

IMO ISWG-GHG 13 & MEPC 79

Mid-term measures on the table

8 September 2022

Proposals

IMO ISWG-GHG 13 & MEPC 79 will consider three carbon pricing proposals, along with a low GHG fuel standard:

- 1. Fuel levy/feebate
 - 2. Cap-and-trade/emissions trading system (ETS)
 - 3. Benchmarking against CII reference band
 - 4. Low GHG fuel standard
- Part of a basket of measures*
- One integrated measure*
- Standalone or Part of a basket of measures*

Regulatory framework for all: MARPOL Convention, particularly Annex VI.

Fuel LCA guidelines will be necessary to establish prices for different fuels, for any of the options to function effectively.

1. Fuel levy/feebate

- Each tonne of GHG emitting fuel used (or tonne of GHGs emitted) would incur a price
- Effectiveness dependent on carbon/GHG price, which may increase in a series of steps
- Simple, could be implemented using the same basic architecture as the mature IMRB/IMRF proposal
- No price volatility or risk of transport rationing
- Feebate proposal is a variation of a fuel levy, with detail on how the mechanism would accelerate the energy transition
- Does not mandate emissions reduction, could be complemented by other technical measures such as a fuel standard

The levy concept is the simplest of the three pricing options and could utilise existing work. The Japanese feebate variation provides more details on how a levy would accelerate an energy transition. The existing DCS collects most of the information needed for implementation and verification.

2. Cap-and-Trade/ETS

- Introduces emissions cap with ships surrendering emissions permits for the GHGs emitted in the reporting period
- Primary and secondary market for distribution and trading of Ship Emission Units (SEUs)
- Several possibilities for providing SEUs:
 - Full auctioning of the SEUs with no price control
 - Full auctioning with price control – a ceiling and/or a floor to avoid price fluctuations
 - Partial auctioning (various models)
 - Free allocation of the allowances (various allocation models)
- Could be integrated into an open trading system with other sectors, a closed system (shipping only) is proposed initially
- Potential risk of transport rationing and price volatility
- Advocated by Norway (ISWG-GHG 12/3/13) and a preferred option of Europe (ISWG-GHG 12/3/5)
- Norway proposes tank-to-wake with scope to expand to well-to-wake once LCA guidelines are finalized

Significant further work necessary. Has significant support, but is also resolutely opposed by many member States. A functioning ETS should ensure emissions reductions via a cap, however both Norway and EU27/EC see a complementary fuel standard.

3. Benchmarking

- Would either reward or require ships to make a payment based on their **actual** emissions relative to an **average CII** band
- Ships performing better than the benchmark CII 'C' rating (i.e. A & B rated ships) would be rewarded, those emitting more (i.e. D & E rated ships) would pay into a fund
- Integrated measure (International Maritime Sustainability Funding and Reward (IMSF&R) mechanism)
- Proponents assert that the proposal would not ration transport
- Unclear whether the price gap between fuel oil and alternatives would be closed and uncertainty over how mixing a CII base reference would work with actual emissions
- Overall ambition and emissions reduction as proposed may be inadequate
- Proposed by Argentina, Brazil, China, South Africa and UAE (ISWG-GHG 12/3/9) and acceptable to Japan as an alternative to a levy/feebate mechanism (ISWG-GHG 12/3/17).

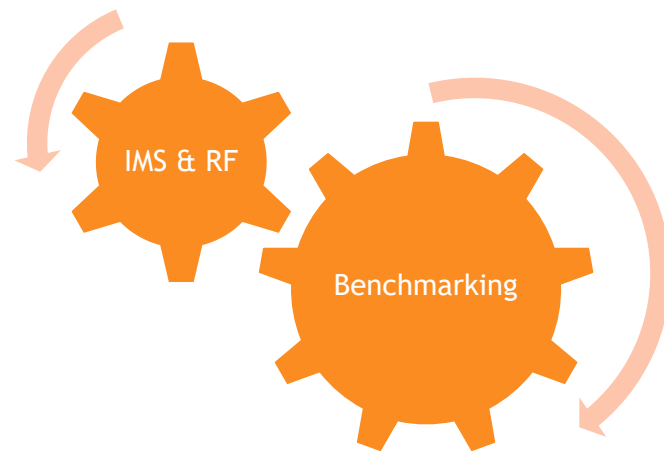
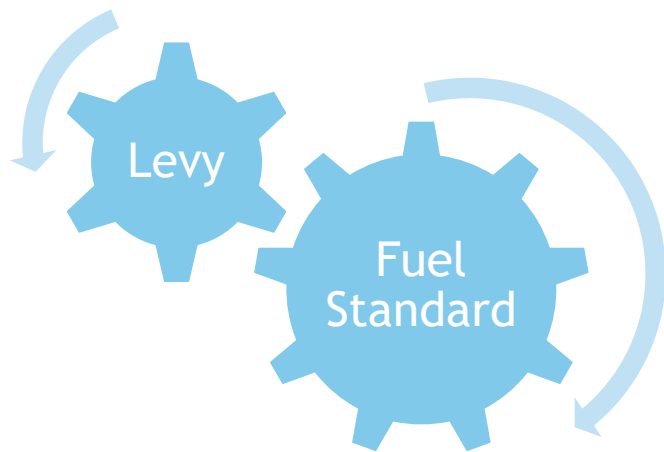
Although the benchmarking concept is rational and logical, we suggest that the mechanism would be more effective and with fewer concerns if it was based on a fuel/energy LCA metric.

4. Low GHG fuel standard

- Requires ships to use fuels/energy sources with a well to wake (WtW) GHG intensity at or below a limit value in g CO₂e/MJ
- Would be strengthened over time in line with level of ambition
- Includes alternative compliance options:
 - A surplus reward provides overachievers with surplus units for the following year or transfer to non-compliant ships
 - To avoid non-compliance, ships not meeting required GHG intensity could pay a GHG contribution to IMO GHG fund
- Mandates emissions reduction, but does not address price difference between fuel oil and alternatives
- Detailed proposal has been submitted by the EU27 and EC (ISWG-GHG 12/3/3) as a complementary measure to ETS or levy, known to have wide support in high-ambition member States including the USA.

A fuel standard could either complement a carbon price, or, if IMO member States cannot agree that on carbon pricing it could be taken forward as a standalone mechanism to mandate emissions reduction.

Possible Combinations



Important to ensure the selective measures are reinforcing and avoid conflicting demands. Some member States are reluctant to agree to a financial instrument and may advocate a fuel standard as a standalone mechanism.



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