

<p>INTERSESSIONAL MEETING OF THE WORKING GROUP ON REDUCTION OF GHG EMISSIONS FROM SHIPS 18th session Agenda item 2</p>	<p>ISWG-GHG 18/2/5 20 December 2024 Language Original: ENGLISH Pre-session public release: <input checked="" type="checkbox"/></p>
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FURTHER CONSIDERATION OF THE DEVELOPMENT OF THE BASKET OF CANDIDATE MID-TERM GHG REDUCTION MEASURE(S), USING ANNEX 1 TO DOCUMENT MEPC 82/WP.9 AS THE BASIS

Consolidation of the proposals for an economic element of the mid-term measures based on a GHG levy/contribution

Submitted by Austria, Bahamas, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Fiji, Finland, France, Georgia, Germany, Greece, Hungary, Ireland, Italy, Jamaica, Japan, Kenya, Latvia, Liberia, Lithuania, Luxembourg, Malta, Marshall Islands, Montenegro, Netherlands (Kingdom of the), Nigeria, Palau, Panama, Poland, Portugal, Republic of Korea, Romania, Slovakia, Slovenia, Solomon Islands, Spain, Sweden, Seychelles, Tonga, Tuvalu, Ukraine, United Kingdom of Great Britain and Northern Ireland, Vanuatu, the European Commission, ICS [...]

SUMMARY	
<i>Executive summary:</i>	Some of the proponents of a GHG levy/contribution put forward a consolidation of their proposals during MEPC 82, which was seen as work in progress by the Working Group on Reduction of GHG Emissions from Ships. Proponents of the GHG levy/contribution have continued their efforts intersessionally to prepare consolidated draft text, as amendments to MARPOL Annex VI for approval at MEPC 83, which is annexed to this document. The Working Group is requested to note the broad agreement/support for the need of a GHG levy/contribution as an indispensable element in the “Net Zero Framework”, as demonstrated by the list of co-sponsors. The document calls for the use of the annex as a base document to continue integrating proposals for an economic element.
<i>Strategic direction, if applicable:</i>	3
<i>Output:</i>	3.2
<i>Action to be taken:</i>	Paragraph 9
<i>Related documents:</i>	MEPC 82/WP.9 Annex 1 and 2, ISWG-GHG 17/2/2, ISWG-GHG 17/2/5 and ISWG-GHG 17/2/13

Introduction

1. At MEPC 82, in addition to approving MEPC 82/WP 9 annex 1 as a basis for further work, the Committee “*noted the work in progress on consolidating possible options for an economic element (MEPC 82/WP.9, annexes 2 and 3)*”. It also “*invited Member States and international organizations to continue to work towards further convergence on the development of the basket of candidate mid-term measure(s)*”, echoing the invitation of the Working Group on Reduction of GHG Emissions from Ships to “*Member States and*

international organizations to continue to work intersessionally towards convergence, also considering all perspectives set out in annexes 2 and 3.”

2. The co-sponsors of this document recognise that the issues covered hereunder are complex and that views on the detailed design of the economic element will further evolve as discussion within the Working Group continues.

Discussion

3. The co-sponsors strongly believe that the economic element of the basket of mid-term measures should have at its heart a levy/contribution on the GHG emissions from ships. Such a GHG levy/contribution will stimulate energy efficiency, reduce the price gap between fossil fuels and zero-near zero GHG (ZNZ) fuels, as well as generate revenues to support uptake of ZNZ fuels, technologies and energy sources and a JET, implementing the goals and objectives of the IMO Strategy on GHG Emissions Reduction from Ships.
4. To date multiple proposals for a GHG levy/contribution have been put forward. The different proponents, representing a large number of countries, including developing and developed countries, SIDS and LDCs and industry actors, have continued their work since the last MEPC; resulting in a more streamlined proposal of MARPOL Amendments for the economic element, set out as a single consolidated proposal in the annex to this document.
5. This annex consolidates previous proposals for MARPOL Amendments made by the co-sponsors with regards to the economic element, and notably: regulations X10, X11, X13, X14 and “Review of this chapter” in the annex to ISWG-GHG 17/2/2 (Austria et al.); Regulations 38-42 and 44 of annex 1 to ISWG-GHG 17/2/5 (Bahamas et al.); and regulations 5.1.4, 5.1.5, 5.1.6, 5.2.4 paragraph 2, 5.3.1 and 5.3.2 in annex 2 to ISWG-GHG 17/2/13 (Fiji et al). The consolidated text does not affect nor replace proposals made by the co-sponsors in previous submissions on other issues proposed to be included under the new Chapter 5.
6. In the consolidation effort, the co-sponsors have converged on most of the elements set out in proposals on an economic element submitted to ISWG-GHG 17. On specific elements of the future economic element, the annex presents some alternative proposals for text, indicated by the use of square brackets and/or options. The elements concerned would benefit from the views and inputs from the Working Group with a view to further streamlining of text of draft amendments to MARPOL Annex VI for adoption at MEPC 83.
7. The co-sponsors recognise that additional views have been expressed by other delegations with regards to some of the issues covered by the consolidated text, and the economic element in general. The text annexed to this submission is not intended to preempt the Working Group from considering these additional views, nor any other views expressed by its members.

Proposal

8. The annex to this submission consolidates previous proposals of the co-sponsors for MARPOL amendments for an economic element built around a GHG levy/contribution. The co-sponsors propose that the Working Group notes this consolidation by replacing the corresponding options under Annex 1 to MEPC 82/WP.9 using the text annexed to this submission. To facilitate further discussions on the economic element of the basket of candidate mid-term measures, the co-sponsors propose that the Working Group uses the annex to this submission as the base document to continue integrating proposals for an economic element of the basket of mid-term measures.

ACTION REQUESTED OF THE WORKING GROUP

9. The Working Group is invited to:

- .1 note the broad support for an economic element of the basket of mid-term measures based on a GHG levy/contribution, as demonstrated by the list of co-sponsors;
- .2 consider the proposals described in paragraph 8 and
- .3 take action as appropriate.

ANNEX

1 Proposed new option in replacement of options 1, 2 and 4 set out in annex 1 to MEPC 82/WP.9 under the regulation on Economic mechanism(s) to incentivize the transition to net-zero

Regulation X

[Economic mechanism(s) to incentivize the transition to net-zero]

[Option 1:

- 1 The Organization shall establish the IMO GHG Strategy Implementation Fund. The IMO GHG Strategy Implementation Fund shall be tasked to administer, inter alia, the maritime GHG emissions pricing mechanism in accordance with this regulation and regulations X and X (*Central management/oversight of [collected revenue] [IMO [XX] Fund/Facility] [the IMO GHG Strategy Implementation Fund] and Distribution of revenue*).
- 2 From 2028, each ship shall make an annual GHG levy/contribution corresponding to the GHG emissions resulting from fuel used on board 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 this regulation.
- 3 The annual GHG levy/contribution shall be based on the data reported and verified in accordance with regulation 27 taking into account guidelines adopted by the Organization¹. The Secretary General of the Organization shall ensure that the data reported to the IMO Ship Fuel [Use] Database pursuant to regulation [27.9] is transferred automatically to the IMO GHG Strategy Implementation Fund established under this regulation for the purposes set out under regulation X (*Central management/oversight of [collected revenue] [IMO [XX] Fund/Facility] [the IMO GHG Strategy Implementation Fund]*).
- 4 The required annual GHG levy/contribution shall be set at a rate of [USD 18.75] [USD 100] [USD 150] per tonne of CO_{2e} emitted on a life cycle basis. The means of calculation of the amount of GHG emissions under the required annual GHG levy/contribution [and the equivalent rates per tonne of fuel oil consumed²] shall be made taking into account guidelines adopted by the Organization³.
- 5 Within [six] months after the end of each calendar year, the IMO GHG Strategy Implementation Fund shall notify each ship of the required annual GHG levy/contribution.
- 6 In the event of any transfer of a ship addressed in regulations 27.4, 27.5 or 27.6 completed after [1 January] 2027, the required annual GHG levy/contribution provided by each ship after the end of the calendar year in which the transfer takes place shall cover the full 12-month period from 1 January to 31 December in the calendar year during which the transfer took place, taking into account guidelines to be developed by

¹ See guidelines to be developed by the Organization on the determination of the annual GHG levy/contribution for ships.

² See guidelines to be developed by the Organization on the determination of the annual GHG levy/contribution for ships, to be adopted at the time of adoption of these amendments.

³ See guidelines to be developed by the Organization on the determination of the annual GHG levy/contribution for ships, to be adopted at the time of adoption of these amendments.

the Organization⁴. Nothing in this regulation relieves any ship of its obligations under regulation 27 of this Annex or this regulation. Nothing in this regulation relieves any company of its responsibility for a ship for the part of the reporting period corresponding to that company, taking into account guidelines to be developed by the Organization. Where the transfer takes place pursuant to regulations 27.5 and 27.6, the losing Administration shall verify the data reported by the ship for the period of the calendar year corresponding to that Administration within one month after the day of completion of the transfer.

- 7 Within [seven] months after the end of each calendar year, each ship shall provide an annual GHG levy/contribution to the IMO GHG Strategy Implementation Fund as calculated in accordance with paragraph [4] of this regulation, taking into account guidelines adopted by the Organization⁵.
- 8 The annual GHG levy/contribution can be provided in instalments in advance of the date specified in paragraph [7] or as a single payment, provided that the total amount of the required annual GHG levy/contribution for each reporting period is made by the date specified in paragraph [7].
- 9 A transfer of the annual GHG levy/contribution, including in cases where the annual GHG levy/contribution is made pursuant to paragraphs [6 and 8] of this regulation, shall be evidenced through the issuance by the IMO GHG Strategy Implementation Fund of an annual Electronic Account Statement to each ship. [The annual Electronic Account Statement shall be automatically transferred to the IMO Ship Fuel [Use] Database].
- 10 Access to the Annual Electronic Account Statement for each ship shall be granted to that ship, the Administration and to any organization duly authorized by the Administration. [Officers duly authorized by a Party to this Annex to perform a port State inspection under regulation 10 shall have access to the annual Electronic Account Statement of a ship for the purposes of that inspection].
- [11 No later than one month after receiving the annual Electronic Account Statement, the Administration, or any organization duly authorized by it, shall issue a Statement of Compliance in accordance with regulation [6.9] [6.10] of this Annex.]⁶
- 12 The entity responsible for compliance by the ship with this regulation shall be the company at the time specified in paragraph [7]. The company shall be entitled to reimbursement, in accordance with national law, from any other entity that has assumed the control of the ship from that company on matters that affect the amount of GHG emissions resulting from fuel used on board during the reporting period⁷.

2 Proposed new option in replacement of options 1 and 3 set out in annex 1 to MEPC 82/WP.9 under the regulation on Central management/oversight of [collected revenue] [the IMO [XX] Fund/Facility]:

Regulation X

[Central management/oversight of [collected revenue] [the IMO [XX] Fund/Facility] [the IMO GHG Strategy Implementation Fund]]

⁴ See guidelines to be developed by the Organization on the determination of the annual GHG reduction levy/contribution for ships.

⁵ Guidelines to be developed by the Organization on the collection by the IMO GHG Strategy Implementation Fund of the annual GHG levy/contribution for ships.

⁶ To be discussed in conjunction with proposals submitted for amendments to regulation 6 under chapter II of Annex VI.

⁷ "Control of the ship" in this context means the actions of the ship related to its commercial activities such as determining the cargo or the route and speed of the ship.

- 1 The IMO GHG Strategy Implementation Fund established under regulation [X.1] (*Economic mechanism(s) to incentivize the transition to net-zero*) shall support the implementation of the 2023 IMO Strategy on Reduction of GHG Emissions from Ships, as it may be revised, and the objectives set out in this chapter, including regulation X (*Goal*). To this end, the IMO GHG Strategy Implementation Fund shall have the following functions:
 - .1 Receive and manage transfers from ships made pursuant to regulations [X, Y, Z⁸] and disburse revenue thereby collected in accordance with the provisions set out in this regulation and regulation X (*Distribution of revenue*);
 - .2 Maintain a database of transfers made under paragraph [1.1] of this regulation and an account for each ship⁹, accessible to each ship making a transfer, its Administration and to any organization duly authorized by that Administration [and to the officers duly authorized by a Party to this Annex to perform a port State inspection under regulation 10, for the purposes of that inspection]; and
 - .3 Take any actions necessary to implement the functions under paragraphs [1.1 and 1.2] above, in accordance with guidelines adopted by the Organization¹⁰.
- 2 The Marine Environment Protection Committee shall oversee the operation of the IMO GHG Strategy Implementation Fund.
- 3 The IMO GHG Strategy Implementation Fund shall have a Board of Governors. The members of the Board shall be appointed by the Marine Environment Protection Committee and be balanced in terms of geographical and gender-related representation, and with dedicated seats for SIDS and dedicated seats for LDCs.
- 4 The Organization shall decide on the [Terms of Reference/Governing Instrument/Charter/operative provisions] of the IMO GHG Strategy Implementation Fund [including with regards to the implementation of regulation X (*Distribution of revenue*) and its monitoring].
- 5 The administration of the IMO GHG Strategy Implementation Fund shall carry no cost to the Organization and shall not constitute a service to the ship by the Organization¹¹. The operating costs shall be adequately covered by revenue received.

3 Proposed new options in replacement of options 1, 2 and 4 set out in annex 1 to MEPC 82/WP.9 under the regulation on Distribution of revenue:

Regulation X [*Distribution of revenue*]

- 1 The IMO GHG Strategy Implementation Fund shall disburse the revenues as set out in paragraphs [2] to [10] of this regulation.
- 2 From [August] 2028 and within [eight] months after the end of each subsequent calendar year until the uptake of eligible [Z_{NZ} fuels] [Z_{NZ}s]¹² in international shipping reaches [30%] and, at the latest, by 2040, each ship using eligible [Z_{NZ} fuels] [Z_{NZ}s], considered

⁸ Cross-referencing to regulations in new chapter V of Annex VI setting out obligations for ships that require the receipt and management of transfers by the IMO GHG Strategy Implementation Fund, irrespective whether they are part of the technical or economic element of the basket of mid-term measures.

⁹ Based on the consideration of, inter alia, the IMO ship identification scheme (resolution A.1078(28)).

¹⁰ Guidelines on the operation of the IMO GHG Strategy Implementation Fund.

¹¹ This provision is to ensure that the GHG fee would not be subject to UK VAT as no service is provided by IMO.

¹² Working terminology [Z_{NZ} fuels] [Z_{NZ}s] to be discussed in conjunction with proposals submitted for amendments to regulation 2 under chapter I of Annex VI.

on a lifecycle basis, shall receive, upon request, an annual financial reward ('annual reward').

- 3 The purpose of the annual reward shall be to bridge the price gap of eligible [ZMZ fuels] [ZMZs] with other fuels, to incentivize the uptake of eligible [ZMZ fuels] [ZMZs] in line with the 2023 IMO Strategy on Reduction of GHG Emissions from Ships, as it may be revised. The modalities and amount of the annual reward shall be determined taking into account guidelines adopted by the Organization¹³.
- 4 The request for an annual reward shall be made to the IMO GHG Strategy Implementation Fund via electronic communication and using a standardized format to be developed by the Organization.
- 5 The annual reward shall be based on the data collected and verified pursuant to regulation 27 of this Annex. For the purposes of this regulation, the Administration or any organization duly authorized by it will verify the use of eligible [ZMZ fuels] [ZMZs] by each ship for each calendar year, in accordance with regulation 27. After receipt of the data transferred to it pursuant to regulation [27.9bis] of this Annex, the IMO GHG Strategy Implementation Fund shall calculate the amount of annual reward for each ship, taking into account the guidelines developed by the Organization¹⁴.
- 6 In the event of any transfer of a ship addressed in regulations 27.4, 27.5 or 27.6 completed after 1 January 2027, the reward after the end of the calendar year in which the transfer takes place shall be based on the eligible [ZMZ fuels] [ZMZs] used for the full 12-month period from 1 January to 31 December in the calendar year during which the transfer took place, taking into account guidelines to be developed by the Organization.

7 **[Option 1:]**

The IMO GHG Strategy Implementation Fund shall promote the energy transition of shipping through research [,] [and] development [and innovation] [and deployment], including through support for novel, efficient technologies for fuel production, bunkering technologies, use of zero or near zero energies, use and installation of zero- and near-zero technologies with proven efficiency improvement or GHG emissions reduction, cutting-edge energy efficiency improvements in shipping and the development of GHG reduction solutions for ships navigating in difficult conditions, and applied R&D programmes of alternative fuels and innovative technologies, deployed equitably on a global basis.]

[Option 2:]

The Research, Development and Deployment sub-Committee of the IMO GHG Strategy Implementation Fund shall support the research, development and deployment (RD&D) of mitigation projects and initiatives in developing countries, especially SIDS and LDCs, including:

- .1 Projects directly related to the activities of the shipping sector, including the use of ZMZ fuels and other energy;
- .2 applied R&D programmes of alternative fuels and innovative technologies; and

¹³ See guidelines to be developed by the Organization on the determination by the IMO GHG Strategy Implementation Fund of the annual reward, to be adopted at the time of adoption of these amendments.

¹⁴ See guidelines to be developed by the Organization on the determination by the IMO GHG Strategy Implementation Fund of the annual reward, to be adopted at the time of adoption of these amendments.

.3 Related out-of-sector activities, including those relating to ports and coastal infrastructure needed to expedite reduction of GHG emissions.]

8 **[Option 1:**

Revenues received pursuant to regulation [X7.3.2.2] shall be disbursed by the IMO GHG Strategy Implementation Fund exclusively on initiatives that reduce the GHG emissions within the boundaries of the energy system of international shipping, in accordance with guidelines to be developed by the Organization¹⁵.]

[Option 2: no text.]

9 The IMO GHG Strategy Implementation Fund shall disburse revenues towards:

[Option 1:

.1 supporting the energy transition in developing countries, in particular SIDS and LDCs, including through deployment of zero or near-zero GHG maritime fuel production facilities and new infrastructure that may be required in ports to expedite the energy transition and adaptation to climate change;

.2 promoting a just transition for the maritime workforce in developing countries, including training for seafarers;

.3 supporting capacity-building in developing countries, especially SIDS and LDCs;

.4 addressing disproportionately negative impacts (DNI) on States, of this chapter, on the basis of regular monitoring and evaluation of DNI, taking into account the results of wider revenue distribution and taking account of guidelines adopted by the Organization. DNI shall be defined as [text to be developed].

.5 addressing environmental protection, adaptation and resilience building, and climate response to the impacts of pollution from international shipping, with differentiated priority to climate vulnerable developing states.]

[Option 2:

.1 supporting the energy transition in all countries, in particular SIDS and LDCs, within the value chain of energy for shipping, including through capacity building and deployment of zero or near-zero GHG maritime fuel production facilities and new infrastructure that may be required in ports to expedite the energy transition and adaptation to climate change.

.2 addressing disproportionately negative impacts of the IMO reduction measures on international shipping, on the basis of their review, guided by the framework of impacts established by the Organization¹⁶.]

10 The IMO GHG Strategy Implementation Fund shall disburse revenues referred to in this regulation as set out in the [Terms of Reference/Governing Instrument/Charter/operative provisions to be adopted by the Organization in accordance with regulation X (*Central management/oversight of [collected revenue] [IMO [XX] Fund/Facility] [the IMO GHG Strategy Implementation Fund]*). Disbursement of revenues in accordance with paragraph [9] may be made through competent international funding entities with competencies relevant to the goal under regulation X (*Goal*) of this chapter.

¹⁵ See guidelines to be developed by the Organization on the distribution of revenues sourced from the [Alternative compliance approaches] to the Goal-based marine fuel standard.

¹⁶ Circ.885 Rev.1, as it may be further developed.

4 Proposed new option to be added above the placeholder [text to be developed] set out in annex 1 to MEPC 82/WP.9 under the regulation on review of the chapter:

Regulation X

Review processes

- 1 By January 1 20XX, and in any case after the revision of the 2023 IMO Strategy on Reduction of GHG Emissions from Ships, the Organization shall complete the review of this chapter to assess its effectiveness in promoting the goal under regulation X (*Goal*) of this chapter and amend the relevant provisions if necessary [, taking into account the technological and market developments on the uptake of fuels delivered and used on board ships].
- 2 Every [five] [two] years, the Marine Environment Protection Committee shall review the rate per tonne of CO₂e emitted under the GHG levy/contribution referred to in regulation [X.4] (*Economic mechanism(s) to incentivize the transition to net-zero*) [and the surcharge for non-compliance with the GFI set out in regulation X, subjecting them both to an upwards ratchet, in accordance with the guidelines adopted by the Organization].

[text to be further developed]