



# **An overview of the discussions from IMO ISWG-GHG 12**

**Read out from UMAS**

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## Preface

This report has been written by a team of experts from UMAS. The views expressed are those of the authors.

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## 1 Summary

The meeting concluded that there was now consensus to price emissions at IMO, “as part of a basket of mid-term measures”. This is a major development - the concept of Market Based Measures, which would put a price on shipping’s GHG<sup>1</sup> emissions, has been on the table at IMO for more than a decade and previous debates showed apparent disagreements between member states on these measures.

Overall, good progress has been made in the first 12 months of IMO’s work on mid-term measures (policies to drive shipping’s transition and decarbonisation). The IMO is on track for the schedule it agreed last year. And there is a lot of convergence about the objectives the final policy design will need to address.

There are a range of possible policy mechanisms (technical measures like mandates and economic/market-based measures) on the table which will now go through for further discussion, refinement and prioritisation.

With such a short time before full decarbonisation is needed, if we are to avoid dangerous climate change, urgency and progress can always benefit from being higher/faster. However, the meeting’s outcome is a clear and positive step towards achieving a 1.5-aligned and equitable transition as outlined in our report “[a Strategy for the Transition to Zero-Emission Shipping](#)”. In their details, several policy measures are well aligned with the findings and recommendations in our recent “[Overview of the Policy Options](#)”.

## 2 Overview of the discussions

ISWG-GHG 12 marks the third substantive discussion on mid-term measures (MTM), and the shift from phase 1 to phase 2 of the workplan adopted at MEPC76. Policies that can drive the shipping sector’s transition away from fossil fuel use were the focus of discussion and were grouped as following:

- Technical measures - Fuel standards, CII enhancements, newbuild standards
- Economic measures - Levy and levy/feebate proposals, ETS and also IMRB/F (as a short-term measure (STM))
- Combinations of these measures

The intention was not to include, exclude or prioritise any given proposal and therefore no specific decisions were made.

Partly as a consequence of not needing to conclude with a clear preference or prioritisation, interventions generally showed agreement on the need for policy that can enable a fuel/energy

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<sup>1</sup> GHG referring to both CO<sub>2</sub> pricing and CO<sub>2e</sub>/GHG pricing

transition. There was constructive discussion on the pros and cons of policy options and design features needed. There is a clear consensus emerging for there to be a 'basket' of mid-term measures – e.g. more than one policy adopted. However, many are still not explicit about the constituents of that basket, preferring to keep options open.

In his summary, the Chair found that the group was on track to conclude phase 1 on time, and proposed confirmation of that by the Committee (at MEPC 78)<sup>2</sup>. Particularly important, given the broad pleas expressed by many in industry, is the Chair's signal that the IMO is now clearly on track for putting a price on GHG emissions.

More specifically on the detailed discussions:

- IMRB/F received support from a number of member states, but it did not receive broad support as a standalone policy measure, nor as part of a future basket. Criticisms included that it is not of sufficient ambition, and not ready for adoption. However, the objective to fund Research, Development and Deployment (RD&D) was broadly supported and could be included in the design of GHG-pricing policy. The argument was made that time would be better spent getting MTM proposals adopted as soon as possible, rather than delaying that outcome by diverting time now to a STM.
- The concept of fuel standards and specifically the GHG Fuel Standard (GFS) proposal, which has a large co-sponsorship, also gathered further support, including from industry.
- Many members stated no preference on type of MBM (ETS, levy or feebate) at this stage, however they stated some strong preferences for MBM features. Many members insist that an MBM, as part of a basket, must deliver absolute emissions reductions and have WTW approach. Several highlighted the need for a full GHG scope (not just CO<sub>2</sub>).
- Some of the MBM proposals rely heavily on the CII mechanism and metrics for the allocation of revenues. Several member states and industry NGO's expressed concern about this, preferring more 'simple' methods for revenue allocation, as well as ensuring inclusion of ship types beyond those that have a CII metric.
- Despite the agnosticism on type of MBM, with five MBM variants on the table<sup>3</sup> from different groups of member states and industry, there was a broad consensus gathered around GHG pricing needing to be a part of the basket of measures enabling this point to be made clearly in the chair's summary.
- While some members welcomed the ETS proposal and found merit in further consideration, others found it complex and have remaining questions after discussion, and as such, clear support was limited to the co-sponsor of the proposal. On balance, members seemed to prefer a levy-based approach whilst some remained open to ETS.
- MBM's can incentivise the transition through the price on GHG, by the way revenues are deployed, or a combination of the two. Many comments focused on differences between the three proposals' respective use of a GHG price and revenue use to drive mitigation:
  - The Marshall Islands' proposal (76/7/12) is focused on using the GHG price to drive mitigation investment, with the majority of revenues used to support an equitable transition, and some share for use in-sector including for RD&D. The proposal has gathered the most support beyond its co-sponsors, both for its 'credible' price signal and possibility to use revenues for enabling an equitable transition.
  - There are some similarities in both ICS and Japan's proposal for levies, with both the carbon price and revenue-use driving mitigation investment (the latter through a feebate mechanism). Members appreciated some elements but raised issues on TTW coverage of both proposals.

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<sup>2</sup> The ISWG meeting cannot take decisions, it can only report to and make recommendations to MEPC (the Committee)

<sup>3</sup> An ICS led proposal, a China-led proposal, a Japan-led proposal, a Norway-led proposal and a Marshall Island's led proposal

- The China-led proposal is expected to set no price on GHG for ships in compliance with the CII 'C' band, but apply price from those in D and E bands and reward/subsidise those in A and B bands. Partly because of concerns around the CII mechanism's environmental integrity (including around metrics and an ongoing discussion about exemptions and exclusions) this mechanism received limited support beyond its co-sponsorship and received questions around its climate ambition.

Members will now consider all the proposals further (nothing was ruled in/out), and proponents were encouraged to iterate and work together to show how refinements and combinations of measures could improve them in line with the objectives of the strategy.

Work done by UMAS on the [transition](#), to identify the specific steps that needed to progress this year, identified "intensified effort at IMO to agree...market-based and non-market-based (e.g. technical) measures". The meeting shows a clear intensification of work on those measures, as well as several important milestones such as convergence around GHG pricing and keeping on schedule on moving from phase 1 to phase 2 of the workplan. Several of the policies correspond closely to findings and recommendations in recent UMAS work on [policy options](#).

### 3 Timescales for further policy development and implementation

The development of mid-term measures is scheduled in accordance with a workplan adopted at MEPC 76. This had three phases of development:

- Phase 1 – collation and initial consideration (spring 2021 – spring 2022)
- Phase 2 – assessment and selection of measures (spring 2022 – spring 2023)
- Phase 3 – development of measures(s) to be finalised with an agreed target date unassigned, as yet.

The timescale given to each phase was considered at the time of adoption of the workplan to be highly ambitious. It is therefore a positive signal of how seriously both the secretariat and member states take the need for mid-term measures, that we are now expected to move to phase 2 on schedule, and with a generally positive atmosphere of cooperation.

However, there is a large amount of work needed in phase 2 – both to narrow down policy options, develop much greater detail and specification in the proposals, to consider the combinations of measures, and to finalise how the key step of assessing impacts on states of measure(s) will be undertaken. There is expected to be a finalisation of the impact assessment method at MEPC 79 (December 2022), which is a pre-condition for any comprehensive impact assessment to be undertaken (and which therefore cannot start until 2023).

Whilst many member states are expressing the high urgency for the adoption of MTM – including several expressing the need for adoption in 2023 and entry into force by 2025. The existing specifications for the timescales of phase 1 and 2 and processes of the IMO suggest that entry into force of MTM may be 2026 at the earliest. The key determinants of this are:

- How policies are now designed to address needs of a broad range of member states
- How smoothly the assessment of impact on States progresses
- How pressure and momentum is maintained both within, and outside, the IMO for urgent adoption of MTM

### 4 Well-to-wake and GHG/CO<sub>2</sub>

There are fundamental differences between policy measure proposals as to whether they are applied on tank-to-wake (TTW) or well-to-wake (WTW) emissions, whether they are applied just to CO<sub>2</sub>, or to

all GHG emissions. The RMI/SOLs GHG levy proposal and the EU GFS (fuel standard) proposal are the only policy options that cover all GHG emissions on a WTW basis.

Generally, even beyond the proponents there was good support for the WTW approach being taken, from both industry NGOs and member states.

In summing up, the Chair did not express any convergence either way on TTW/WTW.

## 5 Availability of fuels and flexibility

A recurring concern raised by many member states is whether the necessary low- and zero- carbon fuels will be available in sufficient time and quantity to enable compliance. This concern is particularly expressed by developing countries in the context of the fuel standard policy measures, including the GFS proposal by EU. Fuel standards are perceived to allow less flexibility in compliance, which is to the advantage of setting clear and ambiguous policy that can drive investment.

There are strong echoes in this issue with the pre-2020 sulphur cap regulation discussion. It is not easily resolved because availability is a function of investment which, in turn, is a function of policy stringency and certainty. Flexibility to help reduce the risk of availability shortfall also undermines the case for investment.

The potential postponement to 2025 of entry into force for that policy was informed by a fuel availability study conducted in 2016/17. There will be further discussion of fuel availability studies at MEPC 78, and this is likely to remain a key element for further work as we move into phase 2 of the workplan.

There were three different approaches discussed in the session for addressing this concern, proposed by different member states:

- Proponents of GFS suggested incorporating a flexibility mechanism into the policy's design – this could be a means to trade credits from overcompliance (e.g. achieving much greater reduction in emissions), or pay a price for non-compliance
- Some supported relaxing the WTW emissions framing for the initial phase of implementation of MTM, allowing access to a wider supply of fuels until supply chains for fuels that have minimal WTW emissions were established
- Some proposed that the solution to the concern lay in the design of the basket, with a GHG levy's flexibility and revenue-use supporting deployment being the main driver during the initial phase of transition, and a fuel standard's stringency and certainty being used in the second phase of transition

Several developing countries asked for a study to be conducted on fuel availability to help inform the design and implementation of MTM policy. This is likely to be further debated at MEPC 78.

## 6 Impact on states and equitable transition

Consistent with earlier discussions on GHG policy, many member states expressed challenges faced by their country as a result of the transition/policy measures and therefore the need for those challenges to be addressed in the design of policy.

A key difference to earlier rounds of GHG debate is that these concerns were often conveyed alongside an expression of the need for a fuel transition and preferences for different policy measures that can achieve that transition. This engagement in solutions shows it was a more constructive discussion than previous.

There are several different types of member state challenges expressed:

- SIDS and LDC's vulnerability to climate change impacts and dependence on maritime for imports, and a need for generalised (not maritime specific) mitigation and adaptation finance
- Strong-exporter developing economies expressing concerns about general impact on trade/exports
- More remote developing economies expressing concerns about trade competitiveness
- Concerns about access to technology and investment for new fuels that enable shipping's decarbonisation
- Concerns about impacts on ports and infrastructure and need for adaptation funding

An encouraging signal for the shape of the transition was that a majority of members states mentioned equitable transition in their intervention with the only main division between calling for equitability and questioning how the concept can be implemented in the policy design work.

The chair captured this in his summary by referring to the need to fully recognise different economic and geographic positions of states and industry, and signalled expectation that work on how policies can be designed to enable equitable transition and manage disproportionate negative impacts on states will be a key part of IMO's future work.