Workshop Summary

SUPPORTING THE MARITIME SECTOR IN EVALUATING CARBON PRICING OPTIONS

On 24 May, in conjunction with the Innovate4Climate Conference, the Carbon Pricing Leadership Coalition (CPLC) convened a workshop to “Support the Maritime Sector in Evaluating Carbon Pricing Options”. The workshop was co-chaired by Johannah Christensen, Director of the Global Maritime Forum, and Tristan Smith from University College London. The event was supported by the CPLC Partners including the World Bank, the International Monetary Fund and the OECD, and included participation by the co-chairs of related CPLC working groups to ensure pollination and coherence across the coalition.

The workshop welcomed 35 participants and signalled the launch of the maritime working group of the CPLC. The aim of this new initiative is to provide maritime stakeholders with the opportunity to explore ideas on carbon pricing and to access the experience from within the maritime sector and from other sectors in order to increase capacity towards an informed position on carbon pricing.

Launching the Maritime thread of CPLC

The World Bank's Angela Churie Kallhauge, head of the CPLC Secretariat, opened the workshop by inviting the maritime stakeholders to join the coalition and pointing out the current opportunities for collaboration, namely:

- The increasing demand on the sector for more ambitious climate action in light of the expected emissions growth and the need to find efficient instruments to achieve any emissions reduction target;
- The interest of shipping companies to ensure that any climate action including carbon pricing is efficient, fair and well designed, and the offer of CPLC to help the sector explore those options;
- The need to provide a protected space for business, researchers and policymakers to constructively explore carbon pricing options, taking into account the complexity of the sector and its specific circumstances;
- The potential to explore the use of internal carbon pricing as a strategic planning and risk mitigation tool for shipping companies and ship financiers, a strategy which is rapidly gaining momentum among global businesses.

Identifying barriers to success on carbon pricing

The co-chairs of working groups of the CPLC introduced their respective work programmes and pointed out opportunities that CPLC offers the maritime sector to collaborate with them across industry sectors and share experiences with carbon pricing.

Discussions then started with an ice-breaking exercise whereby participants indicated what they saw as the most important barriers to success with carbon pricing in the maritime sector. The issues put forward fell into four broad categories which continued to be relevant throughout the day’s discussions:

1. A lack of leadership and advocacy, both political, by business and through engagement, communication and media, to highlight the value proposition or potential benefit of carbon pricing in the sector;
2. The complexity and nature of the sector and its inherent market barriers to effective carbon pricing including operational practices, split incentive structure, and uncertainty;
3. A lack of understanding and transparency, including in the allocation of effort.
and emissions, a lack of business models, and a lack of information, in particular on vessel energy efficiency and fuel consumption;
4. The need to deliver both a fair and an efficient policy to alleviate the fear of asymmetric impact and/or border challenges. This is related to the need to resolve the perceived tension between the UNFCCC’s principle of Common but Differentiated Responsibility and Respective Capability (CBDR-RC) with the IMO’s principle of non-discrimination/equal treatment;

Developing detail, identifying evidence gaps and the role of stakeholders

In break-out sessions, participants continued to explore these issues through discussion on a series of targeted questions and were tasked with identifying further relevant detail, evidence gaps, and the necessary stakeholder engagement.

In these more targeted discussions, participants agreed that fuel efficiency generally makes good business sense particularly in light of the relative weight of fuel costs in shipping. The first step to drive lower carbon (through measures such as fuel switching, investments in existing fleet and retirement of older less efficient fleet) is through internal analysis - owners need to harness existing data and apply tools to inform future strategy and risk mitigation. Participants also noted that such information and analysis needs to become broadly available and transparent, in a manner which allows customers to make informed choices. In this way, the value proposition can be made to customers in terms of carbon intensity and fuel cost. A carbon price signal can magnify the effects of good practice in this regard but cannot resolve all of the complexities within the sector. At the same time, the complexities should not be a deterrent for feasible action.

Participants also highlighted further challenges for the sector including: the need to address supply chain emissions; the capacity gap of SMEs to undertake the required analysis and handle the transaction costs associated with some carbon pricing design; the need to balance due diligence with competitiveness concerns; and the need to address barriers in operational and contractual practices. Though there is a tendency to compare shipping and aviation, the essential differences between the sectors should not be underestimated. Participants pointed out that for some features of the maritime industry such as the importance of subcontracting and the need to jointly consider carbon pricing and technological market barriers, a more apt comparison is perhaps with the building industry. Participants also touched upon the importance of analysing the appropriate use of revenue from any carbon pricing policy, which could help to drive innovation, or potentially be used to address negative impacts on some states.

In moving forward, participants called for better cooperation between climate and transport ministries. There was also interest in greater deployment of longer-term decarbonisation strategic planning, including by financial institutions, in order to future-proof investments. This included a call to explore in detail the opportunities of using “internal carbon pricing” as a corporate management tool, but also the need for further information on the design and success of other voluntary approaches. Several participants discussed the benefits of a stakeholder mapping and engagement strategy. There was broad agreement that a synthesis of existing research material and studies would be useful to summarize main results and to draw out main messages to improve accessibility for senior business management and for policy makers. Specifically, with respect to economic impact assessment, the IMF/WB G20-report produced in 2011 would be updated to better reflect the current context.

Identifying timescales and milestones

The meeting closed with a timeline mapping exercise where participants were invited to share relevant projects, studies and action in the sector through and beyond 2018, when the IMO’s Initial GHG Reduction Strategy is expected to be agreed in advance of the
facilitative dialogue under the Paris Agreement.

It was clear that the commencement of CPLC’s maritime thread was very timely, and that there was an opportunity to produce several outputs this year. These would be produced where relevant in collaboration with other international organizations, and could also be valuable inputs to the ongoing private and public sector discussions on carbon pricing and policy.

Next steps

The meeting’s discussions demonstrated that there was a clear role for CPLC, in coordinating, collaborating and engaging with work in all four of the broad categories identified above. More specifically, the co-chairs took from the meeting the following actions which will be worked on collaboratively as next steps:

- The use and best practice of internal carbon pricing and related strategies in maritime businesses;
- A description of the different carbon pricing policy design options that could be applied to maritime;
- The maritime related carbon emissions of different global trade flows / supply chains, and the potential impact on states of maritime carbon pricing;
- The potential solutions to overcome the maritime sector’s market barriers and the consequences in terms of ‘who pays’ that this implies on maritime stakeholders;

Each of these features will be taken forward through a combination of further workshops/webinars, research, and development of executive briefs. The CPLC will seek to work closely with the relevant international organisations and similar convening forums, and develop both an engagement and communication strategy to ensure widest possible inclusion and dissemination.

The Thematic Leads and the World Bank ended the workshop with an invitation to all stakeholders to offer additional ideas on next steps along with proposals to clarify how they would like to be engaged in the CPLC’s maritime work programme going forward.