An overview of the discussions from IMO ISWG-GHG 14
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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Executive Summary

The IMO has four critical and interrelated debates evolving in parallel, all due for MEPC 80 in July 2023:

1. How will the lifecycle GHG emissions of international shipping’s energy use be calculated? (expected for finalisation at MEPC 80, likely to receive further development this decade)
2. What are the pathway/rates of GHG reduction that IMO will aim to achieve, and what overall strategy will guide IMO’s GHG reduction efforts? (expected for finalisation at MEPC 80, unlikely to then receive any further modifications before 2028)
3. What combination of policy options (e.g. carbon/GHG pricing, fuel standard etc), and what specifics of those policy options will regulate and incentivise the agreed rates of GHG reduction (expected to move into finalisation phase at MEPC 80, may then finalise in the subsequent 1-2 years and enter into force within 2-4 years)
4. Will the Revised Strategy represent a commitment to supporting a just and equitable transition to guide the further work on mid-term measures and other relevant initiatives effectively operationalise this?

Partly because they are evolving in parallel and interrelated, it is not possible to clearly identify how any of these items might conclude. However it is also to be expected in a multilateral political negotiation, that a ‘package deal’ that achieves consensus across states with different preferences only emerges at the end of the debate process e.g. at MEPC 80.

All four debates currently remain on track for the originally intended agreements/decisions at MEPC 80 in July. The ISWG-GHG 14 meeting was not a decision point for the Member States. Progress was made in cleaning and clarifying non-contentious parts of the Revised Strategy, and refining some of the options that will be further debated and finalised in July. The outcome text for this meeting, in combination with the preferences expressed during the week, provides clues as to what might be agreed at MEPC 80 (and beyond), but the outcome may yet deviate significantly even from these options:

- The large majority of those who spoke (31/45) were clear that international shipping needed to reach zero GHG emissions by 2050 and that all of this GHG reduction would have to come from the international shipping sector - not from out of sector offsets, e.g. fundamental technology change is needed within international shipping.
- To help stimulate the uptake of new fuels, there was broad support for a fuel use target (5% by 2030), albeit with no agreement on the subset of fuels this would be applied to (low carbon / zero carbon / zero GHG / near-zero GHG)
- A majority of countries wanted a 2040 GHG reduction target to be defined, at a magnitude of GHG reduction in line with the 1.5-degree temperature goal
- Nearly all countries who spoke want to see these reductions regulated by a technical element such as a fuel standard (e.g. limit on GHG emissions reducing over time), and an economic element (e.g. a carbon price), with these policy measures designed to support the transition. Most spoke to an objective of the economic element (e.g. a carbon price) being to support just and equitable transition (e.g. revenues deployed to increase equity), but there is significant ambiguity on what this means in practice.
- There were numerous references to a just and equitable transition that leaves no one behind.

Therefore, much remains up in the air as we head towards MEPC80 with only one intersessional meeting left (the week before MEPC 80) to bring the group to agreement on:

- Levels of ambition/GHG targets, both magnitude of reductions, and scope (well-to-wake/tank-to-wake)
- Objectives and timing on the finalisation and entry into force of mid-term measures
- Specifics of how just and equitable transition will be expressed in the Revised strategy, and in the specification of the measures used to realise a just and equitable transition.
1 Introduction

ISWG-GHG 14 is the penultimate time that the IMO’s GHG working group formally meets before the July MEPC 80 meeting. MEPC 80 is a critical moment for the IMO because it coincides both with the adoption of a Revised GHG Reduction Strategy (Revised Strategy), as well as being the point that a set of policy measures key for enabling that strategy, move through to phase 3 - the stage that will see their finalisation.

The working group is where the detailed negotiations are going on to prepare a revision to the IMO’s Initial Strategy for GHG reduction, adopted in 2018, and develop a consensus on the types and features of future policy measures. ISWG-GHG 14 was not a decision point on either strategy or policy measures, but another point in the process of achieving convergence. The meeting therefore can provide some insight into how the debates will conclude at MEPC 80, however details will remain in flux until and also during that meeting.

Although this report does not have a separate section for the discussion on the IMO DCS it is worth noting that there was a discussion relating to this and that developments for the IMO DCS may be important to a future revision of the short-term measures (CII, EEXI). Although a proposal for the revision was debated, no conclusions or summary were made except an agreement to consider the matter further. This report therefore does not discuss this subject further.

This report gives an overview of discussions related to:
- The revision of the strategy, including the vision, levels of ambition including scope and the guiding principles
- Mid-term measures, including possible timelines for agreement and implementation
- Just and equitable transition

Whilst the strategy and measures items are discrete, as reported in outcomes of earlier meetings, they are viewed as connected and part of a packaged way forward.
2 Revision of the Initial Strategy

2.1 Vision

Early in the week it was proposed by the Chair to keep the text of the vision in abeyance as it would need to reflect the essence of the rest of the strategy and so may be best to come back to nearer the conclusion of the revision at ISWG15 or MEPC80. This was supported

2.2 Levels of ambition

The initial strategy contains a 2030 and 2050 carbon intensity target, and a 2050 GHG target. The numerical values of these targets provide an indication of the expected rate of decarbonisation of international shipping or the pathway. They provide the input to the stringency at which policy measures are designed, as well as a signal to industry of the rate of technology change that they can expect and need to set strategy for.

The revised strategy is considering strengthening of the existing targets, as well as adding additional targets. Prior to the meeting submissions were made from various Members on Levels of Ambition. In terms of absolute reduction emissions, the 2030, 2040 and 2050 levels are shown below in Figure 1.

![Figure 1: Ambition Levels Proposed in Submissions.](image)

Going into the meeting, submissions showed that both a group of developed economies (UK, US, Canada), and separately a group from the Pacific (Fiji, Marshall Islands, Solomon Islands, Vanuatu) had endorsed the GHG reductions of the Science Based Targets Initiative’s 1.5-aligned pathway. This pathway is derived from the IPCC’s reports, so helps to provide a climate-science derived quantification of ambition that signals clear alignment to the 1.5 temperature goal of the Paris agreement. Other countries had done their own analyses and proposed different numbers. Notably, the addition that has gained the greatest support this meeting is for a 2040 target.

The IMO is preparing a fuel/technology availability study which will provide information to the next negotiation on the viability of these reduction levels and their different pathways. From a
side-event presentation of preliminary results, targets with deep GHG reductions in 2040 and 2050 appear viable, but the highest level of 2030 reduction (54% reduction on 2008) did not.

### 2.2.1 2030 Level of Ambition targets

Around 37 members signalled preference, in either submissions or interventions, to include an absolute reduction target for 2030 in this Revised Strategy with proposals varying between giving a percentage or simply a placeholder for now. Of the speakers at the meeting, approximately an even number of countries supported a strengthened target, taken from SBTi, to the countries that supported leaving the target as it currently exists. Those member states that preferred to leave the 2030 intensity target without an accompanying absolute target pointed to the short period of time until 2030 and the challenge of any significant change at this point, as well as the risks of adverse impacts. Many also mentioned the review of short-term measures (EEXI and CII) which is due by 2026, as a source of insights that would be needed before any revision.

- Strengthening (37% GHG reduction relative to 2008) – 11
- No change to initial strategy (no absolute target, only at least 40% reduction in carbon intensity relative to 2008) – 12

The drafting that will progress to ISWG-GHG 15 uses both of these as two options for further consideration, in addition, they are also both represented as CO2/GHG intensity (40%/65%) reductions relative to 2008. This implies that these values represent the range of likely outcomes e.g. that a third value between the two may ultimately be selected.

There was also further discussion of a potential uptake target for use of new fuels by 2030. The concept behind this target was to specify a minimum amount of early adoption of new fuel that could constitute a tipping point, allowing subsequent rapid scaling and further use in the 2030’s. This concept was broadly supported by countries in a range of circumstances both at previous meetings, and also at this meeting. There are however two difference preferences:

- the language used to define fuels that this target is applied to. For example, some prefer "low/zero carbon", others prefer “zero/near-zero GHG fuels”. Both are included as options for now. Low/zero carbon risks legitimising cleaner fossil fuel (e.g. LNG), or grey hydrogen-derived fuels as contributing towards the target, which would then undermine investments into more expensive fuels that are expected to be required in the long-run and defeat the objective of this target, as it was originally conceived.
- The language used to define how the 5% is accounted (mass or energy). Fuels are not equivalent in energy density, so these result in differences depending on which is ultimately chosen.

Among the interventions and indeed the side events it was clear that alongside first movers, energy efficiency technologies are key for reducing emissions this decade and thereafter, as the fuels transition scales up, are key for reducing fuel costs for the less energy dense new zero emission fuels.

### 2.2.2 2040 Level of Ambition

2040 represents an additional milestone in the pathway, or, as it has also been referred to a checkpoint for ‘ensuring progress’, and for phasing out emissions. Between submissions and speakers during the meeting the support for a 2040 ambition being added to this Revised Strategy was around 43 Member States and whilst all countries speaking at the meeting could support the concept of a 2040 ambition, a minority thought it should only be defined in the future i.e. during the next revised strategy which would be adopted in 2028.

The largest group of countries who spoke at this meeting proposed a 96% reduction in GHG (aligning with the SBTi pathway), and a small number thought 50% reduction in GHG was
more appropriate. A large group of countries spoke to there needing to be a ‘1.5-aligned’ 2040 ambition, but were not specific about what the value should be. A range of values bounded by 50% and 96% are included in the drafting that will go to further consideration at ISWG-GHG 15.

- Added at 96% - 10 correct
- Added at 50% - 2 correct
- 1.5 aligned ambition/checkpoint - 7
- Defined in the future - 8

Notably, within the 7 speakers that support a 1.5 aligned ambition/checkpoint in the 2023 Revised Strategy are some speakers from a large group who normally coordinate their position - indicating the level of support for ‘1.5-aligned’ could be very substantial. Additionally four professional and industry associations supported the addition of a 2040 target and no industry members spoke to favour postponement to the following revised strategy in 2028.

### 2.2.3 2050 Level of Ambition

Outside of the IMO, most of the discussion and focus has been on the 2050 target, so this is perhaps the most symbolically important, even if it is also the target that is furthest in the distance and therefore the least likely to have near-term impact on the sector. This may be because the wider discourse around UNFCCC COP and national ambitions often uses “net zero by 2050” as a guiding intent, and many companies have expressed their alignment to such targets.

In both submissions and interventions around 45 member states support a zero or phase out of emissions by no later than 2050. The main differences of opinion are between those who favour ‘no later than 2050’ and those favouring a vaguer ‘aim [for] net zero GHG emissions preferably around mid-century and before the end of this century.’ While this may appear to be an issue of language only, the vague working could leave the point that emissions can reach zero up to around a decade or more later. A couple of members noted the tension between a 2050 date for the international sector being in conflict with their own national targets for 2060.

Another difference is in the definition of ‘zero’: whether it implies full GHG reduction from within shipping, or the legitimising of offsetting GHG emissions in international shipping using credits of emission reductions from outside international shipping (which net zero implies).

Of the speakers at the meeting the split on ambition fell as follows:

- Zero or phase out emissions by no later than 2050 – 29
- Net zero by 2050 but clear on no out of sector offsets - 1
- Net zero by 2050 but not clear about no out of sector offsets - 2
- Net zero around mid-century – 13

The speakers on zero or phase out of emissions by no later than 2050 included some members of a larger group of countries who normally coordinate. So while 29 Members spoke, this number likely represents a greater number of countries. The large majority who spoke supported the highest ambition definition with these parameters - zero GHG on a well-to-wake basis no later than 2050.

### 2.3 Well-to-wake or tank-to-wake, CO2 or GHG?

Previous rounds of debate have seen a divergence of opinion on whether the IMO’s targets/ambitions should be defined as well-to-wake, tank-to-wake, CO2 or GHG emissions. Similar differences in opinion occurred at this meeting. Generally, GHG framing is gaining
greater support and appearing increasingly in preference to CO2 framing. However, the term carbon intensity is still being considered for use in the context of the 2030 ambition.

Instead of defining tank-to-wake or well-to-wake at the level of individual targets (2030, 2040, 2050), the draft text that will be negotiated further uses an overarching statement that to some extent all ambitions will be applied within a well-to-wake framing. However, the specifics of the ‘extent’ (whether the ambitions ‘take into account’, ‘reflect’, ‘represent’ the well-to-wake GHG emissions) which is where there were differences between member states, and so this will need to be further discussed at the next meeting. This item’s definition is also likely to be related to the LCA guidelines which are under development in a parallel process, so along with the development of measures, will be clearest when more specifics have been finalised - hopefully at MEPC 80. Concerns remain those expressed in earlier rounds of debate and discussed in greater detail in earlier readouts.

2.4 Guiding Principles

A short discussion was conducted on the guiding principles section of the strategy. Like ambition, this is a key section. The guiding principles of the strategy will effectively guide the approach to the future GHG reduction work of IMO, in particular the development and implementation of mid and long term measures and the approach taken to disproportionately negative impacts on States and barriers and supportive measures.

Historically this has been a contentious section because there is disagreement between states on the extent to which agreements made in the parallel UNFCCC multilateral process should also apply at IMO. Revisions to this section were proposed by a number of Small Island Developing States (SIDS). The proposed amendments from the SIDS were aimed at capturing the many interventions that support having an equitable transition for the sector and embedding them, via text amendments, into this section (as well as other sections) to provide assurance to climate vulnerable and remote countries that the work of the IMO will be guided by principles that could support an equitable transition. Examples of the text suggestions include the polluter pays principle, enshrined in MARPOL and other IMO conventions, the principle of equity from the UNFCCC and the Paris Agreement and the principle of the precautionary approach. It was seen by some Members, largely developed countries as potentially opening Pandora’s box for the section - meaning that making this many modifications could undo the progress made to reach the existing text agreed in 2018. The response from other developing countries was mixed. A majority supported not reopening the section other than to surgically insert a point on safety although there are three positions worth noting:

- One developing country did note that CBDRRC and equity are different but may be complimentary, although this was during the discussions on Level of Ambition.
- One developing country gave comments as a response to the proposed amendments but equally stated that if the majority agreed that the section wouldn’t be reopened they would support the majority
- There is a general feeling from developing countries that CBDRRC and equity should not be interchangeable which aligns with how they have been previously represented in the UNFCCC and Paris Agreement texts, as well as in the proposed text from the SIDS which retains and references CBDRRC separately.

After discussion the current draft text moving forward to ISWG15 has not been significantly revised. It contains a reference to the “polluter pays principle” and a reference to safety both in square brackets.
3 Mid-term measures

ISWG-GHG 12, ISWG-GHG 13 and MEPC 79 heard convergence on the high-level description of mid-term policy measures. This was around a combination of technical elements (e.g. a fuel standard), and economic elements (e.g. a carbon/GHG levy). Previous discussion also converged around some language around the objectives of these two different types of policy, indicating what they would need to be designed to achieve:

- Promote the energy transition of shipping
- Provide the world fleet the needed incentive
- Ensure a level playing field and a just and equitable transition

ISWG-GHG 14 held two rounds of discussions on the mid-term measures. The first round discussed whether there were any developments in preferences for the different specific policy proposals, and the basket of policy measures, as well as discussing the possibility of carrying out a comparative analysis of measures. The second round focused on the subject of revenue disbursement. The revenue disbursement discussion went into some detail both of what revenues could be used for, and what framework/architecture could be used for disbursement.

All who spoke reinforced the outcomes in earlier debates on the benefits of a combination of both technical and economic elements in the mid-term measure(s). However, there were a broad range of positions in the debate on details of measures. There was no clear support amassing behind any one of the economic element proposals (e.g. ICS and China on a fund and reward scheme, Japan’s feebate concept and the Marshall Islands levy proposal). However it was noted that there are many similarities between these measure proposals. For the technical element proposal, for those who expressed any preference there was broadest support for the GHG Fuel Standard as proposed by the EU, noting the maturity of its design, however there were also questions on the complexity of the additional flexibility mechanism.

In the debate around how revenues arising from a carbon/GHG price might be disbursed, many countries indicated that it was premature to talk about revenue disbursement, and preferred to discuss this after MEPC 80. Of those who did speak on the subject, there were a mix of preferences on where the funding should be deployed. Several preferred revenues to be allocated for ‘in sector’ only (e.g. spent on international shipping), while others preferred less constraint and deployment including to support the transition to new fuels and to enable just and equitable transition.

There is much expectation outside of shipping for the imminent implementation of a carbon/GHG price. However, as well as the range of preferences above, there remains a lot of detail to be developed, not least because other IMO inputs (revision of strategy, LCA guidelines) to the policy design process are still awaited (at MEPC 80).

Many states see great value in further work done prior to ISWG-GHG 15 to compare the different measure proposals in terms of compatibility in the basket, effectiveness, feasibility and impacts on states. It looks likely that there will be a ~2 day “ad-hoc expert workshop” at some point in early May for that purpose. This may then provide some additional clarifications that can be used for the agreement of greater specifics at ISWG-GHG 15. It may be likely that the Revised Strategy will simply feature lists of candidate measures without specifics but the key for MEPC80 is that it is the planned launch of phase 3 for measure, the phase during which they will be finalised.

3.1 When might further policy, including a carbon price, be agreed?

Until this point, there has been no clarity on the date at which IMO would formally “finalise and agree” the next set of policies (mid-term measures), widely expected to be the key policies for driving deep GHG reductions and the transition away from use of fossil fuels. For now, the
uncertainty on timescale combines with the uncertainty on the specifics of what these policies will contain. The soonest some clarification of what these policies might regulate/incentivise, is the adoption of the Revised Strategy at MEPC 80, e.g. through the level of ambitions which describe the rate of GHG reductions these policies will need to enable. There is then a finalisation phase (phase 3) which is on track to start after MEPC 80, but currently has no agreed date for conclusion. However, the IMO’s process for implementing policy measures means that there is a minimum time period between when it “agrees” a policy and when the policy actually enters into force of around 2 years.

The discussions saw a range of opinions on the date to finalise and agree on individual measures. There is a general agreement that measures in the basket will likely have individual implementation dates. The earliest proposal for a measure to reach agreement is in 2024, implementation thereafter. The latest proposal would see a measure agreed by 2030 at the latest. The majority of countries that spoke preferred agreement either in 2024 or 2025. It looks likely that the final text of the Revised Strategy will include greater specification, including the timetable for the finalisation phase (phase 3) of policy measure development. As with Level of Ambition debates, industry members reiterate calls for clarity, unambiguous signals to allow for a predictable and investible transition.

Although not debated in detail during ISWG-GHG 14, there are interactions between the timelines for adopting mid-term measures and the revision of short-term measures. The latter is expected to take place in 2026, informed by results from the initial period of implementation (e.g. from 2023). The extent to which short-term measures drive GHG reductions, and the type of GHG reductions these achieve (e.g. efficiency increase and/or fuel substitution) will also be relevant to the role and specifics of mid-term measures. For stakeholders in the shipping industry needing to make decisions on the composition and operation of ships during the period 2027 onwards, it is therefore entirely possible that specifics of the two key driving regulatory forces (short-term measures and mid-term measures) may only start to clarify in 2025, and still remain significantly uncertain through much of 2026. The best guidance prior to those clarifications being the specifics agreed in the revised strategy.

4 Just and Equitable Transition

As with previous meetings there were multiple references to the transition being ‘just’ ‘equitable’ and ‘leaving no one behind’. The debates at IMO generally set up two key overarching questions for IMO to answer relating to a just and equitable transition for shipping, and ultimately, for member states:

1. Will the Revised Strategy represent a commitment to a Just and Equitable Transition and if so, what language will capture this and in what sections and,
2. How can this commitment be operationalised in the development, assessment and implementation of mid-term measures (and any other relevant future action)?

The first question relates entirely to the revision of the strategy process and will be answered by MEPC80 in July 2023. The answer to the second question is determined by the current phase 2 discussions on the basket of mid-term measures, the future phase 3 finalisation of mid term measures, and ultimately also the future work of the organisation. However, a balancing factor is that time is of the essence - the more climate impacts occur, the more inequality between states widens, burdening those with little historic responsibility and hampering sustainable development opportunities.

In terms of both submissions and discussions, the group remains largely divided on both the language and placement of any JET mention, or equivalent, in the strategy, as well as on the combination of measures and features that may support it. What is notable is that many are coming to understand that Just and Equitable are different concepts, both with great value for
the transition and that interchangeability is unhelpful due to different scopes and applications. In the context of the IMO, an equitable transition protects states from suffering widening inequalities due either to climate impacts or to mitigation measures but also promotes equitable access to opportunities and benefits of the transition. A Just Transition would currently apply at a workforce or individual level, seeking to assist in safety, training and reskilling of seafarers and dignified work, though depending on the perspective, this could also include others such as port workers and certain communities.

A collection of Pacific SIDS, representing climate vulnerable voices, called for integration of language, principles and ambition in the Revised Strategy to produce both the high ambition transition needed, while simultaneously providing assurance that they will not be unduly burdened or left behind. Notably, while calling for language for an equitable transition to be embedded throughout the strategy, they also support the inclusion of a just transition in one section. Additionally, on measures they support a basket combining an MBM putting a price on emissions to close the competitiveness gap between new and zero emission fuels with a complimentary fuel standard to provide certainty of emissions reduction. Revenue generated as a by-product of an emissions price could be used to support both shipping’s transition and climate vulnerable developing countries. They therefore support out of sector use of any revenues created by an MBM which also aligns with findings from World Bank analysis, presented in a submission, that spending both in- and out- of sector would likely be a more effective and equitable use of potential funds. The Pacific SIDS outlined their position in a series of submissions to this meeting and took to the floor to reiterate it.

From other developing countries there was a more minor but general openness to the principle of equity and the concept of an equitable transition with one developing country outside of the Pacific SIDS grouping also supporting explicit inclusion of a just and equitable transition in the strategy. Another developing country outside of the Pacific SIDS grouping suggested that equity and CBDR-RC may be complementary. However, there remain calls for further clarity on JET before its inclusion in the strategy could be widely supported. On the measures, many developing countries supported a comparative analysis of measures and remain focused on the process of the comprehensive impact assessment, fearing that mid-term measures may increase trade costs in export driven nations that could also result in long-term market losses. There is a general interest in using any potential revenues in-sector (noting above, that ‘in-sector’ does not yet have a clear definition). There is also a question over what access to revenues for out-of-sector purposes developing countries that fall outside the SIDS and LDCs bracket might have.

Developed countries, with some exceptions, signal a cautious and conditional openness to inclusion of JET in the strategy, though the preference appears to be integrating a single reference in section 5 of the strategy ‘BARRIERS AND SUPPORTIVE MEASURES; CAPACITY-BUILDING AND TECHNICAL COOPERATION; R&D’ This is indeed the only reference so far to an equitable transition in the draft text going forward. On the measures discussion, as mentioned above, it was largely felt by developed countries that it is currently premature to talk about disbursement of revenues from a possible MBM, though some members took the floor to recognise the importance of this issue in relation to developing countries, particularly SIDS and LDCs.

The current points of agreement are that no one should be left behind, a just an equitable transition for shipping is important, and that the core of any measure should be its climate effectiveness. Moving forward, it will be interesting to see how the group continues its work to answer the two questions above.