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REDUCTION OF GHG EMISSIONS FROM SHIPS

Suggested "bridge" to achieve consensus and approval of MARPOL Annex VI amendments for the IMO net-zero framework

Submitted by ICS

SUMMARY

Executive summary:	This document comments on document MEPC 83/7/26 (Singapore). As a co-sponsor of the text for an economic element set out in the annex to document ISWG-GHG 18/2/5 (Austria et al.), ICS firmly supports this text for approval at MEPC 83. Nevertheless, should this text not achieve consensus support from the Committee so that the amendments to MARPOL Annex VI can be approved, and reflecting on views expressed by Singapore, ICS tentatively suggests some new text as a possible "bridge" for the amendments. Rather than requiring ships to make "GHG levy/contributions" to the proposed IMO GHG Strategy Implementation Fund, any contribution could instead be set out as a "ZNZ incentive contribution" as an alternative means for ships to meet an additional requirement to use ZNZ fuels from the date of entry into force of the amendments, as part of the technical element of the IMO net-zero framework.
Strategic direction, if applicable:	3
Output:	3.2
Action to be taken:	Paragraph 18
Related documents:	MEPC 83/7/26; MEPC 82/WP.9; ISWG-GHG 18/2/5 and ISWG 18/2/12

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 provides comments on document MEPC 83/7/26 (Singapore) which offers additional options on amendments to MARPOL Annex VI.

2 In accordance with the 2023 IMO GHG Strategy, amendments to MARPOL Annex VI must be approved at this session. Failure to do this would be very damaging to the Organization's authority as shipping's global regulator. As a co-sponsor of document ISWG-GHG 18/2/5 (Austria et al.), together with almost 50 Member States, ICS is absolutely

committed to the fit-for-purpose draft text, as set out in the annex to the document, for establishing a maritime GHG emissions pricing mechanism, which requires the transfer by ships of "GHG levy/contributions" per tonne of CO_{2eq} emitted to an IMO GHG Strategy Implementation Fund. Together with the other Member States, co-sponsors of document ISWG-GHG 18/2/5, ICS hopes very much that these fit-for-purpose draft MARPOL amendments will enjoy the full support of the Committee, so that they can be approved for circulation to Parties of MARPOL Annex VI and considered for adoption at MEPC/ES.2.

3 Noting Singapore's suggestion of a "dual-layered revenue structure" including "charges on the use of non-ZNZ fuels" in document MEPC 83/7/26, ICS is also encouraged to note that document ISWG 18/2/12 (China et al.) refers to the possibility that, in addition to these co-sponsors' proposals concerning the technical element, a "supplementary ZNZ incentive contribution mechanism may be considered" and that "additional contributions may be collected through charges on all non-ZNZ fuels (in US$/GJ), charges on all unabated fossil fuel consumption including fossil components in biofuel blends (in US$/GJ)…".

4 Given the widespread support for the text set out in the annex to document ISWG-GHG 18/2/5, ICS emphasizes that the following suggestions will only be relevant should these draft amendments to MARPOL Annex VI, concerning an economic element, fail to achieve consensus support from the Committee. Nevertheless, in the event that it becomes apparent that a consensus is unlikely to be achieved at MEPC 83, which is based on the text set out in the annex to document ISWG-GHG 18/2/5, the following ideas set out in the paragraphs below – reflecting on views expressed by Singapore – are tentatively suggested which, if necessary, might help to achieve a consensus and ensure approval of the amendments to MARPOL Annex VI.

Suggestion to achieve a consensus

5 Rather than, as currently set out in the annex to document ISWG-GHG 18/2/5, requiring all applicable ships to make "GHG levy/contributions" to the proposed IMO GHG Strategy Implementation Fund, it is tentatively suggested that these annual contributions could instead be set out as a **"ZNZ incentive contribution"** but only for ships **not** using zero/near-zero GHG (ZNZ) fuels, i.e. those ships using marine fuels with a GHG intensity exceeding [x]g CO_{2eq}/MJ, from the date when the amendments to MARPOL Annex VI enter into force.

6 This ZNZ incentive contribution, although it is of an "economic nature", would form part of the technical element of the IMO net-zero framework, and be set out as an additional regulation in chapter 5.1 with the heading **"Use of zero/near-zero GHG fuels"**.

7 To be clear, the remaining draft text as currently set out in the annex to document ISWG-GHG 18/2/5 concerning the establishment of a maritime GHG emissions pricing mechanism, would remain unchanged with no implications for the revenue that will be collected by the proposed IMO GHG Strategy Implementation Fund, the rewards that would be disbursed for the use of ZNZ fuels (or technologies), or the revenue that would be disbursed to, inter alia, support developing countries, including SIDS and LDCs (or any other important provisions e.g. contributions as "instalments in advance" or entitlement "to reimbursement").

8 It is emphasized that if such an approach, as set out in more detail below, was accepted by the Committee, the purpose of the maritime GHG emissions pricing mechanism would and should, as set out in document ISWG-GHG 18/2/5, remain completely unchanged, i.e. to reduce the price gap between ZNZ marine fuels (and technologies) and conventional marine fuels, to provide rewards to incentivize the rapid uptake of ZNZ fuels (and technologies), and to achieve the objectives of the 2023 IMO GHG Strategy, including support for a just and equitable transition.

9 As tentatively suggested in this document, a requirement for ships not using ZNZ fuels to transfer a "ZNZ incentive contribution" to the IMO GHG Strategy Implementation Fund (rather than a GHG levy/contribution) **would mean that not every applicable ship would be required to make such a transfer, as ships using ZNZ fuels would be exempt.** This might help address any concerns which some States may still have with respect to accepting a **universal** "GHG levy/contribution" as currently proposed in the convergent text set out in the annex to document ISWG-GHG 18/2/5.

Detailed text suggestions to achieve a "bridge"

10 Under the **technical** element, a regulation would be inserted after proposed options for regulations set out in annex 1 to document MEPC 82/WP.9 on "[[Target][Required] annual GHG fuel intensity ([target][required] annual GFI]" and "[[Alternative] compliance approaches]" including the proposed options on surcharge fees (page 21) and for compliance pooling (page 22), none of which would be replaced by this regulation. This regulation could read:

> **"Regulation X**
> *Use of zero/near-zero GHG fuels*
>
> .1 From [date of entry into force], the GHG intensity of marine fuel used on board the ship shall not exceed [x]g CO_{2eq}/MJ, the GHG intensity of zero/near-zero (ZNZ) GHG fuels as defined under regulation 2 of this chapter. From [1 January 2028], for any applicable ship not able to meet this requirement, the ship shall transfer a ZNZ incentive contribution to the IMO GHG Strategy Implementation Fund for each tonne of CO_{2eq} emitted over a 12-month period from 1 January to 31 December of the preceding calendar year ("reporting period") in accordance with the provisions set forth in regulation X [Economic mechanism(s)to incentivize the transition to net-zero]. The ZNZ incentive contribution to be transferred to the IMO GHG Strategy Implementation Fund shall be calculated in accordance with the guidelines specified in regulation X [Economic mechanism(s)to incentivize the transition to net-zero].
>
> .2 The ZNZ incentive contribution shall be determined as follows:
>
> ZNZ incentive contribution =
> (tonnes CO_{2eq} emitted due to the ship using fuel with a GHG intensity exceeding [x]g CO_{2eq}/MJ) **.** ([US$18.75] [US$100] [US$150] per tonne of CO_{2eq})"[1]

11 Under the **economic** element, references to "GHG levy/contribution", as currently set out in the annex to document ISWG-GHG 18/2/5 (Austria et al.), could be amended to read "<u>ZNZ incentive contribution</u>" with the first use of this term in paragraph 2 of the annex to document ISWG-GHG 18/2/5 reading "<u>ZNZ incentive contribution as may be required in accordance with regulation X [*Use of zero/near-zero GHG fuels*</u>]". The text as set out in the annex to document ISWG-GHG 18/2/5 would otherwise be retained in its entirety without any changes.

[1] The symbol "." is a multiplication symbol.

Discussion

12 The main component of the "bridge" suggested above, to help achieve consensus, is that the technical element of the IMO net-zero framework would include a requirement for all applicable ships to be incentivized to use ZNZ fuels,[2] which for the purpose of the regulation would be defined as a marine fuel with a GHG intensity not exceeding [x]g CO_{2eq}/MJ, from the date of entry into force of the amendments to MARPOL Annex VI. Subject to confirmation by the [202X] LCA Guidelines, this would include, inter alia, green methanol, green methane (including biomethane), green ammonia, green hydrogen, and certified biogenic marine fuels (including the biogenic component of some biofuel blends).

13 The definition of ZNZ fuel suggested in paragraph 32 of document ISWG-GHG 17/2/2 (Austria et al.) is a marine fuel with a GHG intensity of 10 g CO_{2eq}/MJ. Document ISWG-GHG 18/2/13 (China) provides the same definition as an example (but with qualifications), and the final definition specified in the regulations would need to be agreed taking account of the CO_{2eq} conversion factors for different types of ZNZ fuel as determined by the revised [202X] LCA Guidelines. When adopting the "IMO net-zero framework" the Committee can also consider the likely future availability of ZNZ fuels which meet the agreed definition.

14 In practice, of course, this additional requirement would not be practicable for most ships to meet at the time of entry into force, resulting in the transfer via the maritime GHG emission pricing mechanism of what could be called a "ZNZ incentive contribution".

15 The "ZNZ incentive contribution" would still be required to be made for annual CO_{2eq} emissions by the ship, **but would be limited to emissions due to continued use of non-ZNZ fuels**[2] (i.e. fuels with a GHG intensity exceeding [x]g CO_{2eq}/MJ). Most importantly, the requirement for a ship to transfer this "ZNZ incentive contribution" would **not** be a universal "levy" as, unlike the proposed "GHG levy/contribution", it would **not** apply to all ships.

16 As well as integrating the technical and economic elements of the IMO net-zero framework, the fixed price of what would now be called the "ZNZ incentive contribution" would be linked to the fixed price of CO_{2eq} emissions to be agreed for the maritime GHG emissions pricing mechanism, i.e. [US$18.75], [US$100], [US$150] as currently set out in the annex to document ISWG-GHG 18/2/5 or whatever quantum is agreed when the regulations are adopted at MEPC/ES.2.

17 Whilst **not** a universal levy/contribution, what could instead be called the "ZNZ incentive contribution", for all CO_{2eq} emitted by the ship due to the use of fuels with a GHG intensity exceeding [x]g CO_{2eq}/MJ, would still be calculated/collected by the proposed IMO GHG Strategy Implementation Fund and enforced using the same Statement of Compliance issued by the flag State Administration at the end of the process, as set out in document ISWG-GHG 18/2/5.

Action requested of the Committee

18 The Committee is invited to consider the suggestions above to achieve consensus and approval of the amendments to MARPOL Annex VI at MEPC 83, in particular those set out in paragraphs 10 and 11 above and take action as appropriate.

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[2] As explained in document MEPC 83/7/8 (Bahamas et al.), and noting document MEPC 83/INF.13 (China), the term "ZNZ" should also include ZNZ technologies.