

INTERSESSIONAL MEETING OF THE  
WORKING GROUP ON REDUCTION OF  
GHG EMISSIONS FROM SHIPS  
16th session  
Agenda item 2

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**FURTHER CONSIDERATION OF THE DEVELOPMENT OF CANDIDATE  
MID-TERM MEASURE(S) IN THE CONTEXT OF PHASE III OF THE  
WORK PLAN FOR THE DEVELOPMENT OF MID- AND  
LONG-TERM MEASURES**

**Advantages of a global maritime GHG pricing mechanism covering all GHG emissions  
as part of a basket of measures**

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Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Ireland, Italy,  
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Netherlands (Kingdom of the), Poland, Portugal, Republic of Korea, Romania,  
Slovakia, Slovenia, Spain, Sweden, Ukraine, ICS, EC and EDF**

**SUMMARY**

*Executive summary:* This document argues how a global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with energy used by ships for international voyages, as part of a basket of measures, can both ensure meeting the climate ambitions and generate proceeds that could, among other things, contribute to a level playing field and a just and equitable transition.

*Strategic direction, if applicable:* 3

*Output:* 3.2

*Action to be taken:* Paragraph 11

*Related document:* Resolution MEPC.377(80)

**Introduction**

1 MEPC 80 (July 2023) adopted the *2023 IMO Strategy on Reduction of GHG Emissions from Ships* (2023 IMO GHG Strategy) as resolution MEPC.377(80). The 2023 IMO GHG Strategy states that a basket of candidate measure(s), delivering on the reduction targets, should be developed and finalized comprised of both a technical element and an economic element, on the basis of a maritime GHG emissions pricing mechanism.

2 The 2023 IMO GHG Strategy also states that:

"the mid-term GHG reduction measures should effectively promote the energy transition of shipping and provide the world fleet a needed incentive while contributing to a level playing field and a just and equitable transition."

3 This document focuses on the economic element of the basket of measures, presenting the advantages of a global maritime GHG pricing mechanism applying a cost to all GHG emissions\* associated with the energy used by ships for international voyages. The co-sponsors believe that including such an economic element in the basket would most effectively contribute to the objectives listed in paragraph 4.5, i.e. "promote the energy transition of shipping and provide the world fleet a needed incentive while contributing to a level playing field and a just and equitable transition."

### **Main benefits of a global maritime GHG pricing mechanism covering all GHG emissions associated with energy used by ships, with a predictable price**

4 Fossil fuels are currently considerably cheaper than the zero and near-zero-GHG emission fuels which are needed to reach the indicative checkpoints and levels of ambition of the 2023 IMO GHG Strategy. Therefore, the transition to net-zero GHG emissions over the next 26 years requires strong regulation with sufficient economic incentives for ship operators to demand zero and near-zero emission fuels and for investors to make the necessary investments in the production and bunkering infrastructure of such fuels.

5 A global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships in international shipping can be administratively simple and will send a predictable signal to fuel suppliers and traders, ship operators and investors. Longterm predictability is important as a de-risking factor for investments in ships, bunkering infrastructure and fuel production. This will result in a sustained transition with lower overall costs of transitioning. In addition, the adoption of a predictable price on GHG emissions will reduce the price gap between fossil and zero-emission fuels, and would help accelerate the uptake of the latter to meet the 2030 fuel uptake target of the 2023 IMO GHG Strategy, while minimizing any negative economic impacts and maintaining a level playing field.

6 All GHG emissions contribute to climate impacts. A global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships will reduce the competitiveness of GHG-intensive technologies and help spur investments in clean technologies and behaviours. It will provide, as from the start, an incentive to improve energy efficiency through both operational measures and investments in more energy efficient ships and equipment. This will considerably reduce emissions from the early phases of the transition and thus help deliver on the checkpoints in the 2023 IMO GHG Strategy. Further, large scale uptake of energy efficiency solutions will reduce the amount of fuels and consequentially zero and near-zero GHG emission fuels needed to achieve the levels of ambition of the 2023 IMO GHG Strategy. This is an important consideration, since the availability of such fuels could be a potential constraining factor in the start of the transition.

7 By incentivizing from the start the use of zero and near-zero-GHG emission fuels, technologies and behaviours, the global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships will bring forward the emission reductions in a cost-effective and flexible way while promoting innovation. As a result, the cost of zero and near-zero GHG emission fuels and technologies will go down quicker than without

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\* The designation "covering all GHG emissions" is used to distinguish from a pricing mechanism only applied to a share of the WtW GHG emissions (e.g. emissions above a certain threshold).

such a GHG pricing mechanism, leading to comparatively lower operational costs for all stakeholders until the 2050 horizon. In other words, in the long term the GHG pricing mechanism covering all GHG emissions can be expected to reduce the costs of the transition and reduce the economic impacts on States. Thus, it plays an eminent role in achieving the targets set in the 2023 IMO GHG Strategy.

8 While a goal-based marine fuel GHG intensity standard will ensure the ultimate fuel transition, the global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships will provide predictable incentives for early action and improving energy efficiency. This complements the technical element, by shrinking the price gap and reducing the volumes of zero and near-zero-GHG fuels required to meet the targets of the 2023 IMO GHG Strategy.

9 A global GHG pricing mechanism covering all GHG emissions, and not just the emissions which exceed a certain threshold of compliance, will, as a by-product, generate a significant revenue. A portion of this revenue should be used to take into account the needs of developing countries, in particular least developed countries (LDCs) and small island developing States (SIDS). Portions of the revenue could be used to further a just and equitable transition and mitigate potential disproportionate negative impacts, via, e.g. capacity building, technical cooperation as well as finance for climate-positive investments. Further portions could be used to strengthen the sector's climate transition through direct investments, research, development and demonstration (RD&D) projects, and through rewards for use of zero and near-zero GHG emission fuels. Effective use of revenue generated by an economic element will contribute to lowering the impacts of the global shipping climate transition and at the same time speed it up.

### **Conclusion**

10 The co-sponsors are of the view that the economic element of the basket of measures should be a global GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships on international voyages. Such a measure, in combination with a goal-based marine fuel GHG intensity standard, is the most effective economic element to deliver on the 2023 IMO GHG Strategy, while enabling to minimize negative economic impacts.

### **Action requested of the Working Group**

11 The Working Group is invited to consider the arguments presented and take action as appropriate.

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