INTERNATIONAL MARITIME ORGANIZATION

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FURTHER CONSIDERATION OF POSSIBLE OPTIONS TO ADDRESS THE IDENTIFIED CHALLENGES/GAPS IN THE SHORT-TERM GHG REDUCTION MEASURE

Appropriate CII Z reduction factors through to 2030

Submitted by ICS

SUMMARY

Executive summary:	This document highlights the significant anomalies within the carbon intensity indicator (CII) rating system and emphasizes the importance of fully addressing these before implementing further increases to the Z reduction factors. This document considers two scenarios for the completion date of the CII review and proposes appropriate Z reduction factor schedules for each.
Strategic direction, if applicable:	3
Output:	3.2
Action to be taken:	Paragraph 9
Related documents:	MEPC 83/6 and resolution MEPC.377(80)

Background

1 As per below table 1, the Z reduction factors (Z factors) for the CII are currently defined through to 2026. As part of the ongoing review of the CII rating system, it is necessary to review the Z factors for the period 2027 to 2030.

Table 1: Reduction factor (Z%) for the CII relative to the 2019 reference line

Year	Reduction factor relative to 2019
2023	5%*
2024	7%
2025	9%
2026	11%
2027	- **
2028	- **
2029	- **
2030	- **

2 Resolution MEPC.377(80) on the *2023 IMO Strategy on Reduction of GHG emissions from Ships* (2023 IMO GHG Strategy) includes a target to reduce carbon intensity by 40% by 2030 compared to 2008 levels. The Z factors are one of the key controls for achieving this reduction.

Discussion

3 Since the CII rating system came into effect on 1 January 2023, a significant number of system anomalies have been identified. Therefore, the CII rating system is not currently functioning as intended and in some cases well-designed ships that are being operated to best practice are receiving CII ratings that do not accurately and fairly reflect their efficiency, for example, due to port waiting time, short voyages or inappropriate reference lines, etc.

4 The Working Group on Air Pollution and Energy Efficiency during MEPC 82 defined a gap analysis which summarizes these anomalies. Due to the extent of these, it is now apparent that the review of the CII will extend into a second phase, well beyond the original target date of 1 January 2026, and the inaccuracies and unfairness within the system will persist until the CII review is fully completed.

5 In these circumstances, it is inappropriate to add further progressive increases to the Z factors. Otherwise, the existing system inaccuracies and unfairness will be exacerbated by the increases. Hence, until the CII review is completed, and all anomalies are addressed, it is important to maintain the Z factors at their currently agreed levels, i.e. 9% for 2025 and 11% thereafter. Once the CII review is satisfactorily completed, it is then appropriate to set Z factors for the remaining years, and ensure that the target of 40% reduction in carbon intensity is met by 2030.

The appropriate level of Z factors

6 IMO’s latest assessment of the world fleet's carbon intensity concludes that by 2023 a 31% reduction has already been achieved relative to 2008. As per figure 1, (which is reproduced from document MEPC 83/6), this assessment is based upon the 2023 IMO DCS data and the AER supply based metric.

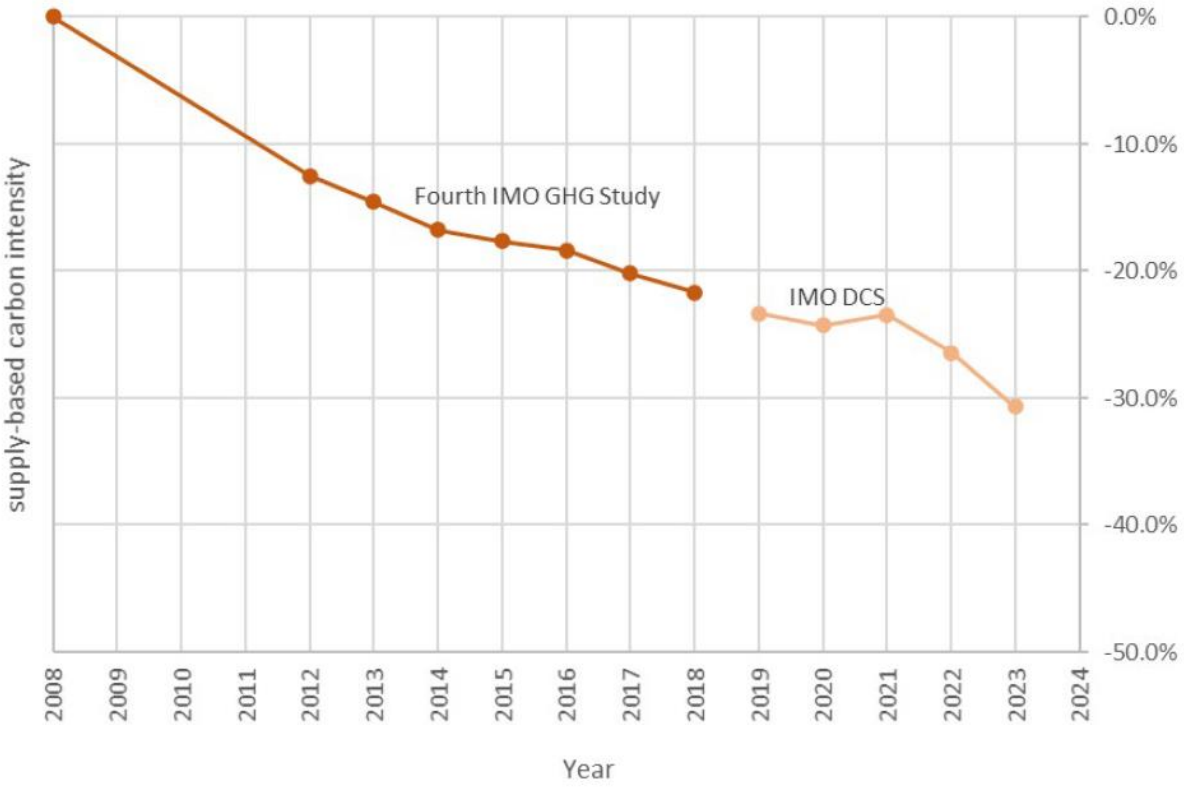

Figure 1: Supply-based (AER) carbon intensity of international shipping (2008 to 2023)

7 This leaves a further 9% reduction to be achieved by 2030. Assuming that the CII review can be fully and satisfactorily completed by 2028, the appropriate Z factors would be per table 2 below:

Table 2: Z factors for completion of the CII review by 2028

Year	Z factor relative to 2019	Difference relative to 2023	Reduction in carbon intensity since 2008
2023	5%	0%	31% (measured)
2024	7%	+2%	33% (predicted)
2025	9%	+4%	35% (predicted)
2026	11%	+6%	37% (predicted)
2027	11%	+6%	37% (predicted)
2028	11%	+6%	37% (predicted)
2029	12.5%	+7.5%	38.5% (predicted)
2030	14%	+9%	40% (predicted)

8 Alternatively, if the CII review is completed in 2029, the appropriate Z factors would be as per table 3 below.

Table 3: Z factors for completion of the CII review by 2029

Year	Z reduction factor relative to 2019	Difference relative to 2023	Reduction in carbon intensity since 2008
2023	5%	0%	31% (measured)
2024	7%	+2%	33% (predicted)
2025	9%	+4%	35% (predicted)
2026	11%	+6%	37% (predicted)
2027	11%	+6%	37% (predicted)
2028	11%	+6%	37% (predicted)
2029	11%	+6%	37% (predicted)
2030	14%	+9%	40% (predicted)

Action requested of the Working Group

9 The Working Group is invited to take note of the information provided in paragraphs 1 to 8, and when setting the Z factors through to 2030, take account of the proposals within tables 2 and 3.