCF) and **concessional loan investment** focusing on: • further capitalization of Finance Facility for scaling and replication through national programs • Long term financial sustainability of R&D hub, Secretariat, and policy reform • Direct investment in capital-intensive projects (ships, ports, supporting infrastructure) All of above de-risked and informed by previous actions in 2020-2022
2025	300+ million	**Regional Blue Shipping bond** issue by PIC governments and partners, informed by lessons learned during the 2020–2025 "intensive-pilot" phase. Debt finance will be deployed to further capitalise the Finance Facility, including large-scale investment in retrofit / purchase for private and public sector fleets and to support infrastructure with returns based predominantly on fuel savings and efficiency.
2027	400+ million	**Phase out of donor investment**, **continuation and scaling of loan modalities**, **scaling of private sector investmen**t.

30. The investment of USD 2 billion into the electricity sector under the Pacific Energy Summits since 2012 provides a precedent for such international cooperation. A blended finance approach for shipping is consistent with the 2030 Agenda for Sustainable Development, the Paris Agreement, the SAMOA Pathway, and Framework for Resilient Development in the Pacific. Support for this approach has been signalled by UN agencies and regional agencies.

Key Partnership activities for 2019

31. **July–December 2019:** Partnership Member Countries, via the Advisory Committee, seek dialogue with countries and other organisations interested to support the initial (2019) and catalytic (2020) phases of donor investment described above.

32. **September 2019:** Formal announcement of the Partnership by relevant Heads of Government in New York, in association with the UN Secretary General's Climate Action Summit, 74th Session of the UN General Assembly, and plenary meeting of the High-Level Panel for a Sustainable Ocean Economy.

33. **December 2019:** Formal announcement of the Partnership and public release of supporting documentation, at the Santiago Climate Change Conference.

34. **December 2019:** Planned completion date for formal Cabinet approval of the Partnership by the respective Member Countries, formal inter-governmental agreements concerning Partnership, including assignment of responsibilities to relevant institutions as illustrative above and fiduciary review / due diligence.