

# sustainableshipping

New EU report favours cap and trade

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A cap and trade scheme is the most environmental and cost effective way to cut carbon dioxide (CO<sub>2</sub>) emissions from shipping in Europe, according to a new report by **CE Delft**.

The study led by Jasper Faber was prepared to provide the **European Commission** with technical support for European action to reduce greenhouse gas (GHG) emissions from international maritime transport.

It identifies 27 possible policy instruments to address these emissions, but recognises the four major policies as cap and trade, an emission tax with hypothecated revenues, a mandatory efficiency limit, and a baseline and credit system based on an efficiency index. It also considers voluntary action as a possible fifth option to act as a reference.

While the industry has expressed a preference for a **mandatory efficiency limit**, the authors find that since the Energy Efficiency Design Index (EEDI) of a ship is independent of its operation, adopting this scope would cover ships sailing anywhere in the world that visit EU ports.

"While the scope of emissions under this policy would be large, so would the scope for avoidance. It is possible to avoid the system by deploying ships with an EEDI over the baseline outside the EU, and deploy compliant ships in the EU. Such avoidance would relocate emissions, but would not significantly reduce them," it noted.

It also recognises that the EEDI currently does not allow its calculation for non-cargo ships such as ferries, dredgers, and fishing vessels, which account for 29% of emissions on voyages arriving at EU ports.

After consideration, the authors found the cap-and-trade scheme for maritime transport and the emissions tax with hypothecated revenues are "best capable" of reaching the primary policy objective of reducing CO<sub>2</sub> emissions of maritime transport.

"The cap and trade system is feasible to implement. Since avoidance can be limited, it provides a large degree of certainty in meeting the primary objective of reducing emissions," the report stated.

It went on to say that an emissions tax with hypothecated revenues may be harder to implement as it requires "unanimity amongst member states not only on the implementation of the tax but also on the hypothecation of revenues."

When it comes to a tax, a precise calculation of the socially optimal CO<sub>2</sub> tax rate for maritime shipping is said to



Paper discusses ways to cut CO<sub>2</sub> from shipping

be "impossible because of uncertainty with respect to data on the marginal costs of emissions and marginal benefits of emission reduction."

There have also been questions raised over who would collect the tax or levy.

The study proposed that the tax be paid through national tax regimes or local tax bodies such as customs, and that a failure to pay taxes over a period would result in banning non-compliant ships from calling in EU ports.

Under its calculations, a tax will not result in large emission reductions in the shipping sector and that in order to be environmentally effective, the revenues of the tax have to be spent at least partially on emission reductions.

To conclude, the authors fall in favour of a cap and trade scheme stating that not only do auctioning allowances have major economic advantages as it promotes economic efficiency if the auction revenues are used to reduce distortionary taxes.

It also reiterated that a cap and trade would be easier to implement than a tax and that a more accurate cap could be set if the implementation of the cap and trade scheme were to be preceded by a year in which emissions were monitored and reported.

Finally, the report reiterated that if no international agreement is reached by the IMO or the UNFCCC, or if such an agreement is not approved by the European Union by the end of 2011, that the **EC will propose a policy to include international maritime emissions** in the effort to reduce emissions.

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