WORKSHOP DOCUMENTATION 7 APRIL, 2011

CLIMATE JUSTICE – AVIATION AND SHIPPING AS INNOVATIVE SOURCES FOR CLIMATE FINANCING

Trang Hotel, 99/1 Wisutkasat Rd., Bangkok 10200, Thailand

PARTICIPANTS

Organizer:

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Panellists:

- **Mohamed Adow**
  Christian Aid

- **Sabine Minninger**
  EED Tourism Watch

- **Mark Lutes**
  WWF International

- **Achala Chandani**
  International Institute for Environment and Development

Chair:

- **Pa Ousman Jarju**
  The Gambia, LDC-chair

AGENDA

1. INTRODUCTION

Abstract:

Abdus Sabur, executive director of the Asian Resource Foundation, warmly welcomes the panellists and the participants, international NGOs, delegates and media following the UNFCCC process as well as Thai groups.
On the occasion of the UNFCCC climate talks he encourages the participants to use the opportunity and have a lively discussion on climate finance and its sources, to strengthen the process on the way to Durban. He believes that such measures will benefit poor countries and therefore need the support of developing countries.
Pa Ousman Jarju, The Gambia, LDC-chair, appreciates supporting the discussion by chairing the panel, as he believes capacity-building and awareness raising on innovative finance sources is urgently needed to find supporters to implement fundraising measures.
The poorest countries, least responsible for climate change, will suffer most from the impacts. Funds are urgently needed to support these countries in adapting to the worst impacts of climate change.
The industrialised countries agreed in Copenhagen and confirmed in Cancun to establish the Green Climate Fund to support climate financing in developing countries of at least US $100 billion by 2020. The UN Secretary-General's High-Level Advisory Group on Climate Change Financing (AGF) has identified international aviation and shipping (referred to as bunkers) as one important innovative source of climate financing to contribute to the fund (referred to by some as bunker finance).
Bunker finance could be a valuable, reliable and equitable source of finance, potentially securing a double dividend by also unlocking mitigation packages in two sectors that have so far escaped greenhouse gas regulation. Developing countries have some concerns over global measures to deal with aviation and shipping, but these can be addressed by embracing the concept of ‚no net incidence'.
Pa Ousman Jarju emphasises that on the way to Durban bunker finance measures will need strong support from representatives in the Global South. It is crucial to discuss the different instruments and approaches to tackle climate finance.

2. POST CANCUN UPDATE AND STRATEGIC PRIORITIES FOR DURBAN

Mohamed Adow, Christian Aid

Mohamed Adow is a Senior Adviser on Global Climate Change Advocacy. Before joining Christian Aid, he worked for a NGO in Northern Kenya. Mohamed has strong links with the global climate justice movement and also a good overall knowledge of the talks themselves. Mohamed is originally from Kenya and works with Christian Aid in London.

Abstract:

Due to his broad experience and insights as member of the Political Coordination Group of the Climate Action Network (CAN), Mohamed gives an update on and overview of the negotiations. Coming from Northern Kenya, a region which is highly affected by negative impacts of climate change, he shares his views on the meaning of climate justice. He points out the elements of a viable climate regime.

1. Rapid mitigation. He stresses that pledges are not enough. There is an urgent need to implement a climate stabilization programme.
2. Adaptation. There is an urgency to help communities adapt to the negative impacts of global warming. Deep and extensive work needs to been done for frontline communities.
3. Safeguard rights to development of the most vulnerable communities.

In his opinion, a climate regime has to be build around a development rights framework. The consequence for the rich countries to meet these objectives is to live on a constrained climate budget. While the UNFCCC-members are still discussing the agenda, it is crucial for a viable climate regime to take into account all the undertakings of the parties. In this sense, Cancun was only the floor, but by far not the ceiling. Mohamed stresses the urgency for parties to sign a 2nd commitment period under the Kyoto Protocol, as this is the leading element to move the process. The Kyoto Protocol is the horse that pulls the cart, which is carrying different elements. The Kyoto Protocol helps us to move the agenda, because it helps to speak about actual issues that are negotiated upon. It brings in the core element of “common but differentiated responsibilities” (CBDR). The cart also contains the pillars of the Bali Action Program. Furthermore the cart carries the “Nationally Appropriate Mitigation Actions” (NAMAs), which are reliant on support & financing for both adaptation and mitigation. All pieces in the cart have to be put together in a balanced manner to add up to a whole picture – this is the only way to get a balanced outcome of the negotiations. The horse needs support to take us to the right destination. We have to act fast for the horse to reach its destination fast enough.

3. BUNKERS IN THE UNFCCC PROCESS

Sabine Minninger, EED Tourism Watch

Sabine Minninger, based in Berlin, is working with Tourism Watch, a desk of the German Church Development Service (EED). She is part of the CAN-Bunkers group and has been following the role of emissions caused by aviation and shipping in the UNFCCC process for the last three years.

Abstract:

Sabine outlines the urgency to reduce emissions caused by bunkers and the boost for bunkers coming from the finance sector. Greenhouse Gas (GHG) emissions by international maritime and aviation account for nearly 10 % of global emissions. So far, there are no binding international regulations to reduce these fastest growing emissions. If left unregulated, emissions from aviation and shipping will double or triple by 2050. Failing to regulate emissions from international transport jeopardizes our ability to avoid a 2°C rise in global temperature, and renders a 1.5°C target nearly impossible.

That means, if international transport is left unregulated, the 1,5ºC target cannot be achieved. Voluntary measures such as fuel efficiency, technology efficiency or voluntary carbon offsets have failed because they have been overrun by massive growth rates. Sabine expresses her concern about the growing interest in false solutions like the commercial use of biofuels. Most biofuels will increase not reduce emissions due to impacts (direct and indirect) on land use, not to mention social problems and human rights violations. The Kyoto Protocol failed to introduce binding regulations of bunker emissions, but in Article 2.2 it gave a clear mandate to the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO) to develop measures to reduce these emissions. IMO and ICAO have failed miserably to reduce the emissions. One reason is the difficulty both organizations are facing, as they work on other principles than the UNFCCC. The UNFCCC applies the principle of common but differentiated responsibilities, so developed countries have more responsibility to take action than developing countries, who are less responsible for global warming. IMO and ICAO do not differentiate between countries, all are treated equal as the emissions from aviation and shipping are international in nature. Another problem is the fear shared by all countries that any regulation of shipping and aviation might have a negative impact on trade and tourism. Both organizations could benefit from guidance and encouragement from the Conference of the Parties (COP) to set up binding regulations. Regarding the bunkers, Sabine observed that until Copenhagen, only mitigation of emissions was in focus of the work in order to include bunkers into a global climate regime. A new boost came through climate finance. In Copenhagen it was agreed to establish a Green Climate Fund. The report (2010) of the UN Secretary-General's High-level Advisory Group on Climate Change Financing (AGF) identified bunkers as an innovative source for climate financing. Bunkers are estimated to deliver 12 bn USD per year by applying the principle of causing „no net incidence" on developing countries. There are three different instruments to tackle bunker fuels and at the same time generate funds. International fuel taxation is probably the most efficient instrument as it encourages fuel efficiency, but it is unlikely to have such an instrument implemented in near future. An international emissions trading scheme (ETS) would allow for both, generating funds and reducing emissions, as it puts a sectoral cap on international emissions from aviation and shipping. The EU-ETS will include emissions from aviation in

3. BUNKERS IN THE UNFCCC PROCESS

Sabine Minninger, EED Tourism Watch

2012. Unfortunately the emissions reduction targets are so low that they will not really reduce emissions, but stabilize them on a high level. The third option would be a levy (e.g. on air tickets, harbours, containers), like the German air ticket levy. It is easy to collect and implement, but does not include a binding cap or targets to reduce emissions. Until better climate efficient instruments are in place, a levy is seen as an appropriate interim solution. Sabine concludes that in the current UNFCCC process it is important for parties to develop a COP-Decision for adoption in Durban that encourages ICAO and IMO to develop measures by COP 19 that reduce emissions from the sectors, raise revenue for climate finance, do not distort competition, and result in no net incidence on developing countries.

Presentation:

1

Aviation and Shipping „bunkers" in the UNFCCC process

Sabine Minninger
German Church Development Service (EED)
- TOURISM WATCH -

2

The Bunkers emission problem

- GHG emissions by international maritime and aviation nearly 10% of global emissions
- Shipping emits 870 million tonnes of CO2 p/a, grown more than 85% since 1990
- Shipping (2007) 2,7% of global CO2 emissions, in 2050 12-18% of < 2ºC carbon budget
- Aviation exceed 730 million tonnes CO2 p/a - up well over 45% since 1990
- Aviation responsible for 4,9% of global GHG emissions (Lee et al 2009), in 2050 responsible of 25% of global GHG emissions

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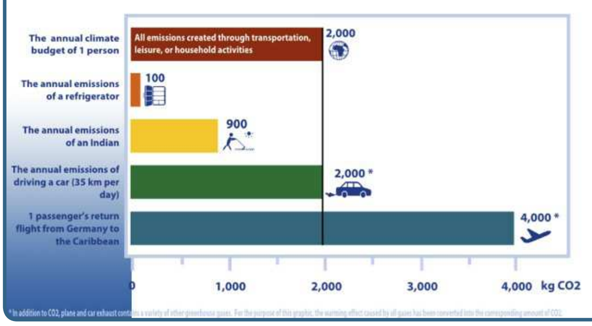
Carbon budgets – impact of aviation

Each passenger of an average civil aviation aircraft causes during every hour of flying as much greenhouse gas warming as one average person in Bangladesh in one year through all his/her activities



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Fastest growing emissions worldwide

- If left unregulated, emissions from aviation and shipping will double or triple by 2050
- International transport by 2050 would amount to
  - –35% < 2ºC carbon budget
  - –60% < 1,5ºC carbon budget
- If left unregulated, 1,5ºC target can not be achieved

3. BUNKERS IN THE UNFCCC PROCESS

Sabine Minninger, EED Tourism Watch

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Voluntary measures have failed so far

- Fuel efficiency, technolgy efficiency or voluntary carbon offsets are overrun by massive growth rates

- False solution biofuels: Most biofuels will increase not reduce emissions - land use change impact (direct and indirect), not mentioning social problems and human rights violations.

→Alternative fuels alone won`t contain growth in GHG emissions in the foreseeable future

6

International Measures

1997 Kyoto Protocol

Article 2.2.

"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".

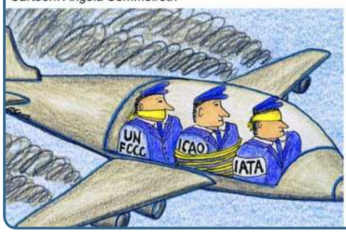
7

Miserable failure of IMO and ICAO

Underlie different principles

- **UNFCCC: CBDR**
- **ICAO: Non-Discrimination**
- **IMO: Flag-Neutrality**

Cartoon: Angela Semmelroth



- **Little progress, no binding regulations, no limitation commitments**
- **Resistence from eg Saudi Arabia**
- **Myths: spill-over effects on tourism → differentiated debate is missing**
- **Could benefit from guidance and encouragement from the COP**

8

Until COP 16 in Cancun most promising to regulate emissions from international transport: 1.(b) (iv) of Decision 1/CP.13 (Bali Action Plan)

The Conference of the Parties

- Decides to launch a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012, in order to reach an agreed outcome and adopt a decision at its fifteenth session, by addressing, inter alia:

(b) Enhanced national/international action on mitigation of climate change, including, inter alia, consideration of:

(iv) Cooperative sectoral approaches and sector-specific actions, in order to enhance implementation of Article 4, paragraph 1(c), of the Convention

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New developments

- Until Copenhagen, only mitigation of bunker emissions was in focus to include bunkers into a global climate regime
- New boost came through climate finance
- AGF report (2010) identified bunkers as innovative source for climate financing
- Bunkers may deliver 12 bn USD p/a causing „no net incidence" on developing countries
- Bunker-Mitigation failed in Cancun, Bunker-Finance still a topic
- Need for bunker finance, but mitigation important as well – place on the agenda?
- Home for bunkers?

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Possible instruments

- **Fuel taxation**
  - –most climate efficient
  - –most impossible to be implemented
- **ETS (emissions trading scheme)**
  - –sectoral cap on international aviation and shipping emissions
  - –EU-ETS no ambitious targets
- **Levy** (air ticket, harbour, container)
  - –German air ticket levy, no cap or targets, easy to collect
  - –appropriate interim solution until better climate efficient instruments are in place, polluter-pays

3. BUNKERS IN THE UNFCCC PROCESS

Sabine Minninger, EED Tourism Watch

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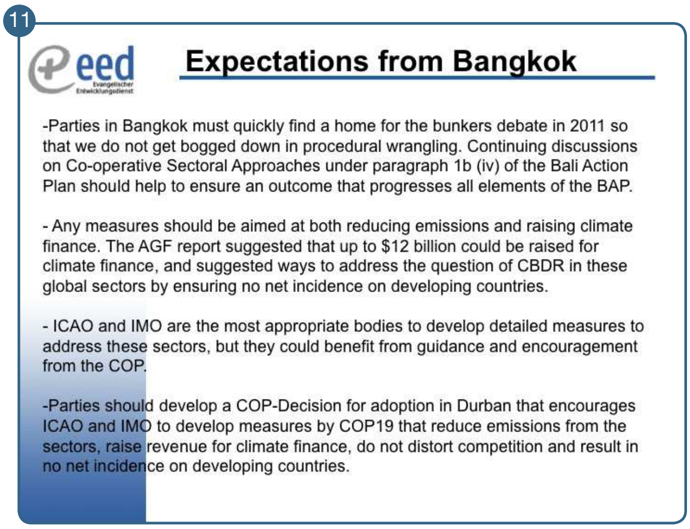

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4. CLIMATE FINANCE: PROMISES AND GAPS

Mark Lutes, WWF International

MARK LUTES is the finance policy coordinator of the WWF International Climate Team. He has been involved in the international negotiations for around a decade. He has worked on climate change in Brazil, Canada and internationally. In the negotiations he is focussing on innovative sources for climate financing including bunkers.

Abstract:

Mark presents the need for innovative sources of climate financing and the role of bunkers. He gives details on a possible rebate mechanism to deal with equity and tackle CBDR (common but differentiated responsibilities) with bunker finance instruments. Mark outlines that Government budgets aren't the only possible source of public finance under UNFCCC, but innovative sources of public funds are solid instruments to supplement budgetary contributions. Innovative sources are instruments that generate public finance directly, outside government budgets, for international public goods – e.g. climate action. Among these, the Financial Transaction Taxes (FTTs), international allowance auctioning (AAUs, SoP/CERs), special drawing rights and measures to address international transport (referred as bunkers) are discussed. Innovative sources won`t let developed countries escape from their commitments towards developing countries if the focus is on sources of PUBLIC finance and if there is a clear separation of public finance from the carbon market and private financial flows. Private sector financial flows will be important especially for mitigation of emissions, but public finance is needed to leverage this. It remains a need to hold governments responsible for funding levels. Government budgetary contributions must continue and increase (from current $10bn/year). Innovative sources should be on top of this to enable a more rapid scale-up of finance.

Following this debate, Mark raises the question if innovative sources will shift the burden to developing countries, as e.g. international transport will also hold developing countries accountable. To avoid this, any innovative source must be conform to the principle of CBDR under the UNFCCC. Contributions to meeting commitments under UNFCCC must come from governments or economies of developed countries. Some sources may only apply to developed countries. This includes the auctioning of Assigned Amount Units (AAUs). Currently, countries with caps under the Kyoto Protocol are issued their entire allocation of AAUs free of charge. If AAUs were 100 % auctioned, they could generate a lot of funds purely from developed countries. For sources that are inherently or ideally global, ways must be found to ensure that there is no burden on developing countries. The AGF-report indicated the principle of "no net incidence" on developing countries from any global measure. Mark emphasizes that any voluntary contribution by developing countries would not count towards developed country commitments under the UNFCCC.

In this context it is questioned why developed countries can't just go ahead and do this on their own, without having an agreement under the UNFCCC? Among other reasons, the main reasons are to ensure that funds from a given measure support climate finance without being captured by national treasuries, and to put global pressure on laggards to participate in implementing global measures that can generate finance. Using the example of international maritime transport, Mark explains how to tackle the problem of equity/CBDR. CBDR can be addressed in a global mechanism with no cost burden on developing countries by applying the principle of "no net

4. CLIMATE FINANCE: PROMISES AND GAPS

Mark Lutes, WWF International

incidence". If the international community agrees on a global mechanism to address emissions in the sector that can also generate revenue (through an ETS or levy), a rebate mechanism may tackle equity and ensure no net incidence on developing countries. The rebate mechanism designed by IMERS (International Maritime Emission Reduction Scheme) foresees to compensate developing countries immediately for their costs or burden, based on a suitable key i.e. by the share of seaborne imports by value. Developing countries fear an increase in food prices, so this needs to be given special attention, especially impacts on Least Developed Countries and Small Island Developing States. After the rebate is given to developing countries, the remaining funds are for climate finance. Mark explains how the disbursement could happen. In his view, the disbursement of revenue is to comprise two steps. First, the cost burden that may be incurred by a developing country which participates in this Market Based Measure is to rebated immediately and unconditionally. Second, the remaining revenue is disbursed through the operating entity of an agreed financial mechanism. This could be the UNFCCC or the International Maritime Organization. Equity is respected, because the net revenue for climate change action would come from consumers in developed countries only, complying with the UNFCCC principles. Developing countries would be beneficiaries, with the most vulnerable countries to benefit most through the relevant rules and provisions. To conclude, Mark highlights that IMO as well as ICAO could benefit from a clear UNFCCC decision on CBDR and targets on emission reduction from bunkers, as the UNFCCC is the central decision-making forum. The UNFCCC must keep bunkers on the agenda and keep control of any revenue for climate finance, while IMO and ICAO remain the implementing bodies for any measures related to bunkers. At the last IMO meeting in March 2011, a ray of hope came from China. China and other DCs insisted on "no net incidence on developing countries" as a criterion for a rebate mechanism. China usually opposes any bunker measures, so that is an indication that they are actively considering a rebate mechanism, given that the principles of the convention are respected.

Presentation:

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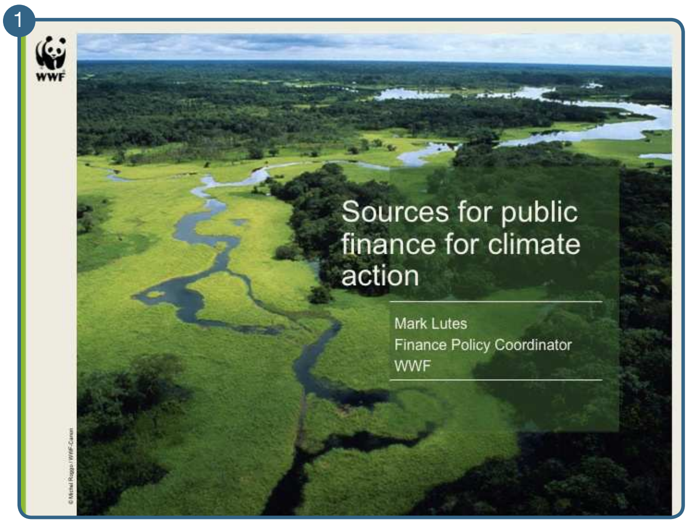

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4. CLIMATE FINANCE: PROMISES AND GAPS

Mark Lutes, WWF International

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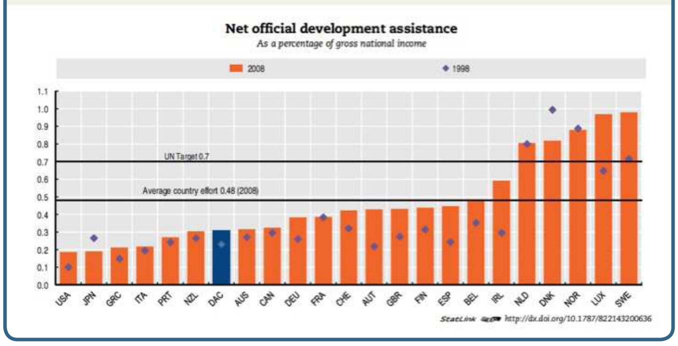
Risk of putting all eggs in budgetary basket – history of ODA commitments



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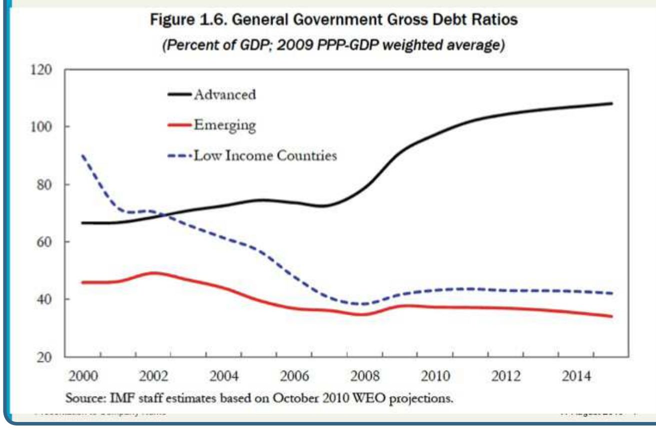
Trends in national debts



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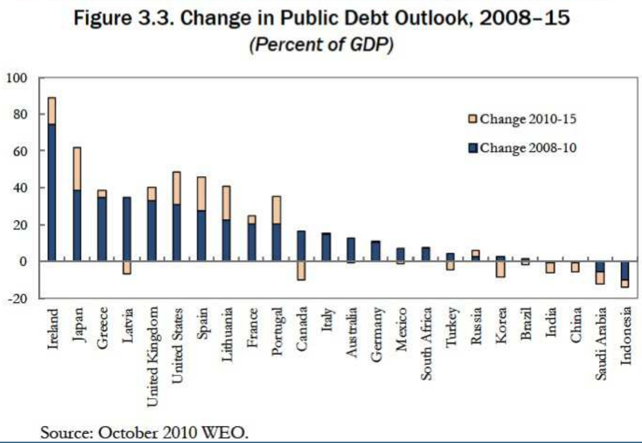
Developed countries have accumulated huge financial debt



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Innovative sources of public funds to supplement budgetary contributions

Government budgets aren't the only possible source of public finance under UNFCCC

Definition of innovative source: Instruments that generate public finance directly, outside government budgets, for international public goods – e.g., climate action

Examples of innovative sources:
- measures to address international transport
- Financial Transaction Taxes (FTTs),
- international allowance auctioning (AAUs, SoP/CERs)
- Special Drawing Rights,

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Questions about Innovative Sources

Won't innovative sources let developed countries escape their commitments?
- Not if the focus is on source of PUBLIC finance
- Need to clearly separate public finance from carbon market and private financial flows
- Private sector financial flows will be important – esp. for mitigation – but public finance is needed to leverage this;
- Need to keep responsibility on governments to guarantee funding levels – e.g., backstop other sources;
- Government budgetary contributions must continue and increase (from current $10b/year goal); innovative sources should be on top of this to enable more rapid scale-up of finance.

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Questions about Innovative Sources

Will innovative sources shift the burden to developing countries?
- Any innovative source must conform to CBDR;
- Contributions to meeting commitments under UNFCCC must come from governments or economies of developed countries
  - Some sources can only apply to developed countries (e.g., auctioning AAUs);
  - For sources that are inherently or ideally global, ways must be found to ensure no burden on developing countries (e.g., "no net incidence" from AGF);
- Any voluntary contributions from developing countries would not count towards developed country commitments under UNFCCC

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4. CLIMATE FINANCE: PROMISES AND GAPS

Mark Lutes, WWF International

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Questions about Innovative Sources

Why can't developed countries just go ahead and do this on their own, without talking about it in UNFCCC?

- Need agreement on how to collect, channel and recognize this finance
- Need agreement to implement global measures that can generate finance – int'l transport, FTTs.
- Need global pressure to push laggards to participate
- Need to ensure funds from a given measure support climate finance, and not captured by national treasuries.
- Role for climate convention important to ensure funds are used for climate finance

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Example: International maritime transport (bunkers)

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Example: Maritime transport (shipping)

Shipping is large and growing source of emissions;

Progress stalled for years over competing principles in UNFCCC and IMO;

CBDR can be addressed in a global mechanism with no cost burden ("no net incidence") on developing countries;

- agreement on a global mechanism to address emissions in the sector that can also generate revenue (ETS or levy)
- Rebate mechanism to compensate developing countries for their costs or burden, based on suitable key (i.e., share of seaborn imports by value)
- Use remaining funds for climate finance, and use key to attribute contributions developed countries
- Special attention to impacts on food prices, LDCs and SIDS

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Compliance with UNFCCC Convention

- Disbursement of revenue is to comprise two steps:
  - Cost burden (incidence) incurred by a developing country Party participating in the MBM is rebated (paid) to it, unconditionally
  - The remaining revenue (net revenue), is disbursed through the operating entity of an agreed financial mechanism (UNFCCC/IMO)
- Consequently, the net revenue for climate change action would come from consumers in developed countries only, complying with the UNFCCC principles
- Developing countries would be beneficiaries, with the most vulnerable countries to benefit most through the relevant rules and provisions applied at the 2nd step (SIDS, LDCs, African countries)
- The shipping sector would also benefit at the 2nd step, potentially through a new global Maritime Technology Fund, or similar

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Attribution Key's Usage

(1) Rebates for developing countries[1]

Developing Country/region	R Key, %
China	8.35
Korea, Republic of	3.68
Singapore	2.36
China, Taiwan Province of	2.27
China, Hong Kong SAR	2.06
India	1.98
Next 30	15.31
Remaining 120+ countries	4.19
TOTAL non-Annex I	**40.19**

(2) Credits for developed countries (for climate financing raised)

Developed Country/region	Attr Key %
European Union*	28.53
United States of America	15.98
Japan	6.42
Canada	1.98
Turkey	1.64
Australia	1.60
Russian Federation	1.40
Remaining 7 countries	2.28
TOTAL Annex-I Parties	**59.81**

FR: 2.6%

Germany	4.6015	Spain	3.0122
Greece	0.7362	Sweden	0.9112
Hungary	0.4480	Switzerland	0.5129
Iceland	0.0690	Turkey	1.6386
Ireland	0.5932	Ukraine	0.5024
Italy	2.9651	United Kingdom	3.9644
Japan	6.4101	United States of America	15.9771

[1]Developing country can forego rebate or a part of it, and be recognized for such action; Thus the rebates may amount to 30% or less. Values provided in the GHG WG 3/3/11 document.

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Current negotiations on innovative finance and maritime sector

Multiple negotiating fora can contribute:

- UNFCCC the central decision-making fora:
  - guidance to IMO/ICAO on CBDR and targets
  - control of any revenue for climate finance
  - Important for int'l transport to be on agenda here
- IMO/ICAO – technical bodies will likely implement and enforce any measures for shipping and aviation
  - Consideration of measures on-going
  - Last week in IMO China and other DCs insisted on "no net incidence on developing countries" as criteria
  - actively considering rebate mechanism
- G20 (French priority, political signals not decisions, US)

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5. INTERNATIONAL AIR PASSENGER ADAPTATION LEVY TO SUPPORT THE POOR

Achala Chandani, International Institute for Environment and Development

Achala Chandani is a researcher in the Climate Change Group and Team Leader of Global Climate Change Governance. She works with the International Institute for Environment and Development, based in London. She focusses on equity and fairness issues in climate change and financial mechanisms in the UNFCCC process.

Abstract:

Achala presents the International Air Passenger Adaptation Levy (IAPAL) as an instrument to contribute to climate financing, respecting equity by outlining its potential as an innovative mechanism to fund adaptation in developing countries. For the poorest and most vulnerable it is crucial to adapt to changing conditions caused by global warming. As current adaptation funding is well below requirements in developing countries, it is unquestioned that there is a need for mechanisms providing additional and consistent funding. Achala outlines why IAPAL is a fair and just instrument, with minimum negative impacts on developing countries.

IAPAL is designed as a solidarity levy imposed on all international air passengers to support adaptation in developing countries. It differentiates by class of travel to reflect capability (first and business class passengers pay more than economy class passengers). The levy is mandatory instead of voluntary for all international travel to maximize revenue. Designed by Mueller and Hepburn in 2007, the Maldives, on behalf of the LDCs, submitted the concept of IAPAL at COP 14 in Poznan, Poland. The precedent for IAPAL is the French 'Leading Group' Solidarity Levy for combating HIV/AIDS in Africa, as an example of international passengers' solidarity with vulnerable societies. Support also comes from air passengers themselves. Around 75 % of international passengers surveyed at Schiphol Airport (Netherlands) are willing to pay a carbon tax in addition to the ticket price. Taking into account that there will be a 5.1 % annual growth in passenger numbers forecast by IATA, IAPAL has quite a potential. The principles of the levy are easy to follow. It is a solidarity levy, following the polluter-pays principle, it respects respective capabilities like class of travel and the ability to fly internationally, which only rich people can afford. Due to growth rates it is possible to maximize predictable revenue. The simplicity of the scheme allows an easy and fast implementation. The size of the levy is following the example of the French levy: For an Economy trip the levy would be around $6 (€4), for business/first class trips it would be $62 (€40). It can be reviewed upwards or downwards anytime. Calculating that the Airline industry handles an average of 760 million international passengers a year and that IATA forecasts annual passenger number to grow by 5.1 %, a total of 10 bn USD could be raised. The funding has the advantage that it is new and additional, predictable, appropriate, equitable and adequate.

The revenues generated go to the Adaptation Fund for developing countries. The airlines will collect the levy at the point of sale and transfer the money directly to an Adaptation Fund account. If necessary, the Adaptation Fund compensates airlines for reasonable administrative costs. Even though the levy effectively increases the cost of travelling, the likely magnitudes of these impacts compared to the benefits are low.

The impact of IAPAL on air travel will be very low, as the impact on the ticket price is very small: $6 represents only 0.006 % of a $1,000 ticket. It is not expected that there are any grave impacts at all. The

5. INTERNATIONAL AIR PASSENGER ADAPTATION LEVY TO SUPPORT THE POOR

Achala Chandani, International Institute for Environment and Development

levy is paid by the passenger. The only impact on airlines is reduced demand, with elasticity of demand being low for international travel. A unfair distortion of competition in the industry is avoided by universal application of the levy on international travel, not selective by regions, routes, countries or airlines. Achala concludes that IAPAL represents a significant additional contribution to adaptation funds that are so critical for the poorest. Even at the most pessimistic levels, the anticipated revenues will be higher than the current adaptation resources Revenues are consistent, predictable and not dependent on annual reviews by governments. Furthermore, the potential negative impacts are much less than the benefits: Poor countries benefit more than they lose with and without IAPAL.

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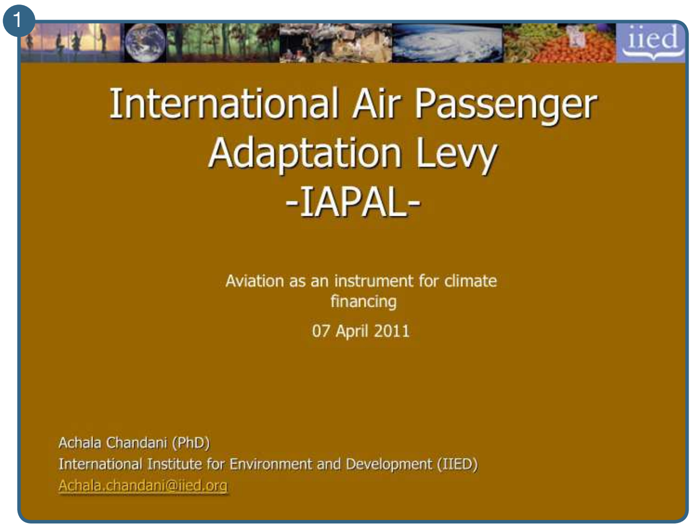

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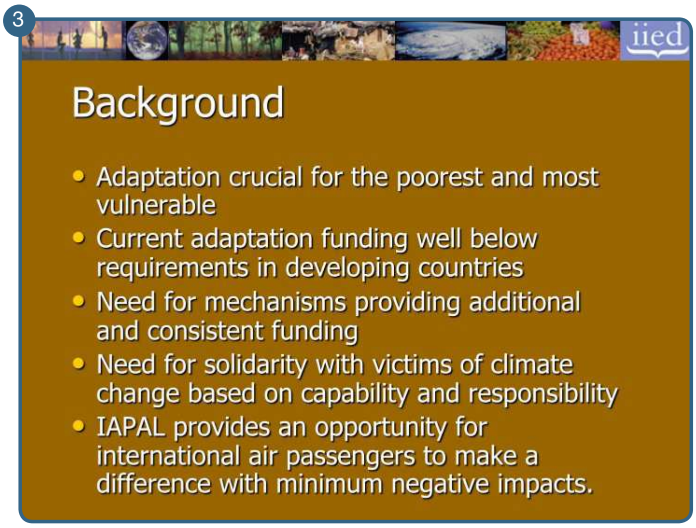

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5. INTERNATIONAL AIR PASSENGER ADAPTATION LEVY TO SUPPORT THE POOR

Achala Chandani, International Institute for Environment and Development

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Momentum

- **Concept** - International Air Travel Adaptation Levy (IATAL) proposed by Mueller and Hepburn (2007)
- Maldives on behalf of LDCs proposed in Poznan at COP 14
- **Precedent** - French 'Leading Group' Solidarity Levy for HIV/AIDS an example of international passengers' solidarity with vulnerable societies
- **Willingness** - 75% of international passengers surveyed at Schiphol Airport (Netherlands) willing to pay a carbon tax in addition to price of ticket (IAPAL is not a carbon tax)
- **Outlook** - 5.1% annual growth in passenger numbers forecast by IATA

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Principles

- Solidarity
- Polluter pays
- Respective capabilities
  - ability to fly internationally
  - class of travel
- Maximize predictable revenue
- Simplicity of scheme

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Underpinning variables

- **Size of levy**
  - Basic scenario uses French Levy as:
    - Economy trip \$6 (€4)
    - Business/first class trip \$62 (€40)
    - Can be reviewed upwards or downwards
- **Revenue base**
  - Airline industry handles average 760 million international passengers a year.
  - IATA forecasts annual passenger number growth of 5.1%
  - Fluctuations due to global economic trends possible

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Expected revenue

Year	Revenue (billion US$)		
	Economy class	Higher classes	Total
1	3.9	3.9	7.8
2	4.1	4.1	8.2
3	4.3	4.4	8.7
4	4.5	4.6	9.1
5	4.7	4.8	9.5
6	**5.0**	**5.1**	**10.1**

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Quality of funding

Quality	IAPAL
New and Additional	✓
Predictable	✓
Appropriate	✓
Equitable	✓
Adequate	? \$8-10 billion ?

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Operational options

- Revenues go to the Adaptation Fund (LDCs/ developing countries to keep the levy for adaptation projects in their countries?)
- Collection by airlines at points of ticket sale and transferred to an Adaptation Fund account
- Adaptation Fund compensates airlines for reasonable administrative costs
- Adaptation Fund works in consultation with international bodies concerned with aviation sector

5. INTERNATIONAL AIR PASSENGER ADAPTATION LEVY TO SUPPORT THE POOR

Achala Chandani, International Institute for Environment and Development

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Potential impacts

- Levy effectively increases the cost of travelling-raising genuine concerns.
- However, likely magnitudes of these impacts compared to the benefits are low.

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Potential impact on tourism

- Economy travel more sensitive to price increases than premium travel but not large to deter travel
  - $6 levy on a $750 economy ticket results in 0.47% and 0.52% drop in demand for long-haul and short-haul international travel respectively
  - Impact much less than:
    - 5.1% expected increase in passenger growth
  - $6 represents only 0.006% of a $1,000 ticket
- Benefits going to developing countries through adaptation revenue more than expected impacts

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Potential impact on airline business and competition

- Passenger levy borne directly by passengers
- Only impact on airlines is reduced demand, with elasticity of demand being low for international travel
- Unfair distortions on competition in industry avoided by universal application of levy on international travel, not selective by regions, routes, countries or airlines

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Potential impact on passenger welfare

- Size of levy very low compared to total passenger travel budgets/expenses per trip
- An average willingness to pay for emissions (though different from willingness to pay for adaptation, but still represents consciousness to climate change impacts of travel) for an inter-continental round trip estimated at €92 at a Schiphol passenger survey
  - Represents willingness to partly forego welfare

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Conclusions

- IAPAL represents a significant additional contribution to adaptation funds that are so critical for the poorest
  - Even at the most pessimistic levels, anticipated revenues higher than current adaptation resources
- Revenues are consistent, predictable and not dependent on annual reviews by governments
- Potential negative impacts much less than benefits: Poor countries benefit more than they lose with and without IAPAL
- IAPAL a genuine case for more detailed implementation analysis and engagement

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Thank you!

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6. Q&A – OPEN DISCUSSION

Moderated by Pa Ousman Jarju, The Gambia, LDC-chair

Pa Ousman Jarja opens the floor for a lively discussion and invites the audience to ask questions and express concerns. The workshop does not intend to come up with a lobbying strategy but is meant for capacity-building, so all questions on the presented innovative instruments and their principles are welcome. The workshop is a chance to clear doubts and get support for bunkers as an innovative finance source, especially from Least Developed Countries.
During the lively emerging debate, questions were asked by the international delegates, NGO representatives and interested audience. While some questions could be easily answered, just to clarify comprehension questions, it became obvious that there was a fear that bunker regulations could lead to a loss of revenues from trade or tourism. The instruments are difficult and not yet implemented, which is a matter of concern. Even though the panellists tried hard to explain the feasibility of the instruments and compensation schemes, one question could not be answered: Do the parties believe each other or the UNFCCC system that poor countries will really be the net beneficiaries of any kind of bunker finance, or will they rather lose than profit.
To overcome distrust is the biggest challenge to successfully discuss and finally implement bunker regulations and generate finance. The big boost has to come from Least Developed Countries, as the profiteers. They have to support bunker finance. There is still a lot of work to do to build capacity and discuss the different instruments, but most of all, poor countries have to understand that they will profit from bunker finance, concludes Pa Ousman Jarju. We are just at the beginning to promote and have a debate on bunker finance. He hopes that we will use the year 2011 to move forward.
He believes that bunker finance could be a valuable, reliable and equitable source of finance, potentially securing a double dividend by also unlocking mitigation packages in two sectors that have so far escaped greenhouse gas regulation. Developing countries have some concerns over global measures to deal with aviation and shipping, but these have to be addressed by embracing the concept of ‚no net incidence‘. On the way to Durban, bunker finance measures will need strong support from developing countries.

Abdus Sabur closes the workshop with words of thanks to the chair, the panellists and the active and interested audience. He is pleased to haved discussed these important issues at this workshop, as he believes that this is an important step forward towards a successful outcome in Durban.