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**CONSIDERATION OF CONCRETE PROPOSALS FOR MID- AND LONG-TERM
MEASURES AND ASSOCIATED IMPACT ASSESSMENTS IN THE CONTEXT OF PHASE I
OF THE WORK PLAN AS WELL AS THE PROPOSAL TO ESTABLISH AN
INTERNATIONAL MARITIME RESEARCH BOARD**

Comments on proposal for a Low GHG Fuel Standard

Submitted by ICS

SUMMARY

Executive summary: The document provides comments and proposals to assist the Group in progressing discussions related to the Low GHG Fuel Standard (LGFS) concept. For a global LGFS to achieve its intended benefits, each and every aspect of the marine fuel supply and demand chain needs to be involved.

Strategic direction, if applicable: 3

Output: 3.2

Action to be taken: Paragraph 20

Related documents: ISWG-GHG 10/5/3, ISWG-GHG 10/5/6; MEPC 76/7/15 and MEPC 77/WP.7

Introduction

1 This document provides comments on document ISWG-GHG-10/5/3 (Austria et.al) that contains details on the Low GHG Fuel Standard (LGFS), and proposals to guide the Group in its further consideration of LGFS. ICS is supportive of the concept of LGFS which, if established and enforced properly, could facilitate swift take-up of alternative low- and zero-carbon fuels by ships worldwide

2 ICS supports the adoption by the Organization of a net-zero CO₂ target for 2050 and agrees that shipowners will have a critical role on the demand side for the uptake of low- and zero-carbon fuels. However, the quality, availability, safety and sustainability aspects and the supply infrastructure for these alternative fuel options are the responsibility and within the control of stakeholders other than shipowners and therefore require careful consideration if an LGFS is to be successful.

Background

3 MEPC 76 approved a work plan for the development of mid- and long-term measures which as its first phase foresees collation and initial consideration of proposals for measures.

4 Document ISWG-GHG 10/5/3 commented on document MEPC 76/7/15 (Denmark et al.) and provided further details on the LGFS based on the approved Work Plan.

5 During initial discussions on GHG fuel standards at ISWG-GHG 10 general support for the concept of LGFS was noted. The Group also noted inter alia the following views as reflected in annex 2 of document MEPC 77/WP.7:

- .1 The LGFS allows the shipping sector to make a gradual transition and to gradually build up the fuel production and the bunkering infrastructure. Such a smooth transition has a lower risk of supply shortages than a sudden transition. Moreover, by ensuring that there is demand for low- and zero-carbon fuels, it provides certainty to all actors involved in the production and supply of these fuels. Sulphur cap and many other measures have shown that if there is certainty of demand, the market will provide what is required.
- .2 The LGFS targets should be regularly reviewed in order to ensure that they are both achievable and ambitious.
- .3 The issue of the safety of ships using fuel blends should be considered as part of the discussion on LGFS.
- .4 Ship operators have no control over the entire fuel production-to-bunkering supply chain to ensure an adequate supply of low or net-zero Well-to-Wake (WtW) GHG intensity fuels and that the real challenge comes from the availability of compliant and affordable fuels.
- .5 Unlike aviation and road transport, the global marine bunker supply industry remains heavily unregulated. With very few geographical exceptions, shipowners and operators are “at the mercy of” suppliers operating in regions that allow the supply of fuel with differing standards of quality. Concerns were therefore expressed that the concept proposes ambitious targets regarding the development of certification instruments on GHG impact for fuel producers and compliance for ships without mentioning a similar scheme for fuel quality and safety for suppliers.

Discussion

6 It is impossible for the industry to achieve net-zero emissions without transitioning to low- and zero-carbon fuels as quickly as possible. In this regard a well designed and implemented LGFS could be effective in ensuring a level playing field, in establishing confidence and the appropriate incentives for shipowners and operators to invest in the technology to utilise low- and zero-carbon fuels and avoiding stranded assets.

7 The shipping industry has a proud record of compliance with IMO regulations. In fact, in many cases, shipowners are taking initiatives at a much larger scale than what is required by the current regulations in meeting their own environment objectives and those of their customers and the global population in general. However, the significantly higher cost of alternative fuels is only one of the obstacles that stand in the way of efforts to decarbonize

their assets. Other aspects include uncertainty regarding the expected consistent global availability of their chosen safe alternative fuel option and the uncertainty associated with the Organization's work on lifecycle analysis of marine fuels.

8 Shipping is a complex global industry with very little homogeneity associated with operation models. Some ships operate on liner trades whereby, they have certainty in the geographic location of operation and port calls for months and in many cases years in advance. While others operate the tramp model where schedules are itinerant, they can change every day, even hourly based on trade requirements. This lack of homogeneity presents a very big challenge when it comes to planning for the bunkering of adequate quantities of fuel for interruption free and efficient operation.

9 As applicable to all other GHG reduction measures, the LGFS should not impose a cap on the supply of maritime transport available to the global economy which remains the most carbon efficient means of transporting energy, raw materials and goods worldwide. For a global LGFS to work successfully, each and every aspect of the marine fuel supply and demand chain, including the energy supply and distribution sectors, needs to be involved.

10 A WtW analysis for the LGFS is therefore essential. However, it should be recognized that shipping activity accounts for emissions from the combustion of the fuel but not from the fuel production. Which is why it is important to have flexible mechanisms embedded within the LGFS framework to ensure that ships are not unfairly penalized due to unavailability of adequate and appropriate fuel options in the ports that they visit.

11 The LGFS concept needs to be fuel and technology neutral. If the WtW aspects are not carefully considered, there is the risk of locking into certain fuel options for the foreseeable future for ships forced to comply with the LGFS requirements. This would delay the uptake of other sustainable alternatives.

12 Furthermore, in order to create a market for their use, it may initially be necessary to accept higher Well-to-Tank (WtT) emissions for some alternative fuels until they can be sourced from 100% renewable energy and are widely available in the required quantities. These aspects are already being considered as part of the work on the development of Lifecycle GHG and carbon intensity guidelines for maritime fuels (LCA guidelines), the finalization of which is therefore essential before the LGFS provisions can be adopted.

13 It is recognized that the easiest way to establish mandatory requirements related to LGFS may be through the legal framework in MARPOL Annex VI. Existing provisions related to the control of pollutants such as SO_x and NO_x are sufficiently robust, and time tested. However, it is worth highlighting that these requirements work as a package that addresses all aspects of the marine fuel supply chain in one way or another.

14 Special attention needs to be given to regulation 18 of MARPOL Annex VI related to fuel oil availability and quality. These provisions have been so designed keeping in mind the fact that ships are dependent on fuel oil suppliers operating in a largely unregulated global bunker market in order to procure fuel compliant with the required regulations. Inconsistencies between the supply and demand of marine fuels remains a regular feature in many ports around the world, even with conventional fuel oils. Provisions such as the Fuel Oil Non-Availability Report (FONAR) and mandatory reporting to the Organization of cases where fuel oil suppliers have failed to meet the requirements are therefore critical and also need to be considered for alternative low- and zero-carbon fuels.

15 In addition to the Organization's work on fuel safety, external entities such as ISO should be encouraged to commence and/or accelerate their work on the development of

industry standards similar to ISO 8217:2017 which play a very big part in ensuring a globally consistent fuel safety and quality landscape.

16 ICS notes with appreciation the work that has been taken up by the Organization on the development of certification schemes for ensuring the sustainability, traceability, feedstock identification and demonstration of correct claims with regards to the lifecycle GHG assessment of marine fuels. While this is a laudable change from the oft-repeated stance that IMO does not regulate fuel suppliers, it is important that this open mindedness is also extended to certifying fuels and suppliers with respect to quality and safety aspects.

17 It is safe to say that the scale of the challenge presented by the need to decarbonize the shipping industry is unprecedented in the Organization's history. It would be inappropriate to compare this with the challenges associated with other regulations that have previously entered into force including the 2020 global sulphur cap. While the relatively steep reduction in the sulphur content of the fuel presented many complex issues, ships were not faced with a complete shift in the type of fuel combusted by the onboard machinery with the same degree of uncertainty about the supply landscape, or the quality, safety and sustainability aspects associated with the use and supply of alternative low-and zero-carbon fuels.

18 Notwithstanding paragraph 17, it is recognized that the implementation of the 2020 Global Sulphur Cap could be considered as a good example of how a new mandatory requirement related to the quality of marine fuels can be implemented on a timely basis with minimal disruption to global shipping provided that the necessary supporting regulations and guidelines are in place. In particular, the implementation date for the global sulphur cap was subject to a decision by parties to MARPOL Annex VI that these fuels would indeed be widely available on a global basis by 1 January 2020. It will be recalled that in order to inform this decision by the MEPC, the Organization commissioned the "Assessment of Fuel Oil Availability" study which assessed the expected availability of fuel oil with a sulphur content of 0.50% m/m or less at the time of implementation.

Proposals

19 Based on the discussion points presented in paragraphs 6 to 18, the Group is invited to consider the following as the basis for further work on the LGFS concept:

- .1 Completion of work on LCA guidelines is essential before an appropriate LGFS can be developed.
- .2 If mandatory requirements including those related to GHG intensity of alternative low- and zero-carbon fuels are to be established through MARPOL Annex VI, existing provisions in regulation 18 and other relevant parts of the Convention related to safety, quality, and availability currently applicable to fuel oils, must be similarly established for all alternative low- and zero-carbon fuels.
- .3 The Maritime Safety Committee (MSC) and relevant industry stakeholders like ISO should be requested to consider in detail how the appropriate quality and safety standards of alternative low- and zero-carbon fuels can be established in a similar way as it exists for conventional fuel oil.
- .4 Ships that are unable to procure the requisite fuels due to unavailability in ports, should be required to submit a Fuel Non-Availability Report (FNAR) and the affected fuel batch should be excluded from calculations related to the LGFS;

- .5 Before a mandatory LGFS is established, appropriate data should be collected on the availability landscape of alternative fuels that could be used by ships to meet the relevant targets. Similar analysis could also be considered before predicting anticipated changes in reduction rates related to the LGFS; and
- .6 Careful consideration must be provided to any alternative flexibility mechanisms that are proposed. These measures should not unfairly penalize ships operating certain trade routes and/or models just because they do not have similar access to options such as compliance pooling. A level playing field in this regard should always be maintained.

Action requested of the Working Group

20 The Group is invited to note the information provided in this document, consider the proposals provided in paragraph 19 and take action as appropriate.
