



Singapore Shipping Association

SSA POSITION PAPER IN SUPPORT OF THE BUNKER LEVY SCHEME

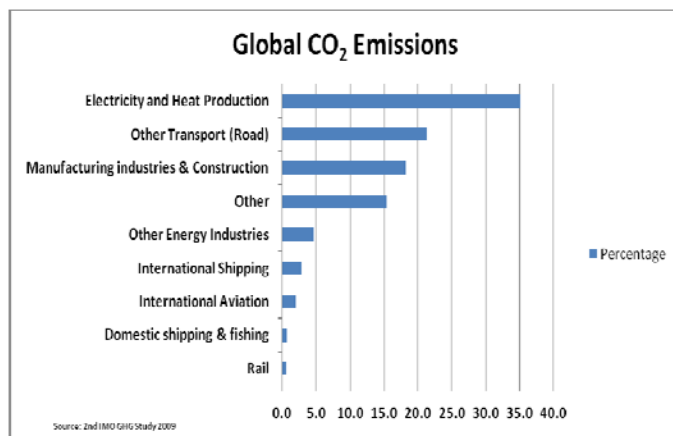
Introduction

Climate change has been high on the agenda of many international fora over the years. Global response to the issue culminated in the adoption of the Kyoto Protocol in 1997 under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC). The Kyoto Protocol, however, does not address Greenhouse Gas (GHG) emissions associated with international shipping, in view of the industry's unique nature and high efficiency.

Nonetheless, over the years, the shipping industry has very proactively and decisively initiated technical and operational measures and improvements to protect the atmospheric environment of our planet, including the marine environment of the seas and oceans that sustains our business.

In this regard, the SSA has witnessed significant improvements in engine efficiency and hull design, and the use of ships with larger cargo carrying capacities. These improvements have consequentially led to an increase in fuel efficiency and a reduction in CO₂ emissions.

The shipping industry, although a very small contributor to the total volume of GHG emissions as compared with other form of transport and land based industries, is very strongly committed to reduce GHG emissions from ships further. The shipping community, as a whole, is therefore responding to global discussions and emerging environmental challenges on GHG emissions now being firmly led by IMO in its efforts to develop proposals for international shipping.



At the 58th and 59th Sessions of the IMO Marine Environment Protection Committee (MEPC), there were very active discussions on GHG emissions from ships. At its last session, the MEPC decided to disseminate a package of interim and voluntary technical and operational measures to reduce GHG emissions from ships, as well as a work plan for further consideration of market – based instruments to provide GHG – reduction incentives for the shipping industry.

In the work plan for its 60th session, the MEPC will consider the Market – Based Instruments (MBIs) that have been proposed.

In this paper, the SSA will discuss the Bunker Levy Scheme (BLS) as proposed by Denmark and enhanced by Japan, as well as the Emissions Trading Scheme (ETS) as proposed by some European governments.

SSA Position

Building on the SSA position announced in its press release of 24th June 2009, the Singapore Shipping Association defines the BLS as follows:

- The BLS will consist of an international levy on marine fuel, with revenues being dedicated to a new United Nations climate fund.
- Any BLS should provide incentives for ships that are able to reduce their emissions, in the form of a reduced levy.
- Qualification for incentives will be based on objective standards directly linked to the design of the ship, thereby providing an incentive for owners to offset the capital investment spent on the physical structure of the ship, resulting in a real and demonstrable reduction in carbon emissions.

From this perspective, the Association wishes to further stress that the BLS is still the best and preferred option to reduce GHG emission from international shipping because it is:

- 1) **Transparent**
- 2) **Predictable**
- 3) **Simple and Equitable in application**

1) **Transparency**

As the lead legislative and technical body for the maritime sector, the SSA strongly believes that the IMO will provide sufficient oversight to guarantee transparency when the BLS is applied.

Whilst there may be concerns with regard to the collection, administration and disbursement of funds raised by the BLS, this is an issue which the SSA considers will be common to **all** market-based instruments.

2) **Predictability**

The SSA acknowledges that the BLS must be roughly equivalent to the target benchmark price for CO₂ emissions in other sectors.

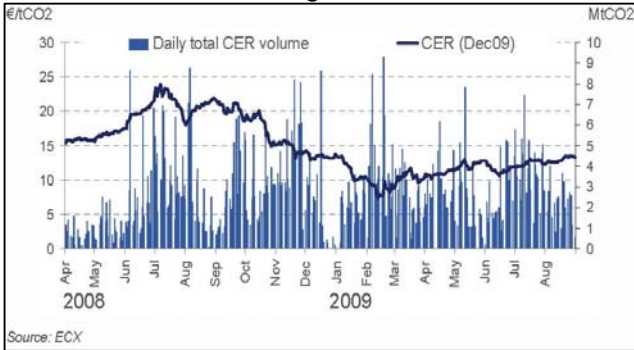
Once the quantum of the BLS has been set, however, it will not be subject to the fluctuations and vagaries of an open market, where carbon prices have historically shown variations of over 600%. The SSA is confident that the BLS will provide the shipowner some certainty of cost projections. The SSA, however, cannot accept a situation where carbon is just another volatile market commodity used by speculators to make money.

Shipping is a very capital intensive industry where the value of a ship is determined over the entirety of its 25-year lifespan. Fluctuations in the carbon price, as in an ETS system, can create serious economic and financial disruptions and thus make it extremely difficult for the shipowners to pursue and achieve their long term business objectives and returns on their heavy capital investments.

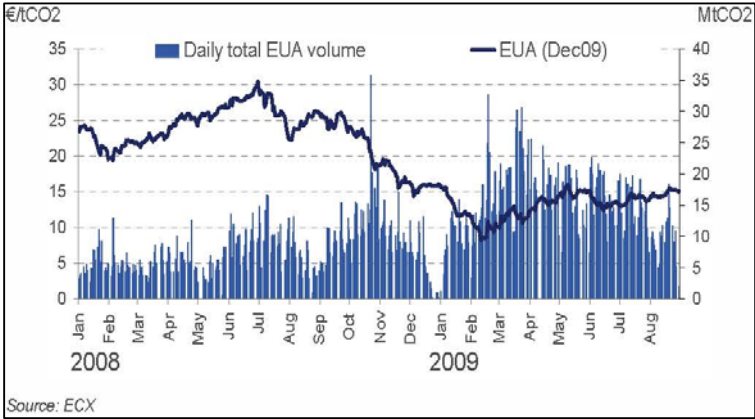
Ultimately, these difficulties may make long charter-party contracts unachievable and thus disrupt consumer supply and price security.

The ETS is already known to have created a derivatives market of the kind that brought the global financial system close to collapse. It introduces investment uncertainty and requires the establishment of a trading administration, as well as agreement on an effective monitoring, verification and enforcement system.

Carbon markets in general (CERs) are volatile enough, with a fluctuation in excess of €10 (or approximately 150%) from June 2008 to February 2009.



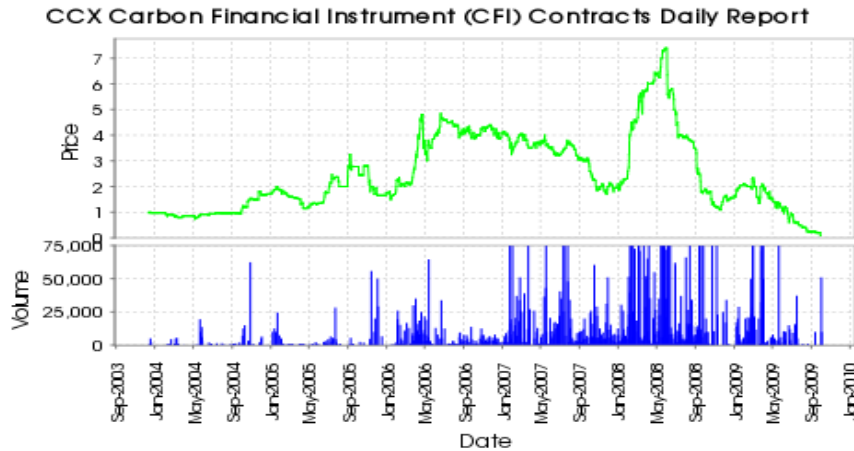
Historic Certified Emission Reductions (CER) Prices & Volumes



Historic European Union Allowances (EUA) Prices & Volumes

Focusing on the European Union, the single largest carbon market to date, prices are even more volatile, with EUA benchmark prices descending from €26 across the last quarter of 2008 to bottom out at €8 in February 2009.

Fluctuations on the Chicago Carbon Exchange (CCX) have been even more violent, with carbon financial Instruments were trading in October 2010 for US\$0.10 cents per metric tonne on the Chicago Climate Exchange, down from an all-time high of US\$7.00 per tonne (**over 600%**).



Chicago Carbon Exchange Prices & Volumes 2003-2010

In contrast, the stability of the BLS, when combined with incentives that reward capital investment in newer, more efficient technologies, encourages owners to renew their fleets.

This is amplified in the paper on BLS submitted by Japan.

It should be further noted, however, that qualification for incentives should be based on objective standards directly linked to the design of the ship, thereby providing an incentive for owners to offset the capital investment spent on the physical structure of the ship, resulting in lowered carbon emissions.

3) **Simple and Equitable in application**

The BLS will be administered by the IMO. In this respect, the SSA is very much assured that the IMO shall apply the BLS to all ships irrespective of flag.

The bunker consumed by each individual ship, as reflected on the Bunker Delivery Note, will determine the amount of bunker levy to be paid to the International GHG Fund. As the amount paid will depend on the size of the fleet, smaller owners will not be placed at an unfair disadvantage, unlike with other MBIs which may be subject to manipulation by larger companies that have easy and faster access to greater financial resources.

The SSA further stresses that its support for the bunker levy is based on the assumption that the BLS, if adopted at the IMO, will have universal application to all States simultaneously so as to ensure a level playing field. **This will be consistent with the IMO's principle of "no more favourable treatment".**

Compliance with the UNFCC's "*common but differentiated responsibilities*" can be achieved through distribution of funds received from the Bunker Levy.

Other comments

This paper does not attempt to determine the actual cap, reduction targets and the amount to be contributed to the International GHG Fund as they lie outside the scope of the Association's expertise.

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