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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

Proposed draft amendments to MARPOL Annex VI on revenue disbursement purposes to ensure a just and equitable transition (JET) that leaves no country, and no seafarer, behind

Submitted by Belize, Fiji, Jamaica, Marshall Islands, Palau, Seychelles, Solomon Islands, Tonga, Tuvalu, Vanuatu and ICS

SUMMARY

Executive summary:	In support of document ISWG-GHG 18/2/5 (Austria et al.), this document elaborates on rationale in support of Option 1 in paragraph 9, regulation X [*Distribution of revenue*] as set out in annex to document ISWG-GHG 18/2/5, and explains how revenue disbursement purposes, as set out in this option, are required to achieve the goals and objectives of the 2023 IMO GHG Strategy, including ensuring a just and equitable transition (JET) that leaves no Member State, and no seafarer behind. These purposes are vitally necessary and must also be determined by their ability to ensure a JET which recognizes and addresses disproportionate negative impacts, as well as climate impacts on the most climate vulnerable Member States, and that the maritime workforce, including seafarers, receives the support required so that the transition to phase out GHG emissions is truly global in nature.
Strategic direction, if applicable:	3
Output:	3.2
Action to be taken:	Paragraph 30
Related documents:	ISWG-GHG 17/2/5, ISWG-GHG 17/2/13, ISWG-GHG 17/2/18; ISWG-GHG 18/2/5 and MEPC 82/WP.9

Introduction

1 In document ISWG-GHG 18/2/5 (Austria et al.), the co-sponsors of the document (which include, among others, the co-sponsors of this document) set out a consolidated proposal, inter alia, for a maritime GHG emissions pricing mechanism, containing in an annexed draft MARPOL Annex VI amendments requiring an annual GHG levy/contribution to be made by ships per tonne of CO_2e emitted via an IMO GHG Strategy Implementation Fund (the Fund).

2 As well as being co-sponsored by industry actors, this document is co-sponsored by some of the most climate vulnerable Member States, including small island developing States (SIDS) and least developed countries (LDCs), and those States most likely to be affected by disproportionately negative impacts (DNI) of the proposed "IMO net-zero framework". The co-sponsors of this document have come together to present consolidated draft amendments to MARPOL Annex VI with respect to revenue disbursement by the Fund, to ensure achievement of the goals and objectives of the 2023 IMO GHG Strategy, including ensuring a JET that leaves no State, and no seafarer behind.

3 This document sets out draft amendments to MARPOL Annex VI "*regulation X [Distribution of revenue]*" and elaborates on the rationale in support of Option 1, in paragraph 9, as set out in annex to document ISWG-GHG 18/2/5. The text under this Option states:

"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]; and

.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.]."

4 The co-sponsors of this document recognize that the issues covered hereunder are complex and look forward to working with all parties within the Working Group and the Committee to further develop and refine revenue disbursement issues.

Context

5 The co-sponsors consider that a mandatory GHG levy/contribution per tonne of CO_2e emitted is the only solution that will both rapidly decarbonize international shipping and provide essential resourcing to promote the energy transition, incentivize the uptake by ships of zero or near-zero (ZNZ) GHG fuels, energy sources and technologies and contribute to a JET including addressing DNI as necessary.

6 Furthermore, a GHG levy/contribution is the simplest approach for applying, globally, a maritime GHG emissions pricing mechanism, providing the needed long-term certainty about the rate of the GHG levy/contribution and certainty that the annual revenues necessary for an efficient JET will be available. Such certainty is essential for the industry to confidently determine and de-risk the direction of future investments. Such certainty remains lacking in the current environment, holding back a transition that should be surging ahead.

7 Certainty of revenues (both amount and purposes) is crucial both for promoting an energy transition and, for many developing countries, especially SIDS and LDCs, to ensure confidence that the transition will be equitable and will address their needs. The report of the Comprehensive Impact Assessment (CIA) of the basket of candidate GHG reduction mid-term measures evidences this clearly as follows:

.1 DNV's analysis demonstrates that energy transition pathways are determined by how new energy options are incentivized. Policy scenarios - e.g. Scenario 23/24: Global Fuel Standard (GFS), no levy - that do not have significant revenues, resulted in a risk of technology lock-in (over dependence on interim technology/energy solutions), and resultant higher energy and abatement costs in the 2040s, compared to policy scenarios with certain revenues (scenarios including a "levy", such as that now proposed in document ISWG-GHG 18/2/5, when a share of the revenue generated was used in the 2030s (or before) as a reward to promote the energy transition; and

.2 UNCTAD's analysis demonstrates that the long-run negative impacts on States are primarily a function of the technology/energy costs of the transition, and therefore similar, regardless of which candidate mid-term measures are chosen. The analysis also shows that the potential for positive impacts on States is a function of revenues and how these are distributed. Policy designs that have certainty on negative impacts (costs), but not certainty on revenue, are therefore placing additional unfair and undue risks on States with a risk of DNI.

8 A GHG levy/contribution by ships per tonne of CO_2e emitted, as proposed by document ISWG-GHG 18/2/5 will generate revenues as a by-product of the MARPOL Annex VI regulation. But the purposes to which these revenues are used is essential to achieving the goals and objectives of the 2023 IMO GHG Strategy and the requirement to contribute to JET which leaves no State behind.

9 Over the course of the preceding work by the Working Group and the Committee to develop a basket of mid-term GHG reduction measures, several comprehensive proposals have been submitted on the possible and necessary purposes for the disbursement of by-product revenues. The co-sponsors note that there has so far only been very limited time allocated to discussion regarding the disbursement of these revenues. This is concerning, as the specification of how revenues are allocated is crucial for determining the ability of the draft MARPOL Annex VI amendments to achieve the goals and objectives of the 2023 IMO GHG

Strategy. Addressing this issue is vital for enabling Member States to better understand the potential impacts of the MARPOL Annex VI regulations that MEPC 83 will be invited to approve, and for assessing the likely success of these regulations in achieving their objectives. Accordingly, it is imperative that the package of regulations approved at MEPC 83 includes as much detail as necessary, including with respect to revenue distribution, so that the Committee, including the poorest and most climate vulnerable member States, can make these assessments.

10 In document ISWG-GHG 17/2/13 (Fiji et al.), the co-sponsors outlined a "Just and Equitable Revenue Disbursement Framework", proposing that revenue generated from both a GFS and a GHG levy/contribution be allocated to both active and passive mitigation efforts, as well as, in their view, reparation for damage caused. Similarly, document ISWG-GHG 17/2/18 (Antigua and Barbuda et al.) emphasized that the targeted use of revenues is "critical for addressing impacts on States and ensuring equity in relation to climate impacts". Document ISWG-GHG 17/2/5 (Bahamas et al.) also provided insights on potential revenue uses, particularly focusing on rewarding and incentivizing the decarbonization of the fleet and supporting maritime GHG reduction efforts in developing countries, especially SIDS and LDCs.

11 During MEPC 82, the Committee considered the CIA and document MEPC 82/WP.9 summarizes the brief discussion which was held on revenue distribution. The discussion about the CIA showed that many Member States were concerned about potential DNI, especially relating to food security. At MEPC 82, a number of revenue use areas were advocated by different Member States including in relation to rewards for the uptake of ZNZ fuels, uses for seafarer training, general references to JET, use for research, development and deployment (RD&D), and use for addressing DNI (including in relation to food security impacts).

12 The co-sponsors make reference to the discussion at MEPC 82 to provide context as sources of information to help the Committee in its efforts to find an acceptable way ahead that can be as broadly supported by as many Member States as possible, so that the proposed MARPOL amendments can be approved at MEPC 83 for adoption at MEPC/ES.2. The co-sponsors remain convinced that the Organization's tradition of pragmatic and collegial collaboration can succeed in producing, in 2025, a world-leading package of regulations, including in relation to revenue distribution, that will drive the just and equitable decarbonization of one of the world's most important industries.

Revenue disbursement purposes

13 As reflected in the proposed draft MARPOL Annex VI text and as set out in paragraph 3 of this document, the co-sponsors consider that the following revenue disbursement purposes are the minimum required to achieve the goals and objectives of the 2023 IMO GHG Strategy, and to receive broad support from IMO Member States.

Providing the world fleet with the needed incentive

14 The co-sponsors agree that the incentivization of the global fleet will play a pivotal role in accelerating the transition to phasing out GHG emissions from international shipping. Working in combination with a GHG levy/contribution, this incentivization is best achieved through the introduction of rewards that promote the use of eligible ZNZs. Acting in combination with the proposed GHG levy/contribution, this "reward" provides the certainty required to help de-risk investments by energy producers and the shipping industry in ZNZ fuels and energy sources, during the initial years of implementation when compliance with the proposed reductions in GHG Fuel Intensity (GFI) required for GFS compliance does not require ZNZ solutions. This revenue use will therefore help ensure that the international shipping sector is incentivized to make sufficiently early and accelerating investments in ZNZ fuels and technologies, thereby ensuring that there is sufficient volume and global distribution of these ZNZ fuels and technologies to achieve the decarbonization goals outlined in the 2023 IMO GHG Strategy.

15 This reward system not only fosters the development of ZNZ fuels and technologies but also helps bridge the cost gap between the lowest cost compliance solutions and ZNZ solutions.

Promoting the energy transition in developing countries, in particular SIDS and LDCs

16 The co-sponsors emphasize that those Member States and companies best positioned to benefit from shipping's energy transition are predominantly those situated along traditional and established major shipping and trading routes, and/or with major shipbuilding and/or marine fuel bunkering capacity, and/or which have major consumer markets. The countries in these circumstances generally have greater access to resources, infrastructure, and capital, enabling them to adapt more quickly to and capitalize on the opportunities arising from the proposed GFS regulation and proposed maritime GHG emissions pricing mechanism.

17 In contrast, many developing countries, particularly SIDS and LDCs, are less equipped to engage in and benefit from this transition, although all will feel the effects of increased maritime logistics costs. Without targeted and differentiated assistance, these countries risk being left behind, exacerbating existing inequalities. It is essential to recognize that landlocked developing countries will also feel the effects of increased maritime logistics costs, as well as experiencing climate impacts from shipping emissions. A truly global, inclusive and equitable transition requires that all these countries receive the necessary support to ensure their full participation and enable them to seize upon the economic opportunities the transition creates.

18 Such support could include prioritizing capacity-building initiatives, enhancing access to sustainable shipping technologies, and providing funding for infrastructure development tailored to their unique needs (including overcoming barriers, such as access and cost of capital). This should also include transitioning their domestic maritime sectors. Ensuring that these countries can integrate into the global shipping transition will not only foster inclusivity but also strengthen the overall resilience of the shipping sector and is therefore a crucial step in realizing the full potential of a JET.

Ensuring a just transition for the maritime workforce

19 As acknowledged by the Just Transition Task Force, established jointly by IMO, International Labour Organization (ILO), International Chamber of Shipping (ICS), International Transport Workers' Federation (ITF) and the United Nations Global Compact (UNGC), the transition to ZNZ GHG shipping will bring transformative changes to the maritime sector,

requiring new technologies, fuels, and operational practices. These changes will significantly impact the global maritime workforce, therefore requiring efforts to ensure that the maritime workforce, including seafarers (the majority of whom come from developing countries), is not left behind. A JET emphasizes the need for fair treatment and opportunities for all workers as the industry evolves, safeguarding livelihoods, while also advancing decarbonization goals.

20 To achieve this, targeted investments in education and training programmes are essential. These programmes could, for example, focus on equipping maritime workers with the skills required to operate, maintain, and handle ZNZ technologies and fuels safely and efficiently. This could also include providing financial assistance, re-employment programmes, and pathways for career advancement.

21 While the Organization has the responsibility for seafarer training and competence standards under the STCW Convention, the ILO, as the competent authority in labour-related matters would be well-positioned to help oversee certain aspects of the workforce component of the maritime sector's transition. To ensure effective and equitable management of this vital part of the transition, some of the revenues allocated for workforce-related initiatives could be administered through a dedicated fund established under the ILO, in cooperation with IMO and the proposed IMO GHG Strategy Implementation Fund.

Addressing the climate impacts of GHG pollution from international shipping

22 Consistent with the position contained within document ISWG 17/2/13, in addition to mitigating the pollution at source, there must also be recognition by the "IMO net-zero framework" of the need to address the damage caused by that pollution. This is consistent with the Principle of Polluter Pays and the recent ITLOS Advisory Opinion on Climate Change delivered on 24 May 2024. Therefore, in phasing out GHG emissions from international shipping, a JET requires the amendments to MARPOL Annex VI to ensure that the climate impacts of GHG pollution from international shipping are fairly addressed. This requires not only reducing emissions within the international shipping sector but also prioritizing support for the most climate vulnerable developing countries, especially SIDS and LDCs, which are already bearing the brunt of the climate crisis. The global nature of GHG emissions means that, regardless of sector, all GHG emissions contribute to the same environmental damage, and similarly, climate impacts do not adhere to sectoral or national boundaries. Thus, a comprehensive approach to climate response is essential, and revenues generated from the proposed GHG levy/contribution should support broader climate adaptation and mitigation efforts, especially in the most climate vulnerable SIDS and LDCs.

23 To ensure that these revenues contribute to a truly global response, there should be consideration of allocating some of these revenues to existing funding entities that are already equipped to address broader climate and ocean health impacts. This could include the Green Climate Fund (GCF), the Global Environment Facility (GEF), and other international mechanisms that focus on supporting climate vulnerable nations. These funding mechanisms would help finance initiatives aimed at building climate resilience in developing countries, especially SIDS and LDCs, enhancing adaptation capacity, and preserving ocean ecosystems, ensuring that the global shipping transition is both equitable and effective in addressing the full scope of the climate impacts it has contributed to.

Addressing disproportionately negative impacts (DNI)

24 The implementation of GHG reduction measures in the shipping sector will have DNI on certain countries and communities. The UNCTAD CIA shows that climate vulnerable nations, including many SIDS and LDCs, are expected to face greater negative impacts (including higher cumulative percentage reductions in GDP).

25 The 2023 IMO GHG Strategy, in paragraph 3.5.1.3, expresses "the need to consider the impacts of measures on States, including developing countries, in particular on LDCs and SIDS". Paragraph 4.13 of the 2023 IMO GHG Strategy expresses the need to "address disproportionately negative impacts". To date, there has been no attempt within the Committee to define DNI, leaving this language ambiguous, and the risks of DNI uncertain but certainly unaddressed. Given the evidence from the CIA process, the co-sponsors cannot agree that this should remain ambiguous as the Committee works to approve and adopt mid-term measures that will create DNI.

26 "Disproportionate" means "large in comparison with something else". Taking into account the 2023 IMO GHG Strategy, listening to the discussions and concerns raised on this subject to date, and considering the CIA evidence, the co-sponsors suggest that this "something" should refer to both the magnitude of their impacts relative to the impacts on other States, and the capacity of an impacted State to manage their impact. For example, in the context of impacts on States of IMO mid-term measures, DNI should be interpreted as an impact on a State which is large in comparison to the impacts on other States, and in comparison to the capacity of that State to manage that impact.

27 The co-sponsors recognize that the forthcoming Expert Workshop (GHG-EW 6) on Further development of the basket of candidate measures will provide a means to gain further insights into the issue of impact on States, specifically those relating to food security, and that this may provide important information on how the current ambiguity on DNI should be reduced.

28 The UNCTAD's report on Task 3, Assessment of impacts on States, of the comprehensive impact assessment of the basket of candidate GHG reduction mid-term measures analysis clearly shows that appropriate revenue distribution can reduce DNI. The approach to revenue distribution used in the CIA process includes prioritizing revenue on the basis of partially addressing negative impacts, which is logical as a means to minimize overall impacts. However, it is important to recognize that there is no guarantee that revenues distributed for other purposes discussed in this submission (e.g. providing the fleet with the necessary incentive, promoting the energy transition, etc.) will necessarily coincide with addressing negative impacts in the most disproportionately negatively impacted States.

29 The co-sponsors therefore propose the inclusion of addressing DNI as a stand-alone revenue distribution purpose. The co-sponsors consider that this will need to entail ongoing monitoring and measurement, taking into account the distribution of revenues for other purposes (revenue distribution from this option cannot be solely determined, ex ante, by a model such as GTAP). To improve on the current ambiguity around DNI, the co-sponsors therefore propose, as set in paragraph 3 of this document, a placeholder for an expanded text to be added to the proposed draft amendments to MARPOL Annex VI no later than at MEPC/ES.2, incorporating, inter alia*,* and as appropriate, information and analysis from GHG-EW 6.

Action requested of the Working Group

30 The Working Group is invited to consider information contained in this document and to recommend to the Committee that the text for draft amendments to MARPOL Annex VI on revenue disbursement purposes, proposed by the co-sponsors, as set out in paragraph 3 of this document, together with the other consolidated proposed text for amendments to MARPOL Annex VI, as set out in the annex to document ISWG-GHG 18/2/5, should be approved at MEPC 83 for adoption at MEPC/ES.2.