Lloyd's Register briefing

COP 15 and the shipping industry

Decisions on CO_2 emissions from shipping remain to be made

Overview

The hopes and expectations were that the UN climate meeting in Copenhagen (COP 15) last month would provide a binding legal agreement addressing three key issues:

1. Commitments to emissions reductions in developed countries – under the negotiation track related to the Ad Hoc Working Group on Kyoto Protocol (AWG KP)
2. Adaptation funding – financing for developing countries in relation to helping them to adapt to the effects of climate change. This mainly came under the part of the negotiation track related to Ad Hoc Working Group on Long term Cooperative Action (AWG LCA)
3. Commitments by the developing countries that are responsible for the fastest growth in Greenhouse Gas (GHG) emissions – not commitments to specific targets but commitments (as seen from China and others) to reduce their CO_2 intensity – part of the AWG LCA negotiation track.

Within the broader remit of COP 15 shipping was a minor negotiating point under AWG LCA - but there were hopes that a pragmatic approach would be adopted for shipping.

Hopes for shipping

For the shipping industry we were expecting COP 15 to leave the regulatory responsibility for international marine bunker fuels with IMO. With most vessels registered in developing countries (approx. 70%), and given the ease with which a vessel can be re-flagged, an additional expectation was that a way would be found to accommodate the IMO principle of 'equal treatment for all ships' regardless of flag, rather than the application of the UNFCCC principle of 'common but differentiated responsibility and capability' (CBDR). [1]

The CBDR principle requires that developed countries take responsibility for their historical GHG emissions and therefore that they recognise they must reduce both their GHG emissions as well as provide funding for the costs of adaptation in developing countries. CBDR is part of both the UNFCCC (UN Framework Convention on Climate Change agreed in 1992) and the Kyoto Protocol (agreed in 1997).

Outcome of COP 15

What in fact emerged is the 'Copenhagen Accord' which while 'noted' as part of the conclusion of the Copenhagen meeting is not linked to the UN process and is non-binding and whose interaction with the continuing UNFCCC processes is unclear. There was also a UNFCCC decision to continue with the work that was started in Bali in 2007 and which includes both AWG LCA and AWG KP.

In anticipating any further outcome from UNFCCC negotiations it is necessary to consider the political interaction between the 'Copenhagen Accord' and the UNFCCC approach to negotiations. While the 'Copenhagen Accord' has no formal UN legal standing, the signatories to it - all member bodies of both UNFCCC and IMO - are anticipated to be 'guided' by the 'Copenhagen Accord' in future negotiations at both IMO and UNFCCC.

Therefore, it is possible to envisage that the 'Copenhagen Accord' may be the first part of a jigsaw to negotiate a new Protocol at UNFCCC level.

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Implications for the shipping industry

No decision was made on international bunker fuels at Copenhagen and the 'Copenhagen Accord' makes no mention of shipping. However, with the decision to continue the AWG LCA negotiations and with the inclusion of international bunker fuels in the AWG LCA negotiation text that was produced for Copenhagen, we can expect the international use of marine bunker fuels to be part of future AWG LCA negotiations, the next planned negotiation sessions are June and December 2010.

What does this mean for regulation of the CO_2 emissions from international marine bunker fuel?

1. The Kyoto protocol will continue in force, refer to Article 2.2 in relation to IMO activities[2].
2. The work at IMO as set out in the work plan agreed at MEPC 59 will continue.
3. CBDR remains part of the negotiations and hence is still a challenge for IMO MEPC.
4. Regional schemes are now more likely: The EU has committed to regulation and the United States is drafting regulation.

Next steps – the importance of China and stakeholder pressure

The main conclusion is that the uncertainty in relation to future developments in the climate change arena for international marine bunker fuels has not diminished but has actually increased. There is a greater risk than before that we will get regional schemes which would add to the administrative burden of ship operators.

In trying to predict future developments, consideration also needs to be given to the changing political landscape that the 'Copenhagen Accord' signals. With the clear emergence of China as a new superpower we now will see how the increasing political power of China in international negotiations develops during 2010 - not just in climate change discussions at IMO and UNFCCC but also elsewhere.

A lack of clear global regulatory drivers is also likely to increase stakeholder pressure as we emerge from the current downturn in shipping. Examples, already being discussed, include environmental performance rating of ships for chartering, the use of EEDI (energy efficiency design index) for rating vessels, and use of virtual arrival processes linked to optimised operational management.

What is LR doing?

LR will continue to monitor and actively influence developments in relation to climate change, as well as other environmental opportunities and challenges, related to the marine industry. The main focus will be to:

- Communicate and provide leadership to our clients and regulators, while leaving political decisions on regulatory frameworks to the regulators but staying involved and participating in evaluating options and ensuring that their consequences are understood.
- Help our clients to:
  - understand emerging and existing requirements in the environmental arena;
  - comply with environmental requirements be they regional or IMO related;
  - demonstrate their environmental credentials to stakeholders.
- Continue our work with research institutes, regulators and clients to develop solutions for the environmental challenges our clients face.

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[1] There are 193 member states signatories to UNFCCC and 167 member states signatories to IMO. The IMO member states are signatories to UNFCCC. All UNFCCC member states are members of the AWG-KP and AWG-LCA.

[2] Article 2.2 of the Kyoto Protocol states that: *'The Parties included in Annex I shall pursue limitation or reduction of emissions of greenhouse gases not controlled by the Montreal Protocol from aviation and marine bunker fuels, working through the International Civil Aviation Organization and the International Maritime Organization, respectively.'* Note Annex 1 parties are developed countries

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