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REDUCTION OF GHG EMISSIONS FROM SHIPS

Possible resource implications of the establishment of an IMO net-zero GFI registry and/or IMO net-zero fund/facility

Submitted by Liberia and ICS

SUMMARY

Executive summary:	This document comments on document MEPC 83/7, on resource implications of establishing an "IMO GFI registry" and/or "IMO net-zero fund/facility". The co-sponsors suggest that integrating what is currently called the "GFI registry" with the proposed IMO GHG Strategy Implementation Fund will be the best way to minimize resource implications for the Organization, as well as to simplify the design of the regulations so they can be readily approved and implemented by 2027. If the Committee decides to approve text for the technical element using GHG Surcharge Fees, as set in out in annex 1 to document MEPC 82/WP.9, Option 2, paragraph 1*bis* [*[Alternative] compliance approaches*], the establishment of a separate GFI registry will be unnecessary.
Strategic direction, if applicable:	3
Output:	3.2
Action to be taken:	Paragraph 18
Related documents:	MEPC 83/7, MEPC 83/7/8; MEPC 82/WP.9; ISWG-GHG 18/2/5 and ISWG-GHG 18/2/7

Introduction

1 This document is submitted in accordance with the provisions of paragraph 6.12.5 of the *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.5) and comments on document MEPC 83/7 (Secretariat), concerning possible resource implications of the establishment of an IMO net-zero GFI registry and/or IMO fund/facility.

2 The co-sponsors are encouraged that document MEPC 83/7 indicates that the challenges involved are not insurmountable. As identified in paragraph 5 of that document, some of the options included in the draft net-zero framework (MEPC 82/WP.9, annex 1) foresee an integrated IMO GFI registry with a fund/facility, and the co-sponsors assert that this will be the best way to minimize resource implications, as well as to simplify the design of the regulations, reduce administrative burden and ease implementation by 2027.

3 If a GHG levy/contribution and reward system is established in accordance with the draft amendments to MARPOL Annex VI set out in document ISWG-GHG 18/2/5 (Austria et al.), as supported by at least 50 Member States, whereby the calculation and collection of annual GHG levy/contributions are administered by the proposed IMO GHG Strategy Implementation Fund, any mechanism established for any alternative compliance approach agreed under the technical element should indeed be integrated with this fund. In the view of the co-sponsors, this will allow a far more effective and efficient use of the Organization's resources.

4 Moreover, if the amendments to MARPOL Annex VI are approved based on the concept of GHG Surcharge Fees for the CO_{2eq} emitted by a ship due to under-compliance with Required Annual GFI, as set in out in Option 2, paragraph 1*bis* [*[Alternative] compliance approaches*] in annex 1 to document MEPC 82/WP.9 (page 21), it will be much easier to integrate the management and storage of data required for the calculation and collection of any GHG Surcharge Fees that may be required, under regulations in the technical element, with the management and storage of data needed for the calculation and collection of GHG levy/contributions by the proposed IMO GHG Strategy Implementation Fund.

Use of GHG Surcharge Fees removes the need for a separate GFI registry

5 As explained in document ISWG-GHG 17/2/5 (Bahamas et al.), the Committee is reminded that the concept of GHG Surcharge Fees will have several advantages compared to some of the other more complex options for alternative compliance approaches (N.B. pooling is not considered to be one of these) as set out in annex 1 to document MEPC 82/WP.9.

6 As the fixed rate annual "GHG Surcharge Fees" would be based on CO_{2eq} emitted due to under-compliance with the Required Annual GFI (rather than ships trading "flexible compliance" and/or "remedial units" of GHG intensity ("FCUs" and/or "Rus"), the price of which would be volatile, variable, determined by the market and much more complicated for IMO to administer) these GHG Surcharge Fees can also be calculated and collected by the proposed IMO GHG Strategy Implementation Fund established to calculate GHG levy/contributions, which will also be based on CO_{2eq} emissions by a ship, using data provided via the IMO DCS.

7 As part of the IMO net-zero framework which integrates technical and economic elements, the calculation/collection of this GHG Surcharge Fee would also take place via the automated GHG emissions pricing mechanism, using verified data for use with the IMO DCS, submitted by the ship at the same time as other data on fuel consumption/CO_{2eq} emissions.

8 The Organization will therefore only need to establish a single system, rather than a separate GFI registry in addition to the IMO GHG Strategy Implementation Fund. An automated mechanism based on the updated prototype – see link provided with document ISWG-GHG 18/2/7 (ICS) – could readily be adapted to calculate/collect GHG Surcharge Fees in addition to GHG levy/contributions, and provide a record of any under-compliance by ships with Required Annual GFI as well as their annual CO_{2eq} emissions.

9 Paragraph 6 in document MEPC 83/7 reads that "financial and human resource implications" of a GFI registry "are largely dependent on the exact scope of its functionalities, the number of possible 'users' of the registry, and the scale of GFI units to be managed through the registry under the different compliance options". The various examples of similar systems/trading platforms listed have been operated by authorities (unlike IMO) with many years of experience of such platforms (the EU ETS was operating for 15 years before its recent – but not yet fully implemented – extension to international shipping). The proposed GHG Strategy Implementation Fund, however, has the advantage that the number of "users" would be limited to shipping companies transferring GHG levy/contributions and (if this pragmatic option is agreed) GHG Surcharge Fees, on behalf of their ships, as notified by the Fund; the company having responsibility to confirm that the verified data used to calculate its GHG contributions (and GHG Surcharge Fees) is correct before being notified of the annual contribution due for each ship – see updated prototype in document ISWG-GHG 18/2/7.

10 The Committee is reminded that the term "surcharge" is already a familiar concept in commercial shipping. As now set out in Option 2, paragraph 1*bis* [[*Alternative] compliance approaches*] in annex 1 to document MEPC 82/WP.9, ships would have the possibility of paying the GHG Surcharge Fee for under-compliance with the GFI fuel standard. However, ships would not be rewarded financially for any so-called over-compliance with the Required GFI as it would be inappropriate to reward the use of fuels which, although potentially "over-complying" with Required Annual GFI, would, in most cases, not be ZNZ fuels whose accelerated production and uptake urgently needs to be incentivized. Far greater incentives for ZNZ fuels will instead be provided as rewards as part of the distinct maritime GHG emissions pricing mechanism, as set out in document ISWG-GHG 18/2/5 (Austria et al.)

11 The GHG levy/contribution and any GHG Surcharge Fee for under-compliance with the fuel standard can both be calculated and collected at the same time and enforced using the same Statement of Compliance (SoC) issued by the Administration at the end of the process, further streamlining implementation and reducing administrative burden. As well as maintaining records of all GHG levy/contributions transmitted by ships, including any additional GHG Surcharge Fees (each ship will have an account with the Fund linked to its IMO number), the proposed GHG Strategy Implementation Fund will hold records for every ship of its verified DCS fuel consumption/CO_{2eq} emissions data used to calculate its annual GHG levy/contribution, including any GHG Surcharge Fee for CO_{2eq} emitted due to under-compliance with Required Annual GFI.

12 The fixed rate of the GHG Surcharge Fee can be used to address under-compliance with Required Annual GFI with an enforcement mechanism which uses an annual reporting and verification period, as proposed by many Member States. Use of a GHG Surcharge Fee will also allow the GFI of a particular fuel to be calculated on a well-to-wake (WtW) basis, as no charges would apply to upstream emissions that result from under-compliance with the Required Annual GFI by a ship, avoiding concerns about charging for emissions which are the responsibility of other sectors. This is because the GHG Surcharge Fee would be linked to the GHG levy/contribution and, as explained in document MEPC 83/7/8 (Bahamas et al.), would be based on the lower of the tank-to-wake (TtW) or WtW CO_{2eq} conversion factors for under-compliant fuels, as determined in the LCA Guidelines, as set out in the proposed implementation guidelines in the annex to document MEPC 83/7/5 (Bahamas et al.)

13 In summary, the provision of a fixed GHG Surcharge Fee for under-compliance with Required Annual GFI has the significant advantage of removing any need for the Organization to establish a separate GFI registry in addition to the IMO GHG Strategy Implementation Fund, for which a working Web-based prototype of a fully automated system has already been developed, as set out in document ISWG-GHG 18/2/7 (ICS).

Minimum legal provisions

14 Document MEPC 83/7 was prepared without the benefit of having sight of the draft amendments to MARPOL Annex VI in document ISWG-GHG 18/2/5, which the co-sponsors assert are fit for purpose and which give the Organization the authority to establish the IMO GHG Strategy Implementation Fund which will administer the calculation and collection of annual GHG levy/contributions, the calculation and disbursement of rewards for the use of ZNZ fuels (and technologies) and the other revenue disbursement purposes in support of a just and equitable transition as set out in the regulations. With regard to minimum legal provisions to be included in the IMO net-zero framework as listed in paragraph 37 of document MEPC 83/7, these issues are addressed in the draft MARPOL amendments set out in document ISWG-GHG 18/2/5 and the "Terms of Reference" or "Charter" for the proposed IMO GHG Strategy Implementation Fund as set out in paragraph 10 of the annex to that document, to be developed after the MARPOL amendments have been adopted. ICS has previously submitted suggested text for such a charter in annex 4 to document ISWG-GHG 14/3 (ICS).

15 The co-sponsors agree that the governance and management of revenues to be disbursed by the IMO GHG Strategy Implementation Fund, in support of a just and equitable transition, should be separate from the functions involved in the calculation and collection of contributions and GHG Surcharge Fees from ships. However, the disbursement of rewards for use of ZNZ fuels should form a part of the maritime GHG emissions pricing mechanism, as set out by the draft implementation guidelines in the annex to document MEPC 83/7/5 (Bahamas et al.), as explained in document MEPC 83/7/7 (Bahamas et al.), and demonstrated by the updated prototype of the contribution and reward system in document ISWG-GHG 18/2/7.

Fully automated GHG levy/contribution and reward mechanism

16 If based on something similar to the prototype in document ISWG-GHG 18/2/7, ICS estimates that the cost via private sector sub-contractors of establishing a fully operational, automated and Web-based contribution and reward system, to be administered by the IMO GHG Strategy Implementation Fund, would be around US$1.5million. If work on this commences immediately following MEPC/ES.2, it should be feasible and practical for it to be fully operational and thoroughly tested before 2028, which is when GHG levy/contributions (and GHG Surcharge Fees) from ships would start to be collected. This would include all of the necessary financial technology and (cyber) security protocols, such as those used by commercial banks, public utilities and local authorities, to carry out all of the necessary financial transactions, for tens of thousands of ships each year, in a safe and secure manner.

17 Under the proposal set out in document ISWG-GHG 18/2/5, the IMO GHG Strategy Implementation would collect several US$ billions annually. Very soon after receipt by the Fund, a proportion of this revenue would be disbursed as rewards to ships using ZNZ fuels, while the surplus would be held on account until decisions had been made by Member States, in accordance with the agreed terms of reference or charter with respect to other revenue disbursement purposes in support of a just and equitable transition. Such large sums of money would clearly need to be managed using external third-party expertise. Members of the International Group of P&I Clubs, being not-for-profit insurance providers mutually owned by shipping companies, manage large sums of money, and may therefore be able to provide advice on the management of such sums of revenue before they are disbursed.

Action requested of the Committee

18 The Committee is invited to consider the comments set out in this document, and take action as appropriate.

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