

INTERSESSIONAL MEETING OF THE  
WORKING GROUP ON REDUCTION OF  
GHG EMISSIONS FROM SHIPS  
18th session  
Agenda item 2

ISWG-GHG 18/2/20  
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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**

**Specifying the economic measure – Timeline and working arrangements for the  
guidelines and charter of the IMO GHG Strategy Implementation Fund**

**Submitted by Belize, Dominica, Fiji, Jamaica, Kiribati, Marshall Islands, Palau,  
Samoa, Seychelles, Solomon Islands, Tonga, Tuvalu and Vanuatu**

**SUMMARY**

*Executive summary:* In support of documents ISWG-GHG 18/2/5 (Austria et al.) and ISWG-GHG 18/2/6 (Bahamas et al.) this document provides comments on the further work that will be needed in order to operationalize the IMO GHG Strategy Implementation Fund (the Fund) through the development of guidelines/charter. This document describes the importance of the development of that detail as a matter of urgency, as the detailed specification is critical for ensuring that the impacts on States of the mid-term measures can be understood at the point of their adoption. This document proposes that whilst finalization of amendments to MARPOL Annex VI should be the priority for work up to MEPC 83, the guidelines/charter relating to the Fund will need rapid development thereafter, and proposes a way forward to enable that.

*Strategic direction,  
if applicable:* 3

*Output:* 3.2

*Action to be taken:* Paragraph 20

*Related documents:* ISWG-GHG 14/2; ISWG-GHG 16/2/20; ISWG-GHG 17/2/3,  
ISWG-GHG 17/2/13, ISWG-GHG 17/2/17; ISWG-GHG 18/2/5 and  
ISWG-GHG 18/2/6

**Introduction**

1 In document ISWG-GHG 18/2/5 (Austria et al.) the many co-sponsors of that document (which include, among others, Bahamas, Fiji, Kiribati, Liberia, Marshall Islands, Nauru, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu and ICS) set out a consolidated proposal, inter alia, for a maritime GHG emissions pricing mechanism, with the annex to the



document containing draft amendments to MARPOL Annex VI requiring an annual GHG levy/contribution to be made by ships per tonne of CO<sub>2e</sub> emitted via an IMO GHG Strategy Implementation Fund (the Fund).

2 In document ISWG-GHG 18/2/6 (Bahamas et al.) the co-sponsors elaborate on their rationale in support of option 1 in paragraph 9, regulation X [*Distribution of revenue*] as set out in the annex to document ISWG-GHG 18/2/5, and explain how revenue disbursement purposes set out in this option are required to achieve the vision and objectives of the 2023 IMO Strategy on GHG Emissions Reduction from Ships (2023 IMO GHG Strategy), including ensuring a Just and Equitable Transition (JET) that leaves no Member State, and no seafarer, behind.

3 In support of documents ISWG-GHG 18/2/5 and ISWG-GHG 18/2/6, the co-sponsors set out further ideas on the content and timelines for finalization of supporting guidelines and the charter that will be needed in addition to the amendments to MARPOL Annex VI in order to operationalize the Fund.

4 The GHG Working Group at MEPC 82 undertook the first discussion on the practical aspects of distributing revenue collected by mid-term measures. This was driven by the need to develop and rapidly finalize language for chapter 5 of MARPOL Annex VI at MEPC 83, and identify any further guidelines that will be needed to operationalize this new chapter, including those relating to how the Fund will be set up and operated.

5 The establishment of a fund under MARPOL draws on a long history of discussion of legal structures for collecting, administering and disbursing the revenues generated by measures to reduce GHG. As early as 2009, Cyprus, Denmark, the Marshall Islands, Nigeria and the International Parcel Tankers Association (IPTA) provided a legal structure for the creation of a fund (MEPC 60/4/8). This was further iterated in 2011 by Cyprus, Denmark, the Marshall Islands and Nigeria (GHG-WG 3/3/4).

6 These and more recent submissions (e.g. ISWG-GHG 17/2/17 (CSC and Pacific Environment)) have all identified the inextricable link between the Fund and the enforcement, compliance, and effectiveness of pollution prevention measures under the amendments to MARPOL Annex VI. The creation of the Fund is a functional necessity for implementing and operationalizing the 2023 IMO GHG Strategy.

7 This document responds to the necessity and urgency for MEPC to advance the establishment of the Fund as an inextricable part of the amendments to MARPOL Annex VI. As such this document builds on the previous submission by some co-sponsors (ISWG-GHG 17/2/13) and proposes a way ahead for development of guidelines/charter or similar documents, as a matter of urgency.

8 This document responds to the discussion during the Working Group on Reduction of GHG Emissions from Ships at MEPC 82, reflected in paragraph 22 of document MEPC 82/WP.9 as follows: "[...] essential elements to be included in the text of MARPOL Annex VI, whilst also acknowledging that there would be time to continue work on some of these elements in guidelines/charter [...]".

### **High-level description and core provisions for the Fund should be set out in MARPOL**

9 The Fund should be legally established in MARPOL Annex VI, and the detail in the amendment needs to cover both high-level description and core provisions for the establishment and operation of the Fund. The co-sponsors are clear that this work is required to maintain the timeline defined in the 2023 IMO GHG Strategy.

10 Specifying the detail of the Fund specification in the amendments to MARPOL Annex VI is urgent and important irrespective of the origins of revenues (e.g. whether as a consequence of the technical or economic element of the basket of mid-term measures).

**Criticality of achieving sufficient specification of revenue distribution within the guidelines/charter by the second extraordinary session of MEPC (MEPC/ES.2)**

11 The report of the comprehensive impact assessment of the basket of candidate mid-term GHG reduction measures analysis shows that many Member States face economic risks, depending on the specification of the mid-term measures. The comprehensive impact assessment analysis shows that transport cost increases are generally regressive, negatively affecting lowest income countries the most, and that all candidate measures specifications can be expected to increase transport costs.

12 Whilst candidate measures modelled specifications in the comprehensive impact assessment that included revenue distribution showed lower GDP impacts in 2050, this was on the basis of a presumed allocation of revenues:

- .1 firstly, revenues are disbursed to reward use of e-fuels; and
- .2 secondly, revenues are disbursed on the basis of population size and % GDP impacts (prior to revenue disbursement) – either to all countries, all developing countries or only SIDS and LDCs.

13 In scenarios which had the least GDP impacts, and least regressive effects (high levy price), the large majority of the revenues were disbursed to disproportionately negatively impacted countries.

14 If there are details in chapter 5 of MARPOL Annex VI on only some, but not all, of the potential areas of revenue distribution, it will make it impossible to assess the effectiveness of revenue distribution in relation to impacts modelled in the comprehensive impact assessment. It will also make it impossible to assess, prior to adoption, whether or not the mid-term measures will be likely to achieve the objectives specified in the 2023 IMO GHG Strategy (paragraph 4.5), including how the measures will contribute to JET, and address disproportionately negative impacts (DNI) (see also table 1 below).

15 In particular, addressing only detail of revenue distribution related to "reward" and "RD&D" or limiting revenues only to "in sector" revenue uses has been shown<sup>1</sup> to significantly limit and constrain the number of recipients. Furthermore, the same analysis shows that many of the countries experiencing the greatest negative impacts from transport cost increases, are unlikely to be significant recipients of these revenues if revenues are limited to in-sector purposes only (even with a broad definition of in-sector).

16 It is hoped that the Expert Workshop (GHG-EW 6) on Further development of the basket of candidate measures will bring new evidence on the potential impacts on food security that may result from the candidate measures since many of the Member States expressing concern on this impact on their States pointed to the expected importance of "out of sector" revenues for addressing the impact e.g. revenue distributions related to "supporting the energy transition in developing countries", "addressing DNI", "addressing climate impacts".

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<sup>1</sup> Fricaudet et al. (2024)

17 From the explanations in paragraphs 11 to 15, progressing and adopting details in the guidelines/charter describing how a fund will operate will be a key prerequisite for understanding how different countries will be impacted by the mid-term measures. This is key to the successful adoption of mid-term measures by the MEPC/ES.2.

### Specifications needed to clarify revenue disbursements from the Fund

18 Previous submissions, including documents ISWG-GHG 17/2 and ISWG-GHG 17/2/3 (Republic of Korea), ISWG-GHG 14/3 (ICS), ISWG-GHG 16/2/20 (World Bank), ISWG-GHG 17/2/13 (Fiji et al.), have identified various disbursement purposes for a fund. Collating those proposals suggests that revenue distribution will need to be specified across the following objectives, with a need for consistency across both the amendments to MARPOL Annex VI, relevant guidelines and the Fund guidelines/charter. These are summarized in table 1.

**Table 1: Revenue disbursement purposes, 2023 IMO GHG Strategy objectives, and relevant MARPOL/guidelines specification**

	<b>Relevant 2023 IMO GHG Strategy vision and objectives</b>	<b>MARPOL / guideline specifications required</b>
Reward	Promote the energy transition, provide the fleet with the required incentive	<ol style="list-style-type: none"> <li>1. High-level description and core provisions to be included in MARPOL Annex VI Chapter 5.</li> <li>2. Calculation and review process for setting the reward in the accompanying guidelines (e.g. guidelines for ZNZ definition and reward specification and review).</li> <li>3. Specification in Fund guidelines/charter to include allocation of reward revenues to shipowners.</li> </ol>
RD&D	Promote the energy transition, provide the fleet with the required incentive, contribute to [a level playing field and] a just and equitable transition	<ol style="list-style-type: none"> <li>1. High-level description and core provisions to be included in MARPOL Annex VI Chapter 5.</li> <li>2. Specification in the Fund guidelines/charter for how an RD&amp;D board/committee will be formed and operate.</li> </ol>
Supporting the energy transition in developing countries, in particular SIDS and LDCs	Promote the energy transition, contribute to just and equitable transition	<ol style="list-style-type: none"> <li>1. High-level description and core provisions to be included in MARPOL Annex VI Chapter 5.</li> <li>2. Specification in the Fund guidelines/charter for how these</li> </ol>

	<b>Relevant 2023 IMO GHG Strategy vision and objectives</b>	<b>MARPOL / guideline specifications required</b>
Ensuring a just transition for the maritime workforce	Promote the energy transition, contribute to just and equitable transition	areas of revenue distribution would be disbursed.
Supporting capacity-building	Promote the energy transition, contribute to just and equitable transition	
Addressing DNI	Contribute to just and equitable transition	
Addressing climate impacts	Contribute to just and equitable transition	

### Way forward

19 In the evidence supporting document ISWG-GHG 16/2/20, the example of the processes used to set up both the Green Climate Fund and Loss & Damage Fund is described. These funds used 'transitional committees'. This is not a common term used at IMO, but the principle of a group of Member States and observer organizations meeting at a high frequency to find consensus on a text is already commonplace. The co-sponsors' proposal is that the required detail is developed through existing working group arrangements, including:

- .1 in the period to MEPC 83, and to be confirmed at MEPC 83, agree an initial base structure/draft and work plan; and
- .2 in the period from MEPC 83 to MEPC/ES.2, additional meeting arrangements are developed to ensure that a draft Fund guidelines/charter can be adopted at MEPC/ES.2, as required.

### Action requested of the Working Group

20 The Working Group is requested to consider the content of this document and to agree the required working arrangements that can ensure the timescale in paragraph 19 can be met, and take action as appropriate.