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Path toward net-zero shipping starts to emerge as MEPC81 meeting ends

Investment in the production of green energy at scale hinges on narrowing the price gap between fossil fuels and cleaner alternatives. Photo credit: Hamara / Shutterstock.com.

Greg Knowler, Senior Editor Europe | Mar 22, 2024, 11:16 AM EDT

The closely watched meeting of the International Maritime Organization's (IMO's) Marine and Environment Protection Committee (MEPC 81) ended Friday with member states building consensus around a framework for midterm measures needed to accelerate the shipping industry's energy transition.

Negotiations between member states at the IMO's London headquarters included discussions around a global fuel standard and a greenhouse gas (GHG) pricing mechanism, the midterm measures required to decarbonize the shipping industry in line with the Paris Agreement. The MEPC agreed that a comprehensive impact assessment on the impact the proposed measures would have on member states would be finalized and submitted to MEPC 82 that is scheduled for Sept. 30 to Oct. 4.

The MEPC's next task is to work within the IMO's Net-Zero Framework — a pathway for decarbonization that aims to reach net zero "at or around 2050" — to address the details of the measures.

The World Shipping Council (WSC) said this week's MEPC 81 provided an opportunity for all parties to review and discuss the many proposals on the table relating to the midterm measures to decarbonize the shipping industry.

"As we all prepare for the MEPC 82 meeting in September, it is essential that the work on technical and financial measures is undertaken with a clear focus on how they will deliver on our shared target of decarbonization," the WSC said in a statement Friday.

Panos Spiliotis, EU transport senior manager for global shipping at the US-based non-profit Environmental Defense Fund (EDF), which is a consultative member of the IMO, described the week's negotiations as "successful in advancing talks to climate-proof global trade."

Spiliotis said in a statement Friday there was growing support among member states for a universal GHG price, but country delegates now need to develop the right policy details to incentivize shipping decarbonization.

"This, combined with a fuel standard that accounts for the full lifecycle of marine fuels and a way to accelerate investment in cleaner fuels and technologies, will ensure a just and equitable transition for the industry," he said.

Narrowing the price gap

At issue is the price differential between fossil fuels and sustainable alternatives that is now far too wide to make investment in green fuel production and infrastructure attractive. Over the past few years, there has been strong support from shipowners for an economic measure to take the form of a carbon levy to build up a multi-billion-dollar global fund aimed at reducing the cost gap.

The European Union approach was to include shipping in its emissions trading system from Jan. 1 this year but there are a range of other proposals before the IMO.

The WSC, for instance, has its own green balance mechanism and said the GHG pricing proposal was "positively received" at MEPC 81, adding the constructive input received would be "invaluable as we further develop the mechanism."

"A financial measure, or GHG pricing mechanism, needs to bridge the price gap between fossil fuels and green fuels to enable their use in the world's fleet and incentivize investment in green fuel production," the WSC said.

"Renewable fuel plants will only be built by energy providers if there is a clear demand for green fuels, and simply narrowing the price gap will not be enough to create a viable market," the group added.

Searching for the right approach

The EDF said there was strong support from many IMO member states at MEPC 81 for a universal GHG price for the shipping industry, including those in the Pacific and Caribbean islands, the European Union and Canada.

A proposal from the International Chamber of Shipping (ICS), the Bahamas and Liberia calls for ships to make a mandatory flat rate contribution per ton of CO2 equivalent (CO2e) emitted to a "Zero Emission Shipping Fund" administered by the IMO. The European Union and ICS co-sponsored a paper on the advantages of such a levy.

Japan's approach, known as a "feebate," proposes that the contributions paid by ships are used to reward the use of zero-emissions fuels and are calculated based on the resulting GHG savings.

However, China and Argentina are not advocating a price for every ton of CO2 emitted, which the EDF said was cause for concern given that there needs to be a financial incentive to drive shipping's energy transition.

The EDF noted that the China proposal could collect some revenue based on the sale of "remedial units" that ships must purchase from a fund if they cannot meet the requirements of the fuel standard.

"But this will be very limited and is in no way comparable to the economic measures (greenhouse gas pricing) or those being examined by the IMO in its comprehensive impact assessment," the EDF said.

Attention now shifts to MEPC 82 in September as the IMO member states continue to discuss the development of a fuel standard and try to settle on an acceptable economic measure. The clock is ticking, and whatever measure is agreed upon, the regulations need to be approved in 2025 as scheduled to enable their rollout across the shipping industry in 2027.

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