

INSIGHT BRIEF

The Tipping Point for Decarbonizing International Shipping

Revision of the International Maritime Organization's Greenhouse Gas Reduction Strategy

#eyesonimo

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July is a month that many in the Global North associate with sunny, summer holidays and school vacations with loved ones. While some are busy planning much needed time off, others are gearing up for perhaps the most important climate change meeting of this decade that will irrevocably set a path for the future of international shipping.

Located in the heart of London sits the headquarters of the International Maritime Organization (IMO), a United Nations specialized agency tasked with the difficult responsibility of ensuring the safety and security of shipping and the prevention of marine and atmospheric pollution by ships.¹ In less than two weeks, country delegates from around the world will come together for the 80th meeting of the Marine Environmental Protection Committee (MEPC 80) to revise the IMO's initial Greenhouse Gas Strategy (GHG).²

This may seem like just another climate meeting with high-level speeches about the need to act on climate change. Rest assured however, this one is different. There are many in the maritime space who are holding their breath, eagerly anticipating the outcome of this meeting that will ripple across the globe. Why is this so important? Simply put, the future of international shipping hangs in the balance.

The revision of the initial GHG Strategy will have significant implications for the industry at large, sending critical market signals on what path international shipping will take as it seeks to decarbonize and address its climate emissions. Lobbyists and negotiators alike have been hard at work in the months prior, submitting proposals and gaining allies to back key positions. Here are the four key elements that will need to be settled before the revised strategy is adopted at MEPC 80:

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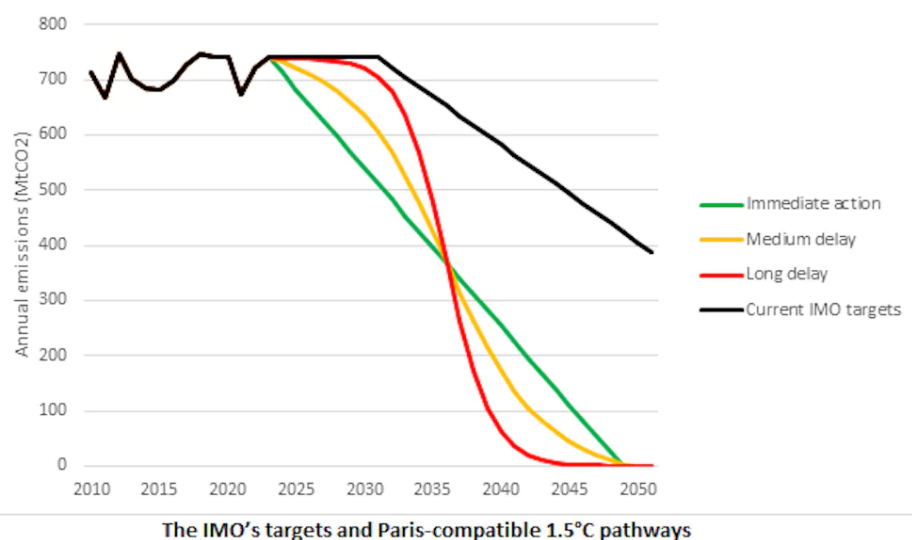


1. Ambition

The initial GHG Strategy has the ambition to “peak GHG emissions from international shipping as soon as possible and to reduce the total annual GHG emissions by at least 50% by 2050 compared to 2008 whilst pursuing efforts towards phasing them out,” a target that has been strongly criticized as not being aligned with other global climate targets, namely that of the Paris Agreement. Adopted in 2015 by world climate leaders under the United Nations Framework Convention on Climate Change (UNFCCC), countries agreed to reach a global peaking of GHG emissions as soon as possible and limit global warming to 1.5°C.³ With increasing demand for higher ambition, negotiations at MEPC 80 will need to decide on how high countries are willing to collectively aim.

New voices like the Getting to Zero Coalition have been calling for zero emissions by 2050, with some modifying this by calling for net-zero emissions. Though many mistakenly use these two interchangeably, the addition of one word is small in detail but has large implications in practice. A net-zero target means that GHGs could be emitted but would have to be made up through carbon offsetting,⁴ a caveat that some experts say is realistic for the industry while others caution that leaves the door open to less sustainable fuel options and diverts investment in decarbonization away from the maritime sector.⁵

In addition to determining the 2050 target level, negotiations will also need to address the question of interim targets. While the initial strategy contains a 2030 carbon intensity target, the revised strategy has the option to add absolute reduction targets for 2030 and 2040, and many countries have voiced their positions on this. The pace of the transition to reach the 2050 goal will be determined by a transition curve (see figure below⁶), which has implications for how quickly the industry will need to move to decarbonize. Strong interim targets will send a needed signal to take urgent short-term emission cuts and unlock green investments.⁷ Without these targets, the cost-efficiency and pace of uptake of new fuels and technologies will be severely compromised, putting unnecessary pressure on the industry in later decades.⁶ Indeed, some have estimated that \$100 billion can be added to the total cost of decarbonizing the sector per year of delay.⁸



Source: Bullock et al. (2021)

2. Scope

Two aspects regarding the scope of the updated strategy will be critical going forward: how emissions are included and what pollutants are covered. For the former, emissions can be considered either on a tank-to-wake or well-to-wake basis. A tank-to-wake framework only considers the emissions of direct fuel combustion onboard the vessel, while a well-to-wake approach considers the full emissions including upstream production of the fuel.⁹ Providing regulatory signals that encompass upstream emissions, i.e. signals that have a well-to-wake scope, is well within the IMO's remit,¹⁰ with precedence seen in the implementation of the IMO's Sulphur Cap that limited the sulphur content in fuel oil used in ships.¹¹ Should the IMO limit scope to a tank-to-wake basis, multiple fuels that still emit GHGs upstream could be scaled in their use in the coming years. Alternatively, if all GHGs are in scope on a well-to-wake basis, energy producers and maritime actors will be incentivized to switch to scalable zero-emission maritime fuels based on renewable sources of energy.

This point in particular is highly relevant for fuel and energy producers, as signals from the maritime sector for zero-emission fuels are weak at best.¹² As the sector continues to grapple with high uncertainty about incoming regulations, energy suppliers are looking towards other sectors to offtake their fuels, strengthening their bankability and scaling expected demand.¹³

The second aspect of the scope is the pollutants covered by the strategy. It is well known that CO₂ is not the only gas with climate warming potential and so, from an environmental perspective, the most effective climate policies refer to and include all GHG emissions. The initial strategy contained both a CO₂ and a GHG target, and discussions regarding the revised strategy will likely retain a similar split. However, this revision will be more heavily focused on total emission reductions and the timelines by when these should be achieved. Though many countries have voiced their support for total GHG reduction ambitions, there remain arguments in favor of limiting scope to only CO₂. The final wording of the strategy on this point will shape where the shipping industry focuses its efforts and adopts appropriate solutions.

3. Just & Equitable

With all the changes that the sector is pressured to undertake, especially towards adopting new zero-emission maritime fuels, there remains a question on how this can be done globally when not all countries are equally equipped to take on this challenge. MEPC 80 is an opportunity for 175 IMO country delegates to commit to a transition that is just and equitable, in other words a transition guided by the principle of equity and one that facilitates a just transition for the workforce. A just transition applies to workers and communities and in terms of policy will involve inter alia; re-skilling, creation of safety regulations, addressing gender balance, and the provision of dignified

work through the course of the transition.

The principle of equity is not new and has already been laid down in UNFCCC and repeated in the Paris Agreement.^{14 15} Equity requires acknowledgement that at a country level the burden of impacts from climate change and mitigation measures is unequal and that the development of approaches to alleviate such inequalities is necessary. It also requires the provision of access to opportunities in the energy transition for developing countries, Small Island Developing States, and Least Developed Countries, and an equitable distribution of benefits from climate mitigation efforts. Much of the implementation of the principle is about targeted support and strategic mobilization of financial resources. In short, the point of committing to equity is to ensure that countries or peoples with little responsibility for climate change do not suffer from efforts to address it and that over the course of the transition, inter-country inequalities decrease and sustainable development is supported.

Country delegates have varying opinions on if, and how, a just and equitable transition should be included within the text of the revised strategy. Yet this commitment was made eight years prior by the same countries in the Paris Agreement, begging the question on why there is continued resistance to translating these same elements into the IMO's revised strategy. What remains to be seen is whether the final text will reflect calls from climate vulnerable countries and align with precedent, or whether the push for a just and equitable transition will be an off-text effort, materializing only in the hopeful interventions of the climate vulnerable and in the design of the mid-term measures. Given that this strategy will be pivotal at shaping the transition, not committing to a just and equitable one at this point would be a missed opportunity, marginalizing the climate vulnerable and making the process of coming to consensus on the revised strategy more difficult.

4. Mid-Term Measure Timelines

Lastly, IMO negotiators will need to determine when mid-term measures will be agreed and implemented. Current discussions highlight the likelihood of a package or basket of measures containing both an economic measure - for example a GHG levy that would both assist in closing the price gap between fossil fuels and new zero-emission fuels as well as generating revenue that could be used to support a just and equitable transition - and a technical measure, such as a GHG fuel intensity standard which would give certainty to the energy transition for shipping by mandating the switch to zero-emission fuels and technology.¹⁶

However, it is important to note that MEPC 80 does not need to decide exactly which measures will be adopted but primarily when they will be finalized. This aligns with the Phase III of the Work Plan of the IMO to progress development of mid- and long-term GHG reduction measures.¹⁷ The decision on which measures will be adopted will take place after MEPC 80, with ongoing negotiations between IMO delegates and countries continuing later in 2023 and early 2024. Nevertheless, the time in which these measures will be adopted and

implemented will be crucial in the coming years, sending a strong signal to the industry and market that will underscore the pace of the transition. For example, if a GHG levy is decided on but won't be implemented until after 2040, the pressure on the shipping industry to switch to more sustainable fuel choices is effectively dulled. Such timelines for adopting and implementing mid-term measures will help set the framework by which the industry will need to transition.

The outcome of this meeting holds significance well beyond the maritime sector, with concerned parties from the wider climate community vested in the outcome. It is clear that the decisions on each element above will determine the future of international shipping, either sending clear and badly-needed market signals for the industry or threatening to stagnate budding progress. But more than that, some have noted the importance this meeting has on the standing of the IMO as a regulator for the maritime industry itself, at least in the case of GHG emissions. With many progressive members of the industry calling for, or already working towards a 1.5°C aligned future, the IMO risks its own relevance should it agree to anything less.

Regional and private sector activities have far outpaced policymaking at the IMO, which risks fracturing regulation of this global system as international policy struggles to keep up. Regional governments like the EU or major governments like the US and China will move ahead according to their own agendas, de facto regulating the private sector and to some extent undermining the role of the IMO.¹⁸ This is already being discussed after EU legislators provisionally agreed in March on the FuelEU Maritime regulation that aims to decrease GHG intensity of fuels used by the shipping sector over time, starting with a 2% reduction in 2025 to as much as 80% by 2050.¹⁹ Furthermore, the amendment to the EU Emissions Trading System (EU ETS) to include shipping was formally adopted earlier this year, making the EU the first jurisdiction to put an explicit carbon price on emissions from the maritime sector taking effect at the beginning of January 2024.²⁰ ²¹ Though both are landmark achievements, they have left many in the shipping industry wondering how such regional regulation will fit into developments at the IMO.

Between the four variables discussed, what's really at stake is whether or not the IMO adopts a strategy that unlocks investment and innovation, catalyzing both the uptake of energy efficiency technology and the production and use of zero-emission fuels and ships. Under a globally directive policy, a just and equitable transition is possible, guided by the certainty of a package of effective mid-



term measures. At the other end of the scale is a strategy out of sync with many progressive industry members already committed to 1.5°C pathways and with climate science itself. As a response, there would be an uptake in regional action and regulation, leading to a more complicated, costly and delayed transition which is very likely to leave countries behind and have multi-layers of disproportionate impacts. The IMO, as a global regulator, has the opportunity to push for the most efficient and effective transition, anything less undermines calls from developing countries, the climate vulnerable, and the maritime sector.

When reflecting on all of the above, one slightly overused but apropos concept comes to mind: a tipping point. Stripped back to its definition, a tipping point is “the critical point in a situation, process, or system beyond which a significant and often unstoppable effect or change takes place”.²² MEPC 80 marks a tipping point for international shipping and the IMO, setting a path for the industry that cannot be adjusted until the next revision of the GHG strategy in 2028, which many argue is too late to achieve what is needed for Paris-aligned climate goals. With all eyes on the IMO, will the outcome of this meeting constitute effective international climate policy? Check back in July.



Endnotes

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