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WORKING GROUP ON REDUCTION OF
GHG EMISSIONS FROM SHIPS
15th session
Agenda item 2

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**FURTHER CONSIDERATION AND FINALIZATION OF THE DEVELOPMENT OF THE
DRAFT REVISED IMO
STRATEGY ON REDUCTION OF GHG EMISSIONS FROM SHIPS**

Revision of the Initial IMO Strategy on reduction of GHG emissions from ships

Submitted by the Marshall Islands, Solomon Islands....

SUMMARY

Executive summary: This paper provides text for Section 4.5 of the IMO Strategy for emissions reduction from ships. The paper also provides explanation as to why this text is necessary in the Revised Strategy.

Strategic direction, if applicable: 3

Output: 3.2

Action to be taken: Paragraph 13

Related documents: MEPC 79/WP.10 ANNEX 1, MEPC 79 INF.29, , ISWG-GHG 8/3/3, ISWG-GHG 13/3/3, MEPC 79/7/3, ISWG-GHG 14/3/3

Introduction

1. The 80th session of the Marine Environment Protection Committee (MEPC 80) must make some critical decisions affecting the shipping sector, member States and our global efforts to achieve the goals of the Paris Agreement, including those related to equity.
2. Impeding the clarity of decision making that this critical situation requires is the fact that many different countries are in different circumstances and will be affected in different ways by shipping's decarbonisation.¹ A frequently cited concern is that of an increase in transport costs, which is a likely consequence of action to mitigate GHG emissions from shipping. But increased transport costs will also be the likely consequence of the emerging patchwork of regional regulation that will only increase in the event IMO fails to act in time.

¹ The co-sponsors recall the indication of the ISWG-GHG Chair that the term 'decarbonization' when used in this context in IMO GHG discussions does not exclude an understanding encompassing the elimination of all GHGs from international shipping, which is the sense used by the co-sponsors.

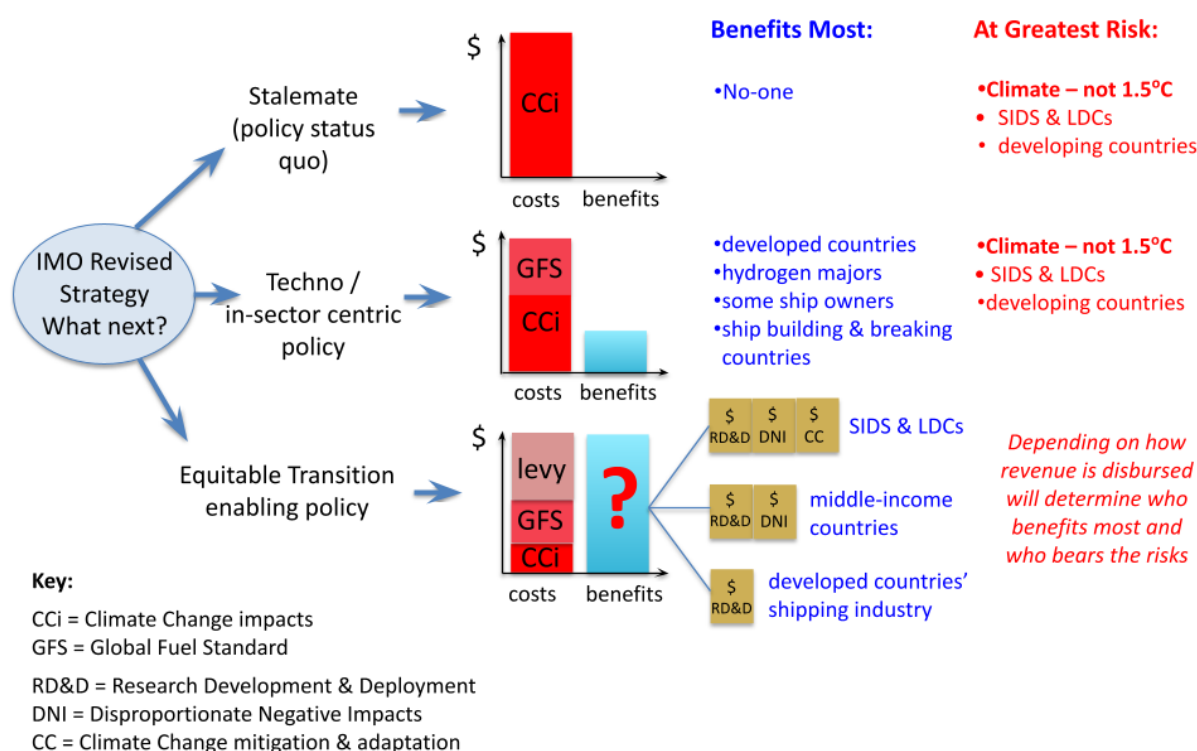
And increased transport costs would be the consequence (along with many other negative impacts on States), of inactivity in the deepening climate emergency.

3. In contrast to the inevitability of a certain level of transport cost increase, the way IMO GHG mitigation policy ensures an equitable transition opportunity for all member States is still unknown. There is good evidence that it is possible for IMO GHG policy to avoid increasing inequities that already exist, as long as policy is designed and implemented that enables differentiation through the use of revenues (see for example ISWG-GHG 14/3/3). The international principles by which the IMO is bound, require it to do so in any regard.
4. Overall, the proposed amendments to the Initial Strategy have language associated with equity, although there are many improvements that could clarify this further and we have recommended text in this regard for inclusion in the Vision and Levels of Ambition (see ISWG-GHG 15/2/X). However, because it is the policy measures that implement the Strategy that provide the legal enforcement of the transition, it is language specific to measures that is of utmost importance for any country in assessing its risks regarding impacts and equity.
5. This language is all the more important because at MEPC 80, countries will be asked to take a decision on drivers of transition such as Levels of Ambition, without having the fine detail of mid-term measures from which to take reassurance that a 1.5°C-aligned transition will be applied equitably, inclusive of the different circumstances that create different risks to different countries.

Three possible outcomes and the respective consequences

6. The figure below outlines three possible scenarios for MEPC 80 outcomes in regards to the revision of the Strategy. Delaying revision of the Strategy to include concrete mid-long term measures is not an option, and nobody benefits, with developing countries, and SIDS and LDCs in particular, being exposed to the greatest risks. Adopting a Revised Strategy that only focuses on the technology and incentivising first movers will only benefit some. Adopting a Revised Strategy that incorporates language that enables an equitable transition will benefit us all most. The co-sponsors note that as there has as yet been no robust discussion on revenue disbursement, the diagram depicts at a high level how revenues could be allocated, and depending on the final decision who benefits and who bears the greatest risks is yet to be determined.

Figure 1: Outcome Scenarios for MEPC 80 IMO Revised Strategy and potential implications



Previous summary text regarding mid-term measures

7. Prior to the relatively short debate on this subject at ISWG-GHG 14, the last detailed discussion of measures was at ISWG-GHG 13. The outcome of the Group at that point had already used the terms equitable transition, and is recorded in the report as:

*"2. noted the increasing support for a possible combination of a technical element and an economic element within a basket of measures, **which could effectively promote the energy transition of shipping and provide the world fleet the needed incentive while contributing and ensuring a level playing field and a just/equitable transition** while also stressing the various outstanding concerns that should be addressed before the end of Phase II of the Work plan; and*

.3 also stressing that the impacts on States of a measure/combination of measures should be assessed and taken into account as appropriate before adoption of the measure(s), paying particular attention to the needs of developing countries, especially small island developing States (SIDS) and least developed countries (LDCs); and that disproportionately negative impacts should be assessed and addressed, as appropriate, in accordance with the Revised procedure for assessing impact assessment on States of candidate measures."

More recent discussions on the mid-term measures and the Comprehensive Impact Assessment

8. In the process of progressing a shortlist of policy measures, much of the discussion continues to be framed on the relative or comparative advantages of measures to each other, and discussion of their respective impacts.

9. Although the co-sponsors of this paper are proponents of a specific measure (a universal GHG levy), we recognise that the solution for IMO is in selecting the right combination. The comparative analysis approach of trading measures off against each other risks losing focus on what it is that the measures need to be designed to achieve, and their alignment with the Paris Agreement goals. It also risks creating division between proponents of different measures which would achieve similar outcomes. This counters the momentum built towards a collaborative approach to the selection of a basket of measures seen at ISWG-GHG 13.
10. Furthermore, it is clear that there are features of some measures that can be effectively simplified or merged, which would resolve some of the concerns raised when measures are considered in isolation. Specifically, as has been pointed out in the debates so far, additional flexibility and enforcement mechanisms for a Global Fuel Standard (GFS) add complexity and undermine environmental integrity. A GFS in isolation is unable to enable equitable transition. A levy on its own lacks the ability to impose controls if the market fails to respond appropriately. However, a basket composed of an integrated levy and GFS, could create a simplified package. It now makes sense to refer to an integrated basket rather than the concept of a basket of independent measures.
11. A key risk also exists that division results in failure to move forwards with the Comprehensive Impact Assessment and therefore results in a stalemate. Delaying the launch of the CIA only delays the point at which greater clarity can be provided for the process of finalizing the details of the basket of measures, particularly how they will help avoid and address DNI and ensure an equitable transition.

Proposal for a way forwards

12. In relation to technical elements, there has been strongest support so far for the concept of a fuel standard. Relating to economic elements, there has been no support besides from co-sponsors for an Emissions Trading Scheme, and there is support for a number of proposals that are fundamentally similar – in that they use a levy to raise revenues and then disburse that revenue for a number of different purposes. This convergence means a greater level of specificity can now be expressed in the reference to measures in the Revised Strategy, whilst still being inclusive of the different revenue mechanisms (funds and feebate mechanisms) and purposes (which ensure inclusion of the needs of different circumstances for different countries). Integrating the summary text at ISWG-GHG 13, the text on measures proposed at ISWG-GHG 14, and taking into account the issues raised by different member States, the following text is proposed for Para 4.5:

4.5 [In accordance with the *Work Plan for development of mid- and long-term measures as follow up of the Initial IMO Strategy on reduction of GHG emissions from ships*¹ and the timelines set out in this Strategy, an integrated basket of candidate measures: a GHG levy, coupled to revenue disbursement mechanisms (feebate, fund etc.) with a GHG Fuel Standard (GFS) should be developed and finalized.

“This should effectively promote the energy transition of shipping and provide the world fleet the needed incentive to achieve a 1.5°C-aligned GHG reduction pathway, while contributing and ensuring a level playing field and a transition which is procedurally fair, equitable in relation to maritime mitigation, equitable in responding to climate impacts, just for seafarers and addresses DNI.”

Action requested of the working group

13. The working group is requested to consider this information in its further deliberations on the Revised IMO Strategy