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WORKING GROUP ON REDUCTION OF  
GHG EMISSIONS FROM SHIPS  
17th session  
Agenda item 2

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## FURTHER CONSIDERATION OF THE DEVELOPMENT OF CANDIDATE MID-TERM MEASURE(S)

### Criteria for assessing effectiveness of proposals for the IMO net-zero framework

Submitted by ICS

#### SUMMARY

*Executive summary:* This document sets out some criteria to help Member States determine whether the regulatory text which is finally adopted for the IMO net-zero framework will meet core objectives, not least the GHG reduction goals of the 2023 IMO GHG Strategy. ICS sets out the criteria which the global shipping industry, as represented by ICS, will use to assess the likely effectiveness, or otherwise, of the amendments to MARPOL Annex VI which are approved by the Committee at MEPC 83.

*Strategic direction, if applicable:* 3

*Output:* 3.2

*Action to be taken:* Paragraph 9

*Related documents:* Resolutions MEPC.391(81) and MEPC.377(80); ISWG-GHG 16/2, ISWG-GHG 16/2/1, ISWG-GHG 16/2/2, ISWG-GHG 16/2/3; ISWG-GHG 17/2/5; MEPC 81/16, MEPC 81/16/Add.1 and MEPC 81/WP.4

#### Introduction

1 As called for by the 2023 IMO Strategy on reduction of GHG emissions from ships (2023 IMO GHG Strategy) (resolution MEPC.377(80)), ISWG-GHG 17 and MEPC 82 will continue the development of mid-term GHG reduction measures, now referred to as the IMO net-zero framework to be implemented following adoption, in 2025, of a new Chapter 5 of MARPOL Annex VI.

2 Document ISWG-GHG 17/2/5 (Bahamas et al.), co-sponsored by ICS, presents an integrated IMO net-zero framework which is readily implementable, enabling all the goals of the 2023 IMO GHG Strategy to be achieved, revising and combining previous proposals for a simplified goal-based marine fuel standard and a distinct maritime GHG emissions pricing

mechanism. Document ISWG-GHG 17/2/5 also provides draft amendments to MARPOL Annex VI to inform a decision about the provisions to be approved, referring to the "illustration" agreed at MEPC 81, as appropriate.

3 ICS welcomes the other detailed proposals for draft regulatory text submitted to this session and the valuable ideas which they contain. ICS recognizes that the package of draft amendments which is finally adopted by the Committee may need to take account of all of these proposals.

4 Regardless of the amendments to MARPOL Annex VI that are finally agreed, it is of utmost importance to the global shipping industry that these regulations will deliver on the GHG reduction goals of the 2023 IMO GHG Strategy, on a pathway to net zero by or close to 2050. Also, to the greatest extent possible, the regulations adopted must take full account of the characteristics of different ship types and trades, whilst minimizing additional administrative burdens which will impact the efficiency of international shipping and other unintended consequences such as serious market distortion or the unwitting introduction of perverse incentives. Such outcomes are more likely if the regulatory provisions adopted are overly complex.

5 The following document therefore sets out some criteria to help Member States determine whether the regulatory text which is finally adopted will meet these core objectives, not least the GHG reduction goals of the 2023 IMO GHG Strategy.

#### **Criteria for assessing effectiveness of the IMO net-zero framework**

6 Criteria by which the global shipping industry, as represented by ICS, will assess the likely effectiveness, or otherwise, of the IMO net zero framework (hereinafter the Framework) which is approved by the Committee at MEPC 83 are as follows:

.1 *Delivery of net-zero goal*

The Framework should ensure that the pathway to net-zero GHG emissions, by or close to 2050, is both achievable and remains plausible. This will only be the case if the regulations adopted will help ensure that the levels of ambition, and to the greatest extent possible the indicative checkpoints, agreed for 2030 and 2040 are also achieved.

.2 *Achievement of 2030 level of ambition for zero/near-zero GHG energy sources*

The Framework should ensure, to the greatest extent possible, achievement of the level of ambition "to increase uptake of zero or near-zero GHG emission technologies, fuels and/or energy sources to represent at least 5%, striving for 10%, of the energy used by international shipping by 2030". If this critical level of ambition (or "take-off" point) is not achieved, it will be almost impossible for most ships to comply with the aggressive reductions in the GHG intensity of marine fuels which will need to be mandated by the fuel standard for the 2030s if the 2040 and (by or close to) 2050 goals for absolute GHG emissions reduction by the international shipping sector are to remain achievable.

.3 *Reduction of cost gap via distinct GHG pricing mechanism*

The Framework should include, as elements of an integrated IMO net-zero framework, both a goal-based fuel standard to reduce the GHG intensity of marine fuels and a distinct maritime GHG emissions pricing mechanism to reduce the cost gap with conventional fuels and incentivize the accelerated production and uptake of zero/near-zero GHG fuels, energy sources and technologies. A fuel standard on its own, even if incorporating economic elements (such as the trading of some kind of flexible compliance units between ships which under/over-comply with the fuel standard) will not be sufficient to incentivize the rapid acceleration in the production and uptake of zero/near-zero GHG fuels which will be vital for the transition to net zero to succeed.

.4 *Flat rate GHG fee per tonne of CO<sub>2</sub>e emitted*

The Framework should include a distinct maritime GHG emissions pricing mechanism, as an economic element, based on flat rate GHG fees (contributions) per tonne of CO<sub>2</sub>e emitted, whereby all ships (above the agreed tonnage threshold) will contribute GHG fees equally via the "mechanism", on the basis of their actual GHG emissions, consistent with fair competition and the "polluter pays" principle. If a distinct maritime GHG emissions pricing mechanism is not adopted in 2025, this will lead to proliferation of piecemeal, unilateral GHG charges being applied to shipping worldwide – on a regional and/or national basis – with regulatory chaos, economic inefficiency and damage to the Organization's authority as shipping's global regulator.

.5 *Feebate (rewards) to incentivize production and uptake of zero/near-zero GHG fuels*

The Framework should include, as part of the maritime GHG emissions pricing mechanism, a feebate element which has sufficient revenue (for example, \$5 billion to \$10 billion per year) to narrow the cost gap and accelerate the production of zero/near-zero GHG fuels, by rewarding early adopters for the CO<sub>2</sub>e emissions prevented, to achieve the target for 5-10% of energy used by shipping to come from zero/near-zero energy sources by 2030, on a pathway to net zero as soon as possible.

.6 *Establishment of IMO Fund to support, inter alia, maritime GHG reduction efforts of developing countries*

The Framework should ensure establishment of a multi-billion dollar IMO Fund (such as the proposed "IMO net-zero Shipping Fund") to support maritime GHG reduction efforts of developing countries, in particular least developed countries (LDCs) and small island developing States (SIDs), to ensure that the transition to net zero is truly global with an emphasis on providing support for the generation of zero/near-zero GHG fuels and bunkering infrastructure in developing countries' ports. Unless the transition is global, delivery of the GHG reduction goals for 2040 and (by or close to) 2050 will not be possible.

*.7 Allocation of revenue to IMO Fund to be clearly specified*

The Framework should specify the proportion of revenue generated annually, as a by-product of the maritime GHG emissions pricing mechanism, to be allocated to the IMO Fund and, so far as practicable, set out the (substantial) annual amount to be allocated to the IMO Fund, to be transferred as soon as the Fund is established (up to \$2.5 billion per year is suggested).

*.8 Certainty to contribute to de-risking investments, with fixed rate GHG fee and feebate*

The Framework should provide certainty to contribute to de-risking investment decisions concerning the production and uptake of zero/near-zero GHG fuels, by setting the quantum of the flat rate GHG fee (contribution) and feebate (reward) rate for a minimum five-year period, and avoiding any GHG related charges to ships, including any charges for under-compliance with the fuel standard, which are variable, volatile or determined by the market.

*.9 Taking account of WtW emissions, without charging for upstream emissions*

The Framework should take account of WtW emissions, including for feebates (rewards) for the use of zero/near-zero GHG fuels, whilst meeting the requirement in the 2023 IMO GHG Strategy for reducing GHG emissions within the boundaries of the energy system of international shipping and preventing a shift of emissions to other sectors. As a matter of principle, it would be inappropriate for ships to be "charged" for life cycle emissions for which other sectors are responsible, which are addressed by the nationally determined contributions (NDCs) of Parties to the UNFCCC Paris Agreement and which may already be subject to "carbon pricing", so, whilst taking account of WtW emissions, the Framework should also ensure that no GHG related charges to ships will apply to upstream emissions.

*.10 Minimizing administrative burdens*

The Framework should implement a maritime GHG emissions pricing mechanism which minimizes administrative burdens (for the Organization, Administrations and industry) which is as simple and transparent as possible, including with respect to the calculation of any surcharges for under-compliance with the fuel standard, by utilizing the IMO Fuel Oil Data Collection System (DCS).

*.11 Absolute fuel standard for the maximum permitted GHG intensity*

The Framework should implement an absolute standard for the maximum permitted GHG intensity of marine fuels, at least until 2030, so that the required GFI will in effect be mandatory and energy producers and bunker suppliers will have a clear understanding of the fuels to be supplied. This absolute fuel standard for GHG intensity should be enforced via bunker delivery notes (which state the attained GFI of the fuel) and checks by flag State administrations and port State control, rather than introducing, prematurely, an unnecessarily complex system of annual reporting and verification by flag States.

- .12 *Charges for under-compliance with GFI to be based on GHG emissions, linked to maritime GHG emissions pricing mechanism*

The Framework should introduce flexible and/or alternative compliance mechanisms for any ships which use fuels which under-comply with the required GFI (such as the proposed GHG surcharge fee), whereby any surcharges should have a fixed rate (for at least a five-year period) and should only relate to the CO<sub>2</sub>e emissions that result from under-compliance with the required GFI. As part of an integrated IMO net-zero emission framework, any surcharges for under-compliance should be linked to the GHG fee (contribution) per tonne of CO<sub>2</sub>e emitted and be calculated and collected by the maritime GHG emission pricing mechanism, without any need for the Organization to establish and administer a separate GFI registry.

- .13 *Focus on incentivization of actual GHG emissions prevented by use of eligible zero/near GHG fuels through rewards (feebates)*

The Framework should ensure that the primary focus of the regulations is on GHG emissions prevented rather than the fuel used, consistent with the actual goal of the 2023 IMO GHG Strategy. It would be inappropriate to reward use of fuels which, although they might over-comply with the fuel standard agreed for up until 2030, would not be those zero/near-zero GHG fuels whose accelerated production and uptake urgently needs to be incentivized to meet the goals in the IMO 2023 GHG Strategy which have been agreed for 2040 and (by or close) to 2050. Ships will receive substantial rewards for the use of eligible zero/near-zero GHG fuels for CO<sub>2</sub>e emissions prevented via the maritime GHG emissions pricing mechanism and only eligible fuels (and energy sources) should receive economic incentives under the Framework, with rewards calculated on the basis of CO<sub>2</sub>e emissions prevented compared to using conventional fuel oil, rather than for use of fuels with lower GHG intensity.

- .14 *Pooled compliance mechanism for fuel standard*

The Framework should permit a ship or ships, as a means of alternative compliance with the goal-based absolute fuel standard, and as an alternative to paying charges for under-compliance, to participate in a pooled compliance mechanism approved and verified by the Administration with ships in the company's or other companies' fleets, including ships registered with other flag States.

- .15 *Address issues concerning availability of compliant fuels*

The Framework should address, regardless of what is agreed with respect to flexible/alternative compliance mechanisms, situations where the ship, through no fault of its own, cannot obtain or be supplied with compliant fuels. The Framework should accommodate procedures which prevent berths from being blocked and which allow ships, as a last resort, to sail from ports if compliant fuels are not available.

.16 *Fuel/technology neutrality*

The Framework should be fuel/technology neutral with respect to the types of zero/near-zero GHG fuels, energy sources and technologies, including onboard carbon capture, to be incentivized by GHG fees in combination with feebates (rewards). The CO<sub>2</sub>e conversion factors of different fuel types should be determined by the LCA Guidelines, and the Framework should include guidelines, setting out GHG fees for different fuel types per tonne of fuel consumed and feebate rates per tonne of fuel consumed for different eligible zero/near-zero fuels and energy sources.

.17 *Application of regulations "to the ship"*

The Framework should adopt regulations, including for the calculation and collection of GHG fees and for the calculation/disbursement of feebates, which are applicable to "the ship", consistent with other provisions in MARPOL Annex VI, whilst recognizing that the shipping company will be responsible for transmitting GHG fees for the ships which it operates via the maritime GHG emission pricing mechanism. Furthermore, clarification is required that the charterer/commercial operator is responsible for the cost and, as a minimum, guidelines should be adopted to make clear that the entity which pays for the cost of fuel should be responsible for the cost of the GHG fee and any other compliance costs which arise from consumption of that fuel.

.18 *Avoidance of double charging for emissions*

The Framework should allow for the development of provisions to avoid double charging for CO<sub>2</sub>e emissions, both in measures adopted by the Organization and other existing regional or national measures, and to ensure that a mandatory GHG fee made by a ship via the maritime GHG emissions pricing mechanism should not be duplicative, and emissions or fuel consumption that forms the basis of such a GHG fee or surcharges for GHG emissions should be accounted for only once.

## **Conclusion**

7 ICS reiterates that the established approach to developing regulatory amendments to IMO instruments is different to that which may apply to the development of political agreements at bodies such as UNFCCC. When the final amendments to MARPOL Annex VI are adopted, these should reflect the consensus view of Member States as to what is necessary to ensure delivery of the 2023 IMO GHG Strategy's goals, noting that once adopted those amendments cannot be re-amended by Member States until the provisions enter into force. The criteria listed above in paragraph 6 will be used by the global shipping industry to assess whether the amendments to MARPOL Annex VI approved at MEPC 83 are likely to succeed in achieving core objectives, not least achievement of the GHG reduction goals, which all Member States have agreed to under the 2023 IMO GHG Strategy.

8 It is hoped that these criteria will also assist the Working Group when considering the latest proposals for regulatory text which have been submitted to this session.

**Action requested of the Working Group**

9 The Working Group is invited to note the information provided in this document, consider the criteria for assessing the effectiveness of the IMO net-zero framework, as listed in paragraph 6, when considering the proposals which have been submitted, and take action as appropriate.

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