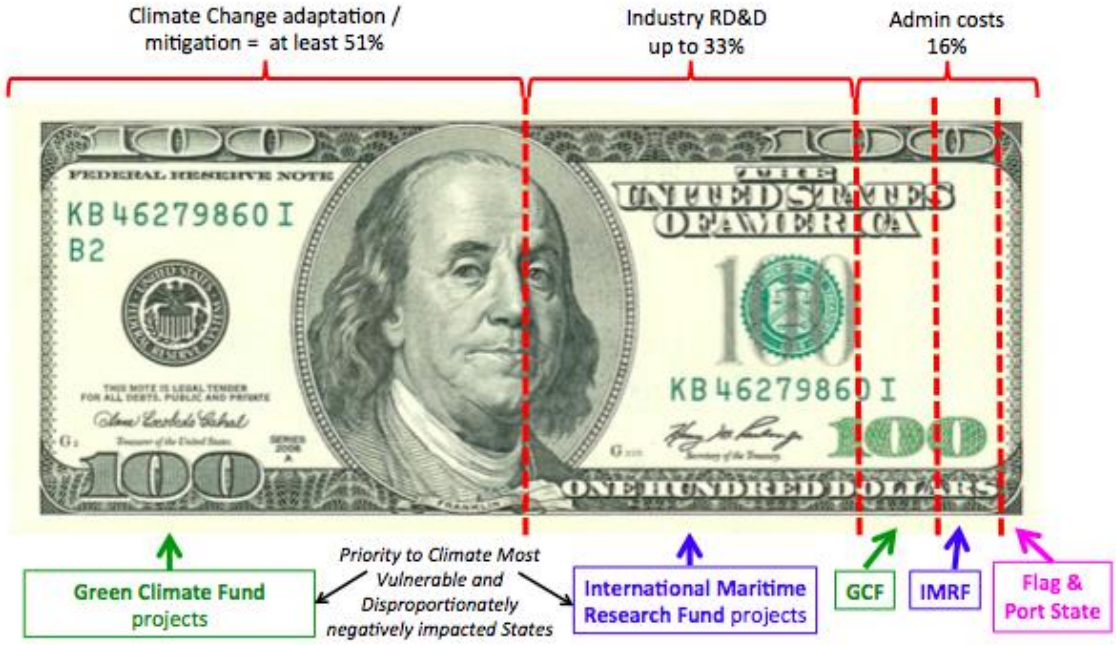
Proposed outline for a 1.5°C Tax/Levy on International Shipping

Mandatory 1.5°C tax/levy to be applied at an initial rate of US$ 250/tonne fuel oil. The tax rate to be reviewed and increased every 5 years by an agreed sum (i.e. pre-set incremental steps):

Years after implementation	0	5	10	15	20	25	30
US$ tax rate/tonne fuel oil	250	300	350	400	?	?	?

How each $100 of revenue would be allocated:



FAQs:

- **What's the difference between a tax or a levy?**

  The words are used interchangeably every day. It is common practice for a tax to be collected by a nation State (to be spent on whatever the State sees fit) whilst a levy is collected for a specific purpose (e.g. to clean up oil spills). Whilst there are very few examples of international taxes[1], that does not mean that there can't be one for shipping. Whether it is called a tax or a levy does not have to be decided now.

- **What's the purpose of the 1.5°C tax/levy?**

  The purpose of the tax/levy is to force transition of international shipping to be zero carbon by no later than 2050 compatible with a 1.5°C pathway. There are two complimentary objectives:

  a) To raise revenue that can be spent on: climate change adaptation/mitigation; subsidizing RD&D for the international shipping sector; and the cost of administering the instrument and funds

  b) To reduce the price differential between fossil fuels and zero carbon alternatives

- **What ships would pay the 1.5°C tax/levy?**

  All ships covered by MARPOL Annex VI[2] sailing internationally (not the domestic fleet operating within a country). This would include all ship types, including bulkers, tankers, cruise liners, drilling rigs etc.

[1] See the Chirac Tax on aviation: https://en.wikipedia.org/wiki/Solidarity_tax_on_airplane_tickets

[2] All ships 400+GRT that are flagged to a MARPOL Annex VI signatory State, or ships that are operating in waters of a signatory State (as per the MARPOL regulation on survey regime). IPCC 2006 guidelines apportion domestic voyage emissions as: "emissions from fuels used by vessels of all flags that depart and arrive in the same country (exclude fishing, which should be reported under 1 A 4 c iii [fishing], and military, which should be reported under 1 A 5 b)"

Introducing a similar tax/levy on domestic shipping would be the choice of each State under their NDC processes[3].

For the Pacific Island States there are at least six vessels providing international shipping services that would be impacted by this tax/levy: *Nivaga III* (1337 GRT) owned by Tuvalu Government; *Lady Naomi* (993 GRT), *Lady Samoa III* (1045 GRT) and *SSC Fasefulu* (494 GRT) owned by Samoan Shipping Corporation; and the *Mataliki* (498 GRT) and *Kalopaga* (495 GRT) owned by Tokelau Government Transport Tokelau Corporation. Other Pacific government vessels also undertake international voyages, usually associated with vessel maintenance. International ships stopping at Pacific Island ports would also be impacted (e.g. ships on Kyowa, Swire, Matson, Neptune Pacific islands schedules).

- **Who would be responsible for paying the 1.5°C tax/levy?**

  Whoever pays the fuel bill when a ship is bunkered (could be ship owner, ship charterer, ship operator). The fuel supplier will provide a bunker delivery note which specifies the 1.5°C tax/levy component to be paid. The amount of tax/levy to be paid by each ship will be based on all the fossil fuels used by that ship, not just for propulsion but also for hotel loads, auxiliary power.

- **Who would collect the 1.5°C tax/levy?**

  The ship owner then pays the tax/levy directly to the IMO body (to be established) and the Green Climate Fund. Each ship would have a specific account (using the ship's IMO number) with the two funds to deposit the 1.5°C tax/levy into.

- **Who would check that the 1.5°C tax/levy has been paid?**

  Flag States would issue compliant ships with a 1.5°C tax/levy Compliance Certificate, based on the bunker delivery notes and confirmation from GCF and IMRF of payment received. Port States would check visiting ship's documentation for validity of 1.5°C tax/levy Compliance Certificate.

- **Will the cost of shipping go up as a result?**

  Yes. As bunker is one of the main operational costs for a ship, if the cost of the fuel goes up, then it is anticipated that the increased cost will be passed on to the customer. For the tax/levy to be effective in driving emissions reduction, then the rate set must be sufficient to impact the market. One of the objectives of the tax/levy is to increase the cost of fossil fuels ships use to reduce the price differential with zero-carbon alternatives. The more fuel used by a ship, then the more tax/levy has to be paid. The States which are on long routes (e.g. where the ship uses a lot of fuel because it has a long way to go) or served by older, less efficient ships (e.g. smaller vessels serving LDCs and SIDS) are likely to be disproportionately impacted.

  If shipping does not decarbonize in line with a 1.5°C pathway, then the impacts of climate change are existential to some of these States. Most agree a tax/levy is needed to ensure international shipping is on the right pathway (the latest IMO study found that shipping GHG emissions are continuing to increase, and the trend is completely in the wrong direction).

  Revenue raised by the tax/levy can be used to compensate for disproportionate negative impacts caused by the tax/levy, by prioritising funding allocations by GCF and IMRF, to projects which support the Climate Most Vulnerable and/or those States disproportionately impacted by the tax/levy.

- **Who will decide the 1.5°C tax/levy rate and how the revenue will be spent?**

  The IMO Member States participating in MEPC meetings that consider this matter will decide on whether to adopt a tax/levy, how much that tax/levy rate will be, and how it should be allocated. For example, if MEPC decides to allocate 51% of revenue generated to GCF and 33% to an IMRF, then the respective Fund Board Members will decide exactly what projects would be funded through their respective fund.

[3] World Bank reports that in 2019 there were 30 national carbon taxes on fuel in place, including in Canada, Europe, Mexico, Argentina, Chile, South Africa, some of which have been running since the 1990s. World Bank *State and Trends of Carbon Pricing 2020* (May) https://openknowledge.worldbank.org/bitstream/handle/10986/33809/9781464815867.pdf?sequence=4&isAllowed=y