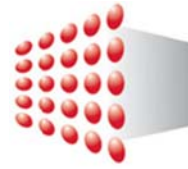


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REVIEW ARTICLE

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Singapore can be Carbon Trading Hub for Ships

Straits Times, 15 December 2009

ABSTRACT

The establishment of an international policy regime for mitigating greenhouse gas (GHG) emissions from global shipping is probably among the most important challenges facing Singapore negotiators at Copenhagen and beyond. The most strategic general question facing International Maritime Organization (IMO) members, charged with submitting emission reduction proposals, revolves around the “tax vs. cap-and-trade” debate. Singapore as a global shipping and bunkering hub is advantageously placed to benefit from active carbon trading. Energy and GHG emissions are of course intimately related, and the establishment of a carbon pricing centre would further add to the city’s role as Asia’s energy hub.

KEY WORDS

International Maritime Organization, Cap-and-trade, Carbon Pricing

1. Among the array of climate change issues facing negotiators at the United Nations climate change conference in Copenhagen now, the establishment of an international policy regime for mitigating greenhouse gas emissions by global shipping is probably among the most important challenges for Singapore. Not only is the Republic a global leader for sea-borne cargo and container traffic, but it is also the world's single largest bunkering port by far. Bunkering, or the refuelling of vessels, is part of a cluster of oil-related activities here, and is an essential service.
2. Greenhouse gas emissions from international shipping are not covered by the Kyoto Protocol as the industry is inherently global and its emissions cannot be attributed to national jurisdictions. But the International Maritime Organisation (IMO) was charged in 1997 with establishing an emission reduction regime for international shipping. In the dozen years since, IMO member-states have not reached an agreement on any binding measures to control shipping emissions.
3. There is pressure from key shipping constituencies represented in the IMO to come up with recommendations on emission cuts. Any IMO agreement requiring member-states to comply with emission reduction regulations will have far-reaching impact on Singapore's role as a maritime and oil-refining and trading hub.
4. Leading shipping industry bodies and the national authorities have submitted emission reduction proposals to the IMO. The most strategic general question facing IMO members now revolves around the 'tax versus cap-and-trade' question. The two positions are articulated respectively by Denmark's April submission to the IMO calling for a carbon tax to be applied to bunker fuels, and a joint May submission by France, Germany and Norway in favour of a trading scheme.

5. The European shipping associations, constituting the world's most powerful corporate shipping interests, will play a critical role in the formation of maritime policies within their respective countries. In turn, one would expect these governments to press for international negotiations in Copenhagen and beyond.
6. In general, shipping executives support the cap-and-trade option. In a recent poll on sustainable shipping, emission trading was supported by 41 per cent of the respondents, compared with the 29 per cent who favoured a bunker tax.
7. Several shipping industry associations, including those from Australia, Belgium, Norway, Sweden and Britain, have recently affirmed their support for a global cap-and-trade scheme. The European Union is the single largest regional group within the IMO and exerts strong negotiating leverage within the organisation. The European Commission has stated that it would include shipping in its EU Emissions Trading System (ETS) if the IMO did not take action on its own.
8. Caps and taxes are both market-based approaches that encourage cuts in emissions. Both instruments put a price on carbon and, hence, create market incentives for investments in emission-reduction technologies. While a tax raises revenue directly, a cap-and-trade scheme that auctions tradable permits can also raise similar amounts of revenue. How such revenues are used is an important issue, although distinct from the choice of the instrument. There is nothing in either of the two options that offers a clear argument for support.
9. The EU clearly favours a trading scheme for shipping along the lines of its active ETS market. Critically, Singapore as a global shipping and bunkering hub would be advantageously placed to benefit from active carbon trading. The establishment

of a carbon pricing centre here would add to the city's role as Asia's energy hub. Singapore's position as a financial centre can only be enhanced if it became a carbon pricing centre.

10. As the world's largest bunkering port, Singapore would be the natural location for an R&D centre for shipping emission mitigation. Singapore also has strong claim on a substantial share of revenues collected by an IMO-proposed fund administrator for shipping R&D and technology implementation.
11. Maritime measures need to be effective, equitable and enforceable. Proposed regulations need to take note of the potential for 'leakage', where shipping activity migrates from signatory to non-signatory states or to states that do not enforce emission regulations.
12. In shaping the policies for shipping, officials must ensure that the complexities of this most international of industries are taken into account. Singapore has a leading role to play in the post-Copenhagen IMO deliberations.

About the Author

Dr. Tilak K. Doshi is a Visiting Principal Fellow with the Energy Studies Institute. He is an industry expert with over 15 years of international work experience in leading oil and gas companies. Currently, Dr. Doshi is Senior Advisor to the Board of Falcon Equity Advisors GmbH, a financial advisory and private equity firm with headquarters in Switzerland and offices in Dubai and Abu Dhabi. He is also consultant to a number of ventures, including LNG business in the Arabian Gulf and Asia, carbon emission reduction programs and in mergers and



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