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Agenda item 7

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## REDUCTION OF GHG EMISSIONS FROM SHIPS

### Consideration of market-based measures

Submitted by ICS, BIMCO, CLIA, INTERCARGO, IPTA, IMCA, INTERFERRY and WSC

#### SUMMARY

*Executive summary:* The co-sponsors agree that the Committee should decide in principle to commence deliberations on how mandatory market-based measures (MBMs) could be implemented for international shipping. To expedite development, the Committee is requested to commence discussions on MBMs as soon as possible and before 2023, with a view to taking some decisions. Additionally, the Committee should agree to allow consideration of different candidate measures, including short-term measures such as the IMRB/IMRF proposal and mid-term measures such as MBMs, in parallel, given the urgent need to make progress on delivering the levels of ambition in the Initial GHG Strategy.

*Strategic direction,  
if applicable:* 3

*Output:* 3.2

*Action to be taken:* Paragraph 14

*Related documents:* MEPC 76/7/2, MEPC 76/7/7, MEPC 76/7/12; Resolution  
MEPC.304(72); MEPC 75/WP.1/Rev.1, MEPC 75/7/4,  
MEPC 75/INF.5; ISWG-GHG 5/4/4; MEPC.1/Circ.885 and  
MEPC 71/7/4

#### Introduction

1 This document is submitted in accordance with the document on *Organization and method of work of the Maritime Safety Committee and the Marine Environment Protection Committee and their subsidiary bodies* (MSC-MEPC.1/Circ.5/Rev.2) and comments on documents MEPC 76/7/2 (Norway) and MEPC 76/7/12 (Marshall Islands and Solomon Islands).

2 The co-sponsors agree that the Committee should consider the role of market-based measures (MBMs) in the delivery of the *Initial IMO Strategy on reduction of GHG emissions from ships*. In light of the complexities and previous differences of opinion on this important matter, it will be useful for the Committee to resume this discussion as soon as possible. While there are short-term GHG reduction measures, including the IMRB/IMRF proposal (MEPC 76/7/7), which still require urgent consideration and finalization, the magnitude of the challenge required to achieve the levels of ambition in the Initial Strategy requires that the Committee undertake discussions of critical measures in parallel, and not in a linear sequence whereby consideration of one candidate measure must be concluded before the Committee can begin discussion of the next. The ability to consider different candidate measures in parallel will be critical if the Organization is to move forward with the urgency that the challenge of decarbonizing shipping requires.

3 While MEPC 75 approved amendments to MARPOL Annex VI, for adoption at MEPC 76, to address CO<sub>2</sub> emissions of the existing fleet, this will not be enough to deliver the level of ambition for 2050 set out in the Initial Strategy, which identifies, inter alia, that "new/innovative emission reduction mechanism(s), possibly including market-based measures (MBMs), to incentivize GHG emission reduction" are candidate mid-term measures that could be finalized and agreed by the Committee between 2023 and 2030. However, the Initial Strategy (Paragraph 4.3) also states that "Certain mid- and long-term measures will require work to commence prior to 2023".

4 To achieve the levels of ambition in the Initial Strategy, the Organization needs to take a number of important additional steps. These include addressing the need to expand and accelerate applied research and development efforts that are critical to using zero-carbon technologies, and consideration of what policy measures will be necessary to facilitate the transition of the fleet to new fuels and/or technologies that are generally expected to be vastly more expensive than those in use by shipping today. MBMs are among the additional policy options the Committee may choose to help drive the transition towards the new fuels and technologies that will be necessary to phase-out GHG emissions in the sector. It should be noted, however, that the decarbonization of international shipping will depend on out-of-sector stakeholders developing zero-carbon technologies and fuels and making these readily available on the market.

5 The common rationale in support of MBMs is to put a price on CO<sub>2</sub> emissions in order to provide an economic incentive for a specific sector to reduce its emissions by investing in more efficient technologies and/or by operating in a more energy efficient manner. The co-sponsors do not question this rationale which is accepted by many governments, but have previously questioned whether MBMs for shipping might be premature, given that any incentive to encourage the take-up of zero-carbon technologies cannot be effective so long as these new technologies do not yet actually exist in a form and scale which can be deployed by international shipping. This is why the industry proposed the establishment of the IMRB, in order to expand and accelerate R&D of zero-carbon technologies and their deployment, and why the co-sponsors strongly encourage the Committee to finalize the mature proposal contained in document MEPC 76/7/7 (Denmark et al).

6 If the Committee decides to move forward and finalize the IMRB as soon as possible, the general availability of zero-carbon technologies and commercially viable zero-carbon ships in the market by 2030 become plausible realities. Moreover, given that the Committee is now considering a mature proposal for the IMRB, which is not an MBM and is already listed under the Initial Strategy as a short-term measure to be finalized and agreed between 2018 and 2023, and that MBMs are likely to take several years to develop and enter into force, implementation of MBMs and their incentivizing impacts will be likely to coincide with the wider introduction of zero-carbon technologies that will be accelerated by the establishment of the

IMRB. Therefore, taking account also of the political importance of making progress on the development of MBMs, the co-sponsors assert that it is now appropriate and timely for the Committee to begin work on MBMs, consistent with paragraph 4.3 of the Initial Strategy.

7 To be successful in meeting the challenge, the Committee needs to consider and develop different candidate measures in parallel. This includes short-term measures such as the IMRB/IMRF proposal and mid-term candidate measures such as MBMs. The present sequential process, premised on a view that the Committee should only address one candidate measure at a time, and that consideration of one candidate measure must be completed before beginning discussion of other candidate measures, will not allow the Organization to achieve, within the agreed timelines, the levels of ambition set out by the Initial Strategy. The co-sponsors therefore strongly encourage the Committee to finalize the mature proposal to establish the IMRB while also beginning a separate discussion about MBMs in parallel.

### **Previous discussions by MEPC**

8 In 2013, MEPC 65 agreed to suspend discussions on MBMs. However, the circumstances which prevail today are different. The Paris Agreement of 2015 helped unblock negotiations at IMO, leading to the adoption of the Initial Strategy, which, whilst cognizant of the CBDR-RC principle, also recognizes as a guiding principle "the requirement for all ships to give full and complete effect, regardless of flag, to implementing mandatory measures to ensure the effective implementation of this strategy".

9 Importantly, any MBM should still meet those principles agreed at MEPC 57 (MEPC 57/21, paragraph 4.73) which remain relevant today:

- .1 effective in contributing to the reduction of total global greenhouse gas emissions;
- .2 binding and equally applicable to all flag States in order to avoid evasion;
- .3 cost-effective;
- .4 able to limit, or at least, effectively minimize competitive distortion;
- .5 based on sustainable environmental development without penalizing global trade and growth;
- .6 based on a goal-based approach and not prescribe specific methods;
- .7 supportive of promoting and facilitating technical innovation and R&D in the entire shipping sector;
- .8 accommodating to leading technologies in the field of energy efficiency; and
- .9 practical, transparent, fraud free and easy to administer.

### **Use of monies collected via an MBM**

10 During discussions of the roadmap which led to the Initial Strategy, there was general agreement that any monies collected should be utilized within the maritime sector to assist with the further development and uptake of zero-carbon fuels and technologies that will be required to phase-out GHG emissions in the maritime sector. As part of the development of the Revised Strategy and work arrangements, it is therefore suggested that the Committee

should develop some principles as to how monies generated from MBMs should be used to allow the transition to zero-carbon technologies and the phase-out of GHG emissions to occur as soon as possible as called for in the Initial Strategy.

### **Conclusions**

11 In view of the political importance of signalling to the world that the Organization remains on track with respect to implementation of the Initial Strategy, the co-sponsors suggest that, as part of the development of the Revised Strategy, the Committee should take a decision in principle to commence deliberations on how mandatory MBMs could be implemented for international shipping.

12 Given the urgent need to make progress to achieve the levels of ambition set out in the Initial Strategy, the Committee should agree to allow consideration of different candidate measures, including short-term measures such as the IMRB/IMRF proposal and mid-term measures such as MBMs, in parallel.

13 Noting the nine fundamental principles previously agreed to assess MBM proposals (MEPC 57/21, paragraph 4.73), the co-sponsors suggest that to expedite the development and adoption of the necessary regulatory framework for MBMs, and consistent with paragraph 4.3 of the Initial Strategy, the Committee should agree to commence discussions before 2023 with a view to considering key issues such as the development of some principles as to how monies generated from MBMs should be used in order to allow the transition to zero-carbon technologies and the phase-out of GHG emissions from international shipping to occur as soon as possible.

### **Action requested of the Committee**

14 The Committee is invited to consider this document, in particular the conclusions and the proposed way forward in paragraphs 11 to 13, and take action as appropriate.

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