

THE PACIFIC COMMUNITY

FIFTH PACIFIC REGIONAL ENERGY AND TRANSPORT MINISTERS' MEETING

Port Vila, Vanuatu, 8 – 12 May 2023

TD 09: PACIFIC HIGH AMBITION ALLIANCE IMO GHG NEGOTIATIONS UPDATE

[Submitted by the Republic of Marshall Islands]

Purpose

1. To advise Ministers of the progress made by an alliance of Pacific states (the '6PAC') in advancing a 1.5-degree agenda in the International Maritime Organization's (IMO) GHG emissions reduction negotiations ahead of the 80th session of the Marine Environment Protection Committee (MEPC80) and to seek endorsement for the positioning taken by this alliance.

Background

2. The IMO is the UN specialized agency that regulates international shipping. Within the IMO, the MEPC creates regulations for ship-source pollutants. Currently, the IMO has an initial GHG emissions reduction strategy (Initial Strategy) that was adopted in 2018, and in July 2023 at MEPC80, states are expected to adopt a revised GHG reduction strategy (Revised Strategy).
3. In 2015, RMI submitted to MEPC68 for IMO to adopt targets commensurate with a 1.5°C agenda and was supported by diplomats from six Pacific states (the original '6PAC'). This alliance is since credited as the catalyst to advancing high ambition in the IMO's Initial Strategy on GHG emissions reduction¹ and now maintaining a 1.5°C compatible position ahead of MEPC80's decisive meeting on adoption of the revised Strategy. In particular, the 6PAC is noted for promoting the most ambitious GHG pricing scheme for any sector to date and calling for IMO to commit to ensuring the necessary sectoral decarbonization transition is an equitable one for all States. The strength of the 6PAC submissions over many years, grounded on the best available international science, means our position remains central to the current negotiation rounds, albeit facing intense pressure to compromise downwards.
4. The matters under negotiation are critical for all SIDS and LDCs and the decisions made at MEPC80 will have long term consequences for our economic and societal futures. In our (and many experts') opinion, MEPC80 presents the last opportunity to secure a 1.5°C compatible pathway for this sector that also provides for the particular needs of our states, and by default other SIDS and LDCs. The position being advanced by the 6PAC is the only fully 1.5°C compatible pathway on offer in these negotiations thus far.
5. As the 6PAC enters its eighth year of negotiations, it has proved the most successful participation program of any SIDS and LDCs in IMO's history. Despite all this effort, while SIDS and LDCs make up more than one-third of IMO membership, we generally make up less than 10% of participants in the working group and plenary decision-making. While the 6PAC has continually and proactively pressed IMO to provide some form of funding support for SIDS' participation, it has taken more than five years to achieve a minimal support program backed by a Voluntary Trust Fund that has only just become operational and is limited in scale and scope. Given this, we expect SIDS and LDCs to remain severely underrepresented in the next negotiating sessions.
6. RMI is extremely honored to have been in a position to lead the 6PAC on this journey, including mobilizing over USD5m since 2015 to resource our collective participation and technical support. The success of our approach is due to a number of unique factors, including:
 - we remain country driven and directly answerable only to Capitols;
 - we are an open alliance to any committed to progressing a 1.5°C agenda;

¹ Corbett et al. 2020 <https://doi.org/10.1080/09644016.2019.1705057>; Earsom et al 2021. <https://doi.org/10.17645/pag.v9i3.4296>

- we are completely independent in our funding;
- we have built a support network of leading international expertise including fully independent legal, policy, economic, technical and logistics support; and,
- we have a successful proven and funded program with strong international recognition.

Current status

7. MEPC80 is required to adopt a Revised Strategy on GHG emissions reduction. The 6PAC has consistently submitted and advocated for a 1.5°C compatible position, essentially:
 - a vision including an equitable transition to complete decarbonization by no later than 2050;
 - levels of ambition that include overall emissions interim reduction targets for 2030 (37%) and 2040 (96%) and clear parameters for an equitable transition;
 - a basket of mid-term measures to be adopted with urgency, comprising, *inter alia*, a universal mandatory GHG levy with an entry price of \$100/ton CO₂-eq operational by 2025 and a Global Fuel Standard operational by 2030; and
 - the majority of revenues generated be directed to the priority needs of the climate most vulnerable countries and managed by an independent fund manager.
8. There appears to be existing majority support for a 100% no later than 2050 overall level of ambition, with more limited support for the hard interim targets necessary to keep the sector 1.5C-degree aligned². There is only limited support for including equitable transition within the “Vision” and “Levels of ambition” sections of the Revised Strategy, reflecting the dominance of large trading blocs and states with strong shipping interests and the absence of most of the poorer and smaller states. There is growing consensus that a levy on emissions of some description is the likely market-based measure (MBM) to be instituted, but there is only limited support for our call that it needs to be set at an ambitious entry price and that the majority of revenues generated be directed to the priority needs of the climate most vulnerable.
9. Just as it demonstrated at COP21 in 2015, COP23 in 2017 and most recently with the successful UN General Assembly resolution requesting ICJ action, the 6PAC is evidence of the Pacific providing catalytic and innovative leadership in global fora that belies our small size and economies. There is no denying our success. We argue, especially given the extreme urgency and short timeframes, that our 6PAC model is the best available for driving a 1.5°C agenda in the current IMO negotiations and protecting the unique concerns of our states. Given the significance for all Pacific states of the outcome of these negotiations on the revised Strategy in MEPC80 and then the approval of the basket of measures in subsequent MEPC sessions, we recommend this Forum endorse the 6PAC positioning and model at IMO in this regard.

Issues

10. **Maintaining a 1.5°C agenda at IMO.** Ensuring a 1.5°C compatible agenda is baked into the Revised Strategy and reflected in the selection of the basket of midterm measures is our highest priority. Now that we have successfully introduced the concepts of 1.5°C and equitable transition into the negotiating frame, they must now be consistently defended and developed through the next phase of conducting the Comprehensive Impact Assessment and designing the implementation process.
11. **Institutional Strengthening.** There are significant, deep-seated and complex technical and legal issues at stake for the Pacific, including the impact on our economies, our future use of next generation maritime fuels, access to equitable climate financing and our own domestic transition pathways. All of these require independent and high-level technical support which we are accessing through our current extensive expert network via the Micronesian Center for Sustainable Transport. We are not aware of a comparable knowledge resource in our region and

² UMAS 2023 <https://www.u-mas.co.uk/wp-content/uploads/2023/03/ISWG-GHG-14-overview-UMAS-.pdf>

we are again proud to be able to offer this as our contribution to the Pacific family. Our long-term vision is centered on building the Pacific's internal capacity through long-term education and research investment with leading international partners.

12. **The Pacific's Highest Possible Ambition versus Disproportionate Negative Impact (DNI) conundrum.** There is consensus by transport economists that a) the cost of not acting will be far higher than the costs of an effective market-based measure and b) in the great majority of cases the impact on trade will be marginal and in some cases positive. SIDS, Pacific states in particular, are at high risk of being disproportionately negative impacted³. This places our states in a conundrum, on the one hand we must prioritize all efforts to stay within 1.5°C, on the other we face the highest economic and transport security risk. Exempting Pacific or other negatively impacted states from a global economic measure is not rational, it only postpones and compounds the eventual transition we will need to go through. The alternatives are either an *ex-post* commitment to a fair compensatory mechanism (which could include a direct financial payment) or *ex-ante* differentially weighted access of impacted states to the revenues generated. We are submitting to the 15th Intersessional Working Group on GHG (ISWG-GHG 15) on this matter and it is a focus of our participation in the Comprehensive Impact Assessment Steering Group and IMO's Comparative Analysis workshop in May.
13. **Revenue disbursement and fund management.** Issues of DNI are a subset of the overall question of how revenues arising from the measures are to be disbursed and managed. The RMI/Solomon GHG levy proposal supported by the 6PAC is the most ambitious, valued at \$60-80 billion p.a., but other less ambitious proposals would also generate significant revenue. In our opinion, the most efficient means to manage this revenue is via an independent bespoke fund manager. We consistently argue that the MBM should be advanced squarely under the internationally established principle of polluter pays, with a majority being diverted to climate response priorities of climate vulnerable states. Extensive World Bank analysis largely supports our recommendation that sovereign states should be the primary recipients and agrees that the scale of revenues generated by an effective market signal will be greater than the total needed by the industry⁴. Given the climate urgency, to be effective the levy needs to be operational by 2025 and therefore the timeline negotiations in the next rounds are of critical importance.
14. **Liability.** As the smallest and most vulnerable of the world's economies, we face greatest risk from any outcome that is not the highest possible ambition and equity-based one. As host of a major registry, RMI faces an additional commercial risk should the outcome not provide the greatest certainty and incentive to international shipping to undertake an unprecedented paradigm shift. The investment opportunity for this sector is modeled at between USD1 and 1.9 trillion⁵. What is the liability of IMO should the revised Strategy not deliver a 1.5°C aligned outcome? Given the Pacific must act in trust with its global family, what insurance do we have if this voluntary agreement fails? Despite our attempts to date, we have not yet been successful in re-opening the debate on the governance of the revised Strategy at MEPC⁶. We have a high-level legal research team coordinated by Columbia Law School considering this question currently and are following the Vanuatu led ICJ and Commission on Small Island States' led ITLOS processes closely.

³ The consequences of higher import prices could be particularly severe in some SIDS. All SIDS have a trade deficit and for many SIDS a large part of their imports consist of goods needed to satisfy basic needs such as food, energy products, and pharmaceuticals (Psaraftis and Zis, 2021; CE DELFT, 2021).

⁴ Dominioni, et al. 2022 <http://hdl.handle.net/10986/37240>.

⁵ *ibid*. Revenue raised through carbon pricing in shipping could be between \$1 trillion and \$3.7 trillion (Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping 2021; Baresic et al. 2022). Meeting the temperature target in the Initial IMO GHG Strategy requires \$1 trillion to \$1.4 trillion (Krantz, Sogaard and Smith 2020), and full decarbonization by 2050 requires about \$1.4 trillion to \$1.9 trillion (Baresic et al. 2022).

⁶ https://scholarship.law.columbia.edu/cgi/viewcontent.cgi?article=3753&context=faculty_scholarship

Recommendations

15. Transport Ministers are invited to:

- a. **note** the content of this report on the progress made by an alliance of Pacific IMO member states (6PAC) in the context of the negotiations on reducing GHG emission from international shipping;
- b. **note**, in particular the importance of these to all Pacific SIDS and the extreme urgency of these negotiations;
- c. **acknowledge** the hard work and high ambition outcomes achieved by the 6PAC, backstopped by the Micronesian Center for Sustainable Transport;
- d. **endorse** the work program of the 6PAC and its objectives in these IMO negotiations as described above; and
- e. **invite** RMI to provide future updates to this Forum.

Date: 17 April 2023