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NOTE

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To:	Delegations
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Subject:	Draft Union submission to the 82nd session of the International Maritime Organization's Marine Environment Protection Committee on a possible way forward on the review of the CII – Presidency compromise

Following the Shipping Working Party meeting on 8 July 2024, delegations will find attached a revised Presidency compromise proposal.

Changes compared to the previous document are indicated in **bold underline** (added text) and ~~strikethrough~~ (deleted text).

General scrutiny reservation: all delegations.

Deadline for submission to IMO: **26 July 2024**.

MARINE ENVIRONMENT PROTECTION COMMITTEE
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ENERGY EFFICIENCY OF SHIPS

A possible way forward on the review of the CII

Submitted by Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands (Kingdom of the), Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the European Commission

SUMMARY

Executive summary:	This document provides reflections and recommendations to facilitate the review of the Short-Term Measures and particularly the Carbon Intensity Indicator (CII) framework. A possible two-step approach for the review and revision of the short-term measure framework is recommended. Actions to assess the effectiveness and the need for revising the CII framework are provided as well as guiding principles for the inclusion of correction factors, voyage adjustments and modification of metrics.
Strategic direction, if applicable:	3
Output:	3.2
Action to be taken:	Paragraph 24
Related documents:	MEPC 76/7/23, 80/17/Add.1, 81/6/1, 81/6/13

Introduction

1 From 1 January 2023 ships falling under regulations 23 and 28 of MARPOL Annex VI are required to calculate the attained Energy Efficiency Existing Ship Index (EEXI), the annual operational Carbon Intensity Indicator (CII), and to assess the associated rating. For the first time, by 31 March 2024, the attained CII and the associated rating had to be reported to the Administrations and by 30 June 2024 made available through the Data Collection System (DCS). For ships rated E, a plan of corrective actions had to be submitted by 30 April 2024 to the Administration. Amendments to the DCS were adopted at MEPC 81 and require reporting of fuel consumption per consumer types, while the ship is not under way, the laden distance travelled (on a voluntary basis), the transport work and the amount of on-shore power supplied (entry into force on 1/8/2025).

2 The operational CII frameworks have been adopted at MEPC 76 with the EEXI. Together with their accompanying guidelines, the DCS and the Ship Energy Efficiency Management Plan (SEEMP), which is the main enforcement mechanism for the CII, they are considered as the main Short-Term Measures (STM). They are part of the Organization's commitment under the Initial Strategy on Reduction of Greenhouse Gas (GHG) emissions to reduce carbon intensity from international maritime transport. The Strategy was revised at MEPC 80 and the call to reduce CO_2 emissions per transport work by at least 40% by 2030, compared to 2008, as an average across international shipping, was reiterated.

3 According to regulations 25 and 28 of MARPOL Annex VI, the Organization has to conduct a review, before the 1st of January 2026, of the effectiveness of those regulations in reducing the carbon intensity of international shipping, taking into account the associated guidelines. Further, the need for corrective actions or other means of remedy, the need for enhanced enforcement mechanisms or enhanced DCS, and the need to revise the reduction factors (Z factors) and reference values in year 2019 (CII_R values) shall be assessed. In preparation of this review, MEPC 80 approved a review plan of the short-term GHG reduction measure (MEPC 80/17/Add.1, Annex 13), which lays down the scope, timeline, data sources and respective roles of the different stakeholders involved. According to the review plan, a *Data analysis stage* will be carried out by the Working Group on Air Pollution and Energy Efficiency (APEE) at MEPC 82 to be continued in a Correspondence Group. A *Convention and Guidelines review stage* will be carried out by an Intersessional Working Group, to be organised between MEPC 82 and 83, and the WG APEE at MEPC 83.

4 This document aims to facilitate the review of the STM by providing reflections and recommendations for the review of the CII measure. In particular, a possible two-step approach for the review and revision of the STM framework is suggested, including actions to assess the effectiveness and the need for revising the CII framework, as well as guiding principles for the inclusion of correction factors, voyage adjustments and modification of metrics.

Assessment of the effectiveness of the CII in reducing carbon intensity

5 An effective CII will reduce CO_2 emissions per unit of transport work over time. on an individual ship basis and on an average fleet basis. Hence, the efforts of the Committee in the review process should focus on cautiously perfecting the mechanism of this instrument. Although the reduction in carbon intensity can have an impact on total GHG emissions, but rather indirect, limited and depending on other factors (e.g. fleet size), the reduction of total GHG emissions should be the focus of the Mid-Term Measures (MTM).

Global level

6 One of the goals of the STM framework is to drive carbon intensity reductions to attain the 2030 carbon intensity goal set in the Strategy, i.e. to reduce the CO_2 per transport work by 40% by 2030, compared to 2008. The global reduction of carbon intensity per transport work for international maritime transport can be assessed using DCS data and other data sources for estimating the actual cargo transported. The comparison of the carbon intensity in 2023 with the previous years and the reference year of 2008, will allow the Organization to assess whether the trend towards lower carbon intensity is underway and what extra reduction steps are necessary to meet the 2030 carbon intensity goal. The co-sponsors are of the view that the Secretariat could carry out that analysis as soon as possible, as done for 2022 data in MEPC 81/6/1.

Ship type level

7 The first year of CII values reported to the DCS, will provide a picture of the general trends of carbon intensity per ship type and distribution of ships across the various rating labels. The review should also assess, by comparing 2019 data to 2022 and 2023 data, per ship type, the effectiveness of the CII measure to drive reductions of carbon intensity and improved ratings. The impact of correction factors should also be assessed. It is to be noted that the impact of the CII measure on carbon intensity will be difficult to disentangle from that of EEXI and other factors like economic or geopolitical influences. This analysis should be carried out by the Secretariat using DCS data as in MEPC 81/6/1.

Segment and individual ship level

8 The assessment of the effectiveness of the CII measure should also take place at the level of individual ships or segments of ship type and assess the validity of trends identified in submissions, identify what is functioning well and if there are inherent limitations or inadequacies with the measure. Analysis of individual ships located at the extremes of the spectrum can provide explanations on trends and reasons why ships perform better or worse than the mean. Document MEPC 81/6/13 (RINA) for example reports preliminary results of an analysis of the CII. Positive feedback from the industry includes increased awareness of energy efficiency within both operational/chartering and technical departments at ship owners/operators and negative feedback ranged from small remarks to questioning the CII in its current form. The study also indicates that owners are starting to take into account life cycle impact on the environment when buying new ships.

9 Other submissions and analysis reported for example that within a ship segment, some ships could compare disadvantageously for reasons not in control of Shipowners/Companies such as: the need to do more port calls, to have longer idle time (port stay, waiting time at anchor, dry dock, etc.), to carry heavier cargo, to have heated or refrigerated cargo, to maintain a certain speed (to use boil-off, to respect a schedule, because of perishable products, etc.), to navigate in bad weather or sea conditions, discrepancy in fuel consumption between steam driven vs engine driven LNG carriers, inconsistencies in correction factors, need to have and use self-unloading equipment. Some barriers to improve the CII were mentioned**,** such as the split incentive between owner and charterers, the ~~soft~~ **current** CII enforcement mechanism, no financial incentive to decrease CII, no incentives for A and B ships to improve their carbon intensity.

Availability of data and robustness of information

10 When starting the assessment of the effectiveness and the need for modifications, the Committee will have received data and analysis by Parties. However, information and feedback provided on the operation of the CII from various parties, although welcomed and useful, will be based on different sources, sometimes proprietary, and with data validated in different ways. Stakeholders representing certain interests may also be more active in communicating specific needs than others, not necessarily proportional to the severity of an issue compared to others. This will make the comparison of data difficult. The co-sponsors are of the view that a rigorous assessment can only be based on a systematic and robust analysis that accurately reflects an issue and that uses actual data and validated information. The review should consider potential limitations and biases of previous input and submissions when assessing the need for revising the CII measure. If relevant, the review should plan for the collection of data in order to conduct a later review to address specific issues.

11 A limitation of this exercise is that there is only one year of experience with the CII and Administrations and Companies might encounter initial issues relating to its implementation. The need for a period of adaptation should be taken into account while assessing the results. Furthermore, it also means that there will only be one year of CII and ratings available. In order to assess the effectiveness of the CII, at least two years of implementation should be considered. Two years of data could indicate movement between CII ratings within the different ship segments and if improvement plans and corrective actions have had any impact.

Suggested review process

12 In order to assess the effectiveness of the CII measure, it is the view of the co-sponsors that the review process should:

.1 Assess the decrease in carbon intensity of international maritime transport,

.2 Assess the decrease of carbon intensity for the different ship types and distribution of CII ratings,

.3 Assess the impact of correction factors and voyage adjustments,

.4 Identify and analyse the validity of deviating trends for concerned ship segments,

.5 Identify limitations for certain ship segments to decrease their CII and improve their rating, including barriers.

While taking into account the limitations identified in paragraphs 10 and 11 this assessment should form the basis for evaluating the need to revise the CII framework.

Assessment of the need to revise the CII framework

13 Following the assessment of the effectiveness of the CII, the Organization will have a better understanding on whether and how the CII contributes to decreasing carbon intensity and whether there are limitations to address. The Organization will then assess the need to revise the CII framework as foreseen in Regulation 28.

14 MEPC 76 adopted the *2021 Guidelines on the operational carbon intensity reduction factors relative to reference lines (CII reduction factors guidelines, G3)* which provided **reduction factors** (Z) up to 2026. MEPC 76 furthermore agreed to keep these Guidelines under review in light of experience gained with their implementation and in light of the review of CII regulations and that annual reduction rates for the period 2027-2030 should be further strengthened and developed taking into account the review. The co-sponsors are of the view that defining those reduction factors should be a priority for the review and that reduction factors after 2026 have to be consistent with the goals of the revised GHG Strategy, so that the level of ambition of the CII remains aligned to the Strategy (paragraph 3.3.2 of the Strategy).

15 During earlier discussions and submissions, stakeholders introduced very different ideas to revise the CII, ranging from minor modifications to major ones. The following examples were noted: introduce or delete correction factors, revise the reference lines to include correction factors, revise of the LNG reference line, exclude segments with very few ships, modify the metric, use different metrics for different ship types, use real cargo (instead of DWT), introduce Well-to-Wake accounting of CO_2 emissions (instead of Tank to Wake), extend the CII to all GHG (not only CO_2), include energy consumption instead of carbon emission one, take into account only the fuel used for the transport work and not for other purposes (i.e. not take into account the consumption of non-propulsion fuels), include a fleet based approach for carbon intensity, increase the ambition of the reduction factor, make the enforcement more stringent, etc. (MEPC 81/6/13).

16 In general, before making any revision to the instrument, the review process must have clearly assessed and identified a problem, limitation or barrier, based on a robust analysis and defined the magnitude of its impact. The review must then assess whether a proposed revision really solves the problem, without introducing new ones. The co-sponsors warn that conclusions based on only one year of data could lead to over-adjustments to the measures. Before making major adjustments to the instrument, the co-sponsors are of the view that there will be a need for well substantiated proposals and in-depth consideration of the implications. That will need a longer review period. An example of an adjustment that might improve the instrument, but also drastically adjust it, is the introduction of separate reporting of emissions in port and emissions while underway. Another example is to replace the transport work proxy (DWT/GT) in the attained CII with actual transport work, in order to incentivise voyages with high fill rates or to exclude ballast voyages. Otherwise, it is brought to the Committee's attention that adjusting the instrument could impact its scope and metrics, and render difficult, if not impossible, year on year comparison and progress assessment to meet the goals of the Strategy.

17 Concerning the consideration of **correction factors**, when developing the G5 guidelines, MEPC 76 instructed the correspondence group to use the assessment criteria provided in MEPC 76/7/23 as a guidance. The co-sponsors believe that the same criteria should be used if considering any additional correction factors. Those criteria are: Policy justification, Accuracy, Applicability, and Capacity to assess their effects, as defined in the paragraph 4 of MEPC 76/7/23. Any additional correction factor submitted to the attention of the Committee shall noticeably clearly identify the specific issues it aims to address and provide appropriate evidence of its effectiveness and applicability (limited administrative burden and controllability). The impact of the proposed correction factor on the overall ambition of the measure CII should be quantified and accompanied by a proposal to compensate the increase in carbon intensity, to ensure that the overall ambition of the CII measure is maintained (e.g. an increase in reduction factor, or revision of the reference line/ CII_R values). The proposal should be based on data reported under the DCS. Where DCS data is not available, any submitted data for consideration (not estimates) shall meet equivalent or high standards in terms of data quality, comparability and integrity, including third party verification.

18 To facilitate the conduct of the review, the following **guiding principles** for the consideration of modifications to the CII measure are proposed:

.1 The definition of CII reduction factors shall be consistent with the objectives of the revised GHG Strategy, so that the level of ambition of CII should be in line with it and not result into a lowering of the overall level of ambition set in the Strategy.

.2 Any additional correction factor, voyage adjustments or modifications submitted to the attention of the group shall clearly identify the specific issues it aims to address and provide appropriate evidence of its effectiveness taking into account the criteria from document MEPC 76/7/23 (as detailed in paragraph 17). The impact of the proposed correction factor/modification on the overall ambition of the measure (CII) shall be quantified and accompanied by an equivalent compensation measure to ensure that the overall ambition of the measure (CII) is maintained.

.3 The assessment of the impact of correction factors, voyage adjustments or modifications shall be based on data collected under the DCS. Where DCS data is not available, any submitted data for consideration shall meet equivalent or higher standards in terms of data quality, comparability and integrity, including third party verification.

.4 Any revision of the measure shall not result in conflicting requirements for ships.

19 The adoption of **Mid-Term Measures (MTM)** in 2025 and their entry into force in 2027, will come in addition to the existing measures (CII, EEXI and Energy Efficiency Design Index (EEDI)) and further support the attainment of the Strategy goals. When considering proposals to significantly modify the CII framework, it is therefore necessary to also look at the relationship with the MTM. Measures should reinforce each other and not give conflicting signals. Once the MTM are adopted, the need for a revision of the STM and EEDI should be assessed, as well as the **role of the CII after 2030**.

Proposed way forward for the revision

20 Based on proposed amendments to the CII, we choose to classify adjustments as Minor or Major for the review process. **Minor adjustments** should be understood as correcting manifest errors and considering the effectiveness of some the correction factors, adding only those that are strictly needed and fully justified. **Major adjustments** imply a substantial overhaul of the system, which would bring a change in the metric itself, for instance by splitting the indicator into an in-port and an underway component or moving to an energy-based one or a potential change of enforcement regime. In addition to the adjustments, the Organization must consider as a priority the determination of reduction factors for the period 2027-2030 as part of the assessment foreseen in Annex VI Regulation 28 para 11.5. These should be adopted before 1/1/2026, to ensure the continuity of the instrument.

21 From the previous paragraphs it follows that it would be extremely challenging to design and approve major adjustments to the CII within the timeline set in Regulations 25 and 28 of MARPOL Annex VI (i.e. before 1st January 2026). Drawing conclusions already in 2025, with only one year of data available could lead to misjudgements. Major adjustments will need to follow a thorough data analysis and be planned carefully, to avoid causing disturbances in the shipping sector. The Organization may want to take sufficient time to consider these consequences. Furthermore, the Organization might want to take into account the outcome of the MTM negotiations before taking such a decision.

22 The co-sponsors are therefore of the view that the Committee should consider a two-step approach, which could consist in a first step aiming to agree on reduction factors for the years 2027-2030, as well as potentially minor ~~modifications~~ **adjustments** to CII (to be completed before 1st January 2026), and of a second step to assess major ~~modifications~~ **adjustments** starting in 2026, taking into consideration the MTM adopted, 3 years of CII reporting, the continuity of the measure after 2030 and path towards the 2030 objectives of the IMO GHG Strategy.

23 The co-sponsors consider that the Committee should:

.1 Decide on the scope of the review before launching its second stage. The review should at least include the addition of the reduction factors toward 2030, but could also include minor adjustments as identified in paragraph 20.

.2 Take into account the guiding principles specified in paragrapgh 18 when considering modifications to the CII measure.

.3 Include the following actions when developing TOR for the CG:

.1 Produce an assessment of the effectiveness of the CII, as detailed in paragraph 12;

.2 Assess the need to revise the CII framework taking into account paragraphs 16 to 19, and identify the most relevant issues to be addressed;

.3 Identify proposals/submissions to be considered for adjusting the CII framework.

.4 Include the following actions when developing TOR for the ISWG:

.1 Consider relevant additional data and proposals submitted to ISWG.

.2 Identify instruments to be revised with associated a timeline.

.3 Define reduction factor for 2027-2030.

.4 If relevant, draft amendments to MARPOL and to guidelines.

.5 Identify data gaps related to prioritised issues and plan for the collection of needed data to conduct Step 2

.6 Identity elements and timeline for the second step of the review.

Action requested of the Committee

24 The Committee is invited to consider the proposals in paragraph 23 and take action as appropriate.

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