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From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	18 July 2024
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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Delegations will find attached document SWD(2024) 194 final.

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**COMMISSION STAFF WORKING DOCUMENT**

**Union submission to the International Maritime Organization's 17th Intersessional Working Group on GHG concerning a proposal on procedures and mode of work**

## **Union submission to the International Maritime Organization's 17<sup>th</sup> Intersessional Working Group on GHG concerning a proposal on procedures and mode of work**

### **PURPOSE**

This Staff Working Document contains a draft Union submission to the International Maritime Organization's (IMO) 17<sup>th</sup> Intersessional Working Group on GHG (ISWG-GHG 17). The IMO has indicatively scheduled ISWG-GHG 17 from 23 to 27 September 2024.

The draft submission proposes a single draft working document to reflect all the proposals made so far by IMO parties (including the proposal of the European Union) in the form of draft MARPOL Amendments with options and applying as much as possible the IMO Net-Zero Framework structure as a mode of work in the topic. The purpose of preparing this document is to facilitate negotiations at ISWG 17. In order to play that role, the document submitted should ideally be co-sponsored by all proponents.

The document has been prepared together with other IMO Parties (Brazil, China, Japan, Norway, the International Chamber of Shipping - ICS, the World Shipping Council - WSC) and aims to combine all the MARPOL amendments tabled so far in a single document with options that could be used as a base document for the negotiations in September.

The document fully reflects the draft MARPOL amendments that are in the annex of the Union submission to ISWG-GHG 17 suggesting a combination of GHG fuel standard and universal GHG contribution, which is currently under discussion at the Council's Working Party on Shipping. If the Shipping Working Party amends the latter draft submission, the present submission will also need to be amended to ensure consistency between the two documents.

### **EU COMPETENCE**

Regulation (EU) 2015/757 on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport, and amending Directive 2009/16/EC<sup>1</sup> establishes the legal framework for an EU system to monitor, report and verify GHG emissions and energy efficiency from shipping (MRV Regulation). The regulation aims to deliver robust and verifiable GHG emissions data, inform policy makers and stimulate the market uptake of energy efficient technologies and behaviours. It does so by addressing market barriers such as the lack of information.

The EU Climate Law<sup>2</sup> sets a binding Union climate target of a reduction of net greenhouse gas emissions—emissions after deduction of removals—by at least 55% by 2030 compared to 1990. It also includes the aim of climate neutrality by 2050 and an aspirational goal for net negative emissions after this time.

Based on the Commission's proposals of the *Fit for 55* package to reduce GHG emissions, the EU legislators adopted the following legal acts specifically targeting GHG emissions from the shipping sector:

- the revision of the EU Emission Trading System (ETS) Directive (EU) 2023/959<sup>3</sup> to extend the EU ETS to the maritime transport sector to apply as of 1 January 2024, (together with the

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<sup>1</sup> OJ L 123, 19.5.2015, p. 55.

<sup>2</sup> Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law'); OJ L 243, 9.7.2021, p. 1–17

<sup>3</sup> Directive (EU) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system, OJ L 130, 16.5.2023, p. 134–202

necessary amendments to the EU MRV Regulation,<sup>4</sup> to revise monitoring and reporting rules, also through the revision of the relevant implementing and delegated acts).

- Regulation (EU) 2023/1805<sup>5</sup> (FuelEU Maritime Regulation) focuses on the use of renewable and low-carbon fuels in the maritime sector and mandates the uptake thereof by ships calling at EU ports to apply as of 1 January 2025.

Compliance with the new obligations stemming from the extension of the EU ETS to maritime transport and the FuelEU Maritime Regulation will build on the monitoring, reporting, and verification system established by the EU MRV Regulation.

These EU acts are in turn strongly linked with the IMO measures on GHG such as the IMO Data Collection System, aiming to collect and publish information on fuel oil consumption on a per-ship basis.

Any IMO measure on GHG matters, which will require the monitoring, verification and reporting of GHG emissions from shipping, could affect the EU MRV Regulation as well as the EU ETS Directive and the FuelEU Maritime Regulation. Therefore, the EU has exclusive competence for GHG emissions in shipping.

In light of all of the above, the present draft Union submission falls under EU exclusive competence, pursuant to article 3(2) TFEU.<sup>6</sup> This Staff Working Document is presented to establish an EU position on the matter and to transmit the document to the IMO prior to the required deadline of 9 August 2024.

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<sup>4</sup> Regulation (EU) 2023/957 of the European Parliament and of the Council of 10 May 2023 amending Regulation (EU) 2015/757 in order to provide for the inclusion of maritime transport activities in the EU Emissions Trading System and for the monitoring, reporting and verification of emissions of additional greenhouse gases and emissions from additional ship types, OJ L 130, 16.5.2023, p. 105–114

<sup>5</sup> Regulation (EU) 2023/1805 of the European Parliament and of the Council of 13 September 2023 on the use of renewable and low-carbon fuels in maritime transport, and amending Directive 2009/16/EC, OJ L 234, 22.9.2023, p. 48–100

<sup>6</sup> An EU position under Article 218(9) TFEU is to be established in due time should the IMO Marine Environment Protection Committee eventually be called upon to adopt an act having legal effects as regards the subject matter of the said draft Union submission. The concept of ‘*acts having legal effects*’ includes acts that have legal effects by virtue of the rules of international law governing the body in question. It also includes instruments that do not have a binding effect under international law, but that are ‘*capable of decisively influencing the content of the legislation adopted by the EU legislature*’ (Case C-399/12 Germany v Council (OIV), ECLI:EU:C:2014:2258, paragraphs 61-64). The present submission, however, does not produce legal effects and thus the procedure for Article 218(9) TFEU is not applied.

## FURTHER CONSIDERATION OF THE DEVELOPMENT OF CANDIDATE MID-TERM MEASURE(S)

### Proposal on procedures and mode of work

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, acting jointly in the interest of the European Union, and [and other proponents]

#### SUMMARY

*Executive summary:* This document proposes using a single draft-working document containing all proposals transposed to MARPOL Amendments and applying as much as possible the IMO Net-Zero Framework structure as a mode of work in the topic, during ISWG-GHG 17 and MEPC 82.

*Strategic direction, if applicable:* 3

*Output:* 3.2

*Action to be taken:* 16

*Related documents:*

#### Introduction

1 At MEPC 81, the Committee agreed on ‘the *Illustration of a draft possible outline of the “IMO net-zero framework”*’, with the understanding that this draft could be used as a starting point for consolidating the different proposals into a possible common structure, for further development taking into account the deliberations of the Group, while noting that this would not prejudice any possible future changes to it’ (MEPC 81/16, paragraph 7.61) (“draft outline”).

2 The Committee ‘also invited interested Member States and international organizations to work together intersessionally with a view to preparing a consolidated proposal for the basket of mid-term measures for consideration at the next session, using the draft possible outline of the “IMO net-zero framework”, as appropriate.’ (MEPC 81/16, paragraph 7.62).

#### Discussion

3 Following up on the aforementioned agreements, a number of Member States and Observer Organizations have engaged in comprehensive and transparent informal

consultations open to all interested Member States and Observer Organizations. An online information session was held on May 24, 2024, followed by a hybrid informal exchange in Bonn (Germany), on June 8 and 9 2024. After the Bonn meeting, informal consultations continued through email exchange.

4 The aim of the informal meeting was to contribute to the process of assembling a draft text that includes all proposals for MARPOL amendments sent so far using, as much as possible, the structure of the IMO net-zero Framework. The participants have worked in a mode that included three main steps:

- i. The transposition of the proposals for MARPOL amendments previously made, using as much as possible the IMO Net-Zero Framework structure.
- ii. The identification of common elements and divergences across proposals, as well as potential need for additions in content and structure adjustment.
- iii. The compilation of the proposals sent so far in a single draft-working document with options as a reference for use during the informal follow-up intersessional work.

5 [Four] proposals were compiled during the aforementioned consultations, with the consent of their proponents. The resulting single draft-working document, attached herewith, has no status and does not reflect consensus among proponents. It is a living document and represents work in progress, and the proposals expressed within it may be further updated at any time. Finally, it is based on previously submitted public documents and the comments made by their authors, and is not intended to bind the proponents to proposals captured therein – whether or not co-sponsors of this submission.

6 The informal intersessional work has been widely communicated and open to all interested Members States and Observer Organizations, and the decision to co-sponsor this document, as well as to remain engaged in the exchanges, has been all along the participants' sole decision and responsibility.

7 Moreover, it is important to highlight that the formal process in the IMO, including the Comprehensive Impact Assessment, is duly observed and respected by all co-sponsors, and will be duly taken into account for the concrete design of the measure.

## **Proposal**

8 Based on the exchanges previously described and considering the procedures mentioned in paragraph 4 above, the co-sponsors suggest, as a mode of work to be observed during ISWG-GHG 17 and MEPC 82 on the topic at hand, to use the single draft working document in the annex as a base for further discussions. The co-sponsors highlight that the goal is to contribute to orderly and fruitful discussions, aiming to achieve a common text and a decision by consensus. They note that proponents may update the proposals already included in the document at any time; that it remains open for incorporating the proposals of other Member States or Observer Organizations; and that it is not intended to restrict, in any way, other views, suggestions or participation. They also recall that the results of the Comprehensive Impact Assessment are to be duly taken into account in the concrete design of the measures to be adopted.

## **Action requested of the Working Group**

9 The Group is invited to consider the views and proposal described in paragraph 8, and to take action as appropriate.

## ANNEX

### COMPILATION OF DRAFT MARPOL AMENDMENTS RECEIVED DURING INFORMAL CONSULTATIONS AHEAD OF ISWG-GHG17

into a

### SINGLE DRAFT-WORKING DOCUMENT

#### Preface

The present single draft-working document presents an example of how a compilation of different MARPOL amendments sent by proponents of mid-term measures could look like, following as much as possible the illustration of a draft possible outline of the “IMO net-zero framework” agreed at MEPC81 (MEPC 81/16/Add.1 Annex 12).

This first draft compiles text proposals on amending existing and introducing new MARPOL provisions, using the colour and format coding detailed below:

- **Black colour** indicates a) text that is common by all proponents so far and b) current MARPOL provisions;
- Underline and strikethrough indicate amendments to current MARPOL provisions.
- **Beige colour** indicates draft MARPOL amendments of **participant Member States and observer Organizations who are not proponents so far**, sent ahead of the Bonn informal consultations
- **Blue colour** indicates draft MARPOL amendments by the **European Union + Japan**, sent ahead of the Bonn informal consultations, as updated;
- **Brown colour** indicates draft MARPOL amendments by **Clean Shipping Coalition (CSC)**, sent ahead of the Bonn informal consultations;
- **Light Blue colour** indicates draft MARPOL amendments suggested by **Solomon Islands**, sent during the informal consultations prior to ISWG-GHG 17 and MEPC 82.
- **Orange colour** indicates draft MARPOL amendments by **World Shipping Council (WSC)**, sent ahead of the Bonn informal consultations, and updated post-meeting primarily to incorporate the Green Balance Mechanism “fee” and “allocation’ algorithms and other consequential amendments.
- **Pink colour** indicates text that is common amongst **multiple proponents** so far;
- **Purple colour** indicates draft MARPOL amendments by the **International Chamber of Shipping**, sent ahead of the Bonn informal consultations;
- **Red colour** indicates draft MARPOL amendments of the **IMSF&F**, sent ahead of the Bonn informal consultations;
- **Coloured asterisks** within [pink square brackets] indicate the proponents of text that is common amongst multiple proponents so far, following the above colour-coding.
- **[ OPTION X ]** indicates different approaches by the proponents in the proposed MARPOL amendments that cannot be further compiled at this stage.
- “Editor’s Note” in footnotes explain editorial interventions in order to allow compilation of the different texts proposed by proponents.
- { Editor’s Notes / Structural Notes } within text indicate cross-referencing to another headings where the proponent has suggested a provision of similar substance or a participant has suggested a structural change in the present outline, following the above colour-coding.

- Underline and italics indicate editorial interventions on a) updated cross-referencing and b) paragraph re-structuring in order to allow compilation of the different texts proposed by proponents.

## Chapter 1 – General

### .1 Definitions (regulation 2)

#### [ Regulation 2

#### Definitions

For the purpose of chapter [4bis] [4 and 5] [5.1 of this Annex] :

1 [\*\*\* Fuel means any energy] [including wind and solar power] [or energy carrier used on board a ship] [\*\* used for propulsion or for the operation of any equipment on board a ship] [, whose greenhouse gas intensity and sustainability attributes can be measured and certified using the guidelines on life cycle GHG intensity of marine fuels (LCA guidelines, Resolution MEPC.376(80))];

2 [\*\* Greenhouse gas (GHG) emissions means any release of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) into the atmosphere; ]

3 [\*\* CO<sub>2</sub> equivalent (CO<sub>2eq</sub>)] means the metric [measure] used to [compare] [compute] the emissions [of] [from] CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O on the basis of their 100 year global-warming potential (GWP), by converting the amounts of CH<sub>4</sub> and N<sub>2</sub>O to the equivalent amount of CO<sub>2</sub> [with the same global warming potential]; ]

4

**[OPTION 1: \*\* GHG fuel intensity (GFI) means the [mass] [amount] of GHG emissions per unit of energy used on board a ship [established on a Tank-to-Wake basis] [on a Well-to-Wake basis] in accordance with the guidelines on life cycle GHG intensity of marine fuels (LCA guidelines, Resolution MEPC.376(80), expressed in terms of grams of CO<sub>2eq</sub> per unit of energy (gCO<sub>2eq</sub>/MJ); ]**

#### **[OPTION 2:**

**.1 GFI means the GHG Fuel Intensity standard applicable in a calendar year<sup>7</sup>. ]**

[.5 Target annual GHG Fuel Intensity (target annual GFI), expressed in grams of CO<sub>2</sub> equivalent per MJ, means the target value of the average GHG intensity of all fuels used by international shipping as a whole for a given calendar year determined by the Organization.]

5<sup>8</sup> [\*\*\* Attained [annual GHG intensity (attained annual] GFI [), expressed in grams of CO<sub>2</sub> equivalent per MJ, means the average GHG intensity of all fuels used by a ship in a given calendar year after adjustment based on sustainability categorisation.] [means the actual annual verified Well-to-Wake (WtW) GFI value achieved by a ship [, or group of ships] for a calendar year, based on the energy of the fuels consumed];

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<sup>7</sup> The Green Balance Mechanism proposal is constructed on the assumption that the Committee has adopted a trajectory for the GFI standard that increases in stringency from 2027 to meet the 2050 GHG emissions objective set by the Organization in the 2023 IMO GHG Strategy (MEPC.377(80)).

<sup>8</sup> *Editor's Note: WSC proposes this provision under sub-paragraph 2.*

.3 Reference GFI means the Attained GFI for the fossil-derived fuel(s) with no reduction in GHG-intensity on a WtW basis.<sup>9</sup> ]

## 6

[.11 Compliance balance means the measure of a ship's compliance status, expressed in CO<sub>2</sub> equivalent (CO<sub>2eq</sub>), with regard to the GHG emissions corresponding to the target annual GHG fuel intensity;

.12 Initial compliance balance means the compliance balance of ship before any transfer of compliant units in the reporting period;

.13 Final compliance balance means the compliance balance of ship after all transfer of compliant units have been completed for the reporting period;

.14 Deficit Unit (DU) means a deficit representing one tonne of GHG emissions, expressed in CO<sub>2</sub> equivalent (CO<sub>2eq</sub>), over-emitted by the use of any fuel during a reporting period beyond the limit for the yearly average GHG intensity of fuels used on board;]

[.5 Compliance surplus means the amount of over-compliance by a ship with the required annual GFI mentioned in regulation X5.2 of this Annex, expressed in tonnes of CO<sub>2eq</sub> on a Well-to-Wake basis, in accordance with the guidelines to be developed by the Organization<sup>10</sup>;

.6 Compliance deficit means the amount of under-compliance by a ship with the required annual GFI mentioned in regulation X5.2 of this Annex, expressed in tonnes of CO<sub>2eq</sub> on a Well-to-Wake basis, in accordance with the guidelines to be developed by the Organization<sup>11</sup>; ]

[.7 Compliance Unit is a general reference to the Surplus Unit, Deficit Unit or Remedial Unit;]

7<sup>12</sup> [**\*\* Surplus [Compliance] Unit [(SU)] [(SCU)]** means a credit [issued by the GHG fuel intensity Registry established under regulation X8 (the GFI Registry) for use by the ship in accordance with regulation X7.2,] representing [a compliance surplus of] one tonne of GHG emissions, expressed in CO<sub>2eq</sub>, [saved by the use of compliant fuels during the reporting period with below the limit for the annual average GHG intensity of fuels used on board] [and generated by the use of fuels with an average GFI below the required annual GFI for that year, used on board during a reporting period];]

8<sup>13</sup> [**\*\* Remedial [Compliance] Unit [(RU)] [(RCU)]** means a credit issued by the [GHG fuel intensity Registry established under regulation X8 (the GFI Registry),] [Sustainable Shipping Fund] for use by the ship to remedy a [Deficit Unit during the reporting period] [compliance deficit of one tonne of GHG emissions, expressed in CO<sub>2eq</sub>, produced by fuel

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<sup>9</sup> For this example, the reference GFI value used is 91.16 grams CO<sub>2e</sub> per megajoule (gCO<sub>2e</sub>/MJ) on a WtW basis. This value may be specified to match past IMO GHG Studies, or other value, and can be considered the baseline for calculating the Global Balance Mechanism's fees and allocations.

<sup>10</sup> see Guidelines on life cycle GHG intensity of marine fuels (LCA guidelines, Resolution MEPC.376(80)) and see draft Guidelines for the calculation of the attained Greenhouse Gas Fuel Intensity, as set out in Annex 1 to ISWG-GHG 16/2/7 (Austria et al.), updated as necessary.

<sup>11</sup> see Guidelines on life cycle GHG intensity of marine fuels (LCA guidelines, Resolution MEPC.376(80)) and see draft Guidelines for the calculation of the attained Greenhouse Gas Fuel Intensity, as set out in Annex 1 to ISWG-GHG 16/2/7 (Austria et al.), updated as necessary.

<sup>12</sup> *Editor's Note: EU+JPN proposes this provision under sub-paragraph 10.*

<sup>13</sup> *Editor's Note: EU+JPN proposes this provision under sub-paragraph 11.*

with an average GFI above the required annual GFI for that year, used on board during a reporting period];]

[.14 Compliance pool means a pool participated by more than one ship for compliance purposes;

.15 Pool compliance balance means the sum of the compliance balances of all ships included in the pool];

[.7 Annual GHG fuel contribution means the amount of [units of account] made by ships to the IMO Net-Zero Fund in accordance with regulations X10 and X11 of this Annex;

.8 Annual fuel reward means the amount of monetary reward made by the IMO Net Zero Fund to ships in accordance with regulation X14 of this Annex.]

[.4 Green Balance Fee means a financial fee applied to a ship or group of ships];

.5 Green Balance Fund means the depository of Green Balance Mechanism funds generated by the collection of the Green Balance Fee;

.6 Green Balance Allocation means the amount of funds allocated (distributed) to a ship using fuels at, or superior to, the Green Balance GFI threshold; and]

## 10

[.9 Eligible fuel means the type of fuel that qualifies for the annual fuel reward, determined in accordance with the guidelines to be developed by the Organization<sup>14</sup>];

[.16 Sustainable fuel means any fuel that fully meets the sustainability criteria developed by the Organization.]

## 11

[.12 Company means the owner of the ship or any other organization or person such as the manager, or the bareboat charterer, who has assumed the responsibility for operation of the ship from the owner of the ship and who on assuming such responsibility has agreed to take over all the duties and responsibilities imposed by the International Management Code for the Safe Operation of Ships and for Pollution Prevention, as amended;]

[.7 Shipping Company means the entity responsible for compliance with the Green Balance Mechanism including making payment of fees to, and receiving allocations from, the Green Balance Fund;]

[.8 Fee Zone is where fuels or energy sources used by a ship, or group of ships, result in an Attained GFI less than 65% reduction from Reference GFI. When the required GFI reaches the 65% reduction threshold, Allocation Zone 2 will be the only zone eligible for a Green Balance Allocation and the Fee Zone will change to where fuels or energy sources result in an Attained GFI with less than 80% reduction from Reference GFI;

.9 Allocation Zone 1 is where fuels or energy sources used by a ship, or group of ships, result in an Attained GFI equal to or better than a 65% reduction from Reference GFI but less than 80%; and

.10 Allocation Zone 2 is where fuels or energy sources used by a ship, or group of ships, result in an Attained GFI equal to or better than an 80% reduction from Reference GFI.]

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<sup>14</sup> Guidelines to be developed by the Organization on the determination of eligible fuels under the annual fuel reward.

[.13 Unit of account means the Special Drawing Right as defined by the International Monetary Fund. The amount mentioned in regulations X7.6, X10.2, X11.2 and X14.2 shall be converted into national currency on the basis of the value of that currency by reference to the Special Drawing Right on the date of establishment of the IMO Net Zero Fund under [regulation X13]. The value of the national currency, in terms of the Special Drawing Right, of a State which is a member of the International Monetary Fund shall be calculated in accordance with the method of valuation applied by the International Monetary Fund in effect on the date in question for its operations and transactions. The value of the national currency, in terms of the Special Drawing Right, of a State which is not a member of the International Monetary Fund shall be calculated in a manner determined by that State, in such a way as to express in that national currency as far as possible the same real value for the amounts in regulations X7.6, X10.2, X11.2 and X14.2 as would result from the application of the first three sentences of this definition. States shall communicate to the Organization the manner of calculation at the time of adoption of the relevant regulations.<sup>15</sup> ]

## Chapter 2 – Survey, certification and means of control

### .2 Surveys (regulation 5)

[ 4<sup>16</sup> **\*\* Ships to which [both or either chapters 4 and] [chapter] 5 of this Annex appl[ies] [y] shall [also] be subject to the surveys specified below, [taking into account the guidelines adopted] by the Organization:**<sup>17</sup> ]

- [.1 An initial survey carried out before a new ship<sup>18</sup> is put in service and before the Confirmation of compliance is issued. The survey shall verify that GHG fuel intensity data collection and report plan required by regulation X4 of this Annex is on board; and]
- [.2 For existing ships, the Administration shall ensure that the GHG fuel intensity data collection and report plan comply with regulation X4 of this Annex. This shall be done prior to 1 January [2027]. Confirmation of compliance shall be provided to, and retained on board, the ship.]

[.6bis The Administration shall ensure that, for each ship to which regulations X4 applies, the SEEMP complies with regulation 26.4 of this Annex. This shall be done prior to 1 January [2027]. Confirmation of compliance shall be provided to, and retained on board, the ship; ]

### .3 Certificates and Statements of Compliance (regulation 6)

[ *Issue or endorsement of Certificates and Statements of Compliance related to fuel oil consumption [and GFI data] reporting, ~~and~~ operational carbon intensity rating **\*\***, [and] the [annual] GHG fuel intensity [and the annual GHG fuel contribution] [and maritime GHG emissions pricing mechanism] [and the International Greenhouse Gas Mechanism] [and the Green balance Mechanism]* ]

[6 Upon receipt of reported data pursuant to regulation 27.3 of this Annex ~~and attained annual operational CII pursuant to regulation 28.2 of this Annex~~<sup>19</sup>, the Administration or any organization duly authorized by it shall:

<sup>15</sup> *Editor's Note: EU+JPN proposes "[...]" after sub-paragraph 11.*

<sup>16</sup> *Editor's Note: EU+JPN proposes this provision as amending current paragraph 4.*

<sup>17</sup> *Editor's Note: EU+JPN proposes "[...]" after paragraph 4.*

<sup>18</sup> A unified interpretation will be needed to clarify the scope of the new ships in this context.

<sup>19</sup> The draft amendments to Appendix IX (Annex 9 to MEPC 80/17/Add.1) are expected to be adopted by MEPC81, in which document all CII-related data will be included. Therefore, a reference to regulation 28.2

- .1 determine whether the data has been reported in accordance with regulation 27 of this Annex;
- .2 verify that the attained annual operational CII, the attained annual GFI and the initial compliance balance reported is based on the data submitted in accordance with regulation 27 of this Annex;
- .3 based on the verified attained annual operational CII, determine the operational carbon intensity rating of the ship in accordance with regulation 28.6 of this Annex;
- .4 issue a Statement of Compliance related to fuel oil consumption and GFI data reporting and operational carbon intensity rating to the ship no later than five months from the beginning of the calendar year, upon determination and verification pursuant to regulations 6.6.1 to 6.6.3 of this Annex. In every case, the Administration assumes full responsibility for this Statement of Compliance. [...]

<sup>20\*\*</sup> **Statement of Compliance related to the [annual] GHG fuel intensity**

9 Upon receipt of the [verified data for the reporting period pursuant to regulations 6.6 of this Annex and the Confirmation of Clearance issued by the GHG fuel intensity Registry pursuant to regulations X9 of this Annex] [attained annual GFI pursuant to regulation X4.2 of this Annex], the Administration, or any organization duly authorized by it, shall:]

**[OPTION 1:**

- .1 verify that final compliance balance of the ship has achieved zero in accordance with regulation X7 of this Annex;]

**[OPTION 2:**

- .1 verify that the attained annual GFI reported is based on the data submitted in accordance with regulation X4.2 of this Annex;
- .2 determine whether the attained annual GFI of each ship is equal to, higher or lower than the required annual GFI in accordance with regulation X5.3 of this Annex;
- .3 for ships to which regulation X7 applies, verify that an adequate amount of Surplus Compliance Units or Remedial Compliance Units, as applicable, has been cancelled by the GFI Registry in accordance with regulation X7.3 of this Annex to remedy the compliance deficit of that reporting period; ]
- .4 verify that the annual administration fee according to regulation [X9.2] [X8.2 ] of this Annex has been paid; and<sup>21</sup>
- .5 issue a Statement of Compliance related to the [annual] GHG fuel intensity [to the ship] no later than [six] [ten] months from the beginning of the calendar year, upon [determination and] verification pursuant to paragraphs [9.1 and 9.2] [1 to 4] of this regulation. In every case, the Administration assumes full responsibility for this Statement of Compliance.]

[<sup>10</sup><sup>22</sup> In the event of any transfer of a ship addressed in regulations 27.4, 27.5 or 27.6 completed after 1 January 2027, the Administration or any organization duly authorized by it shall endorse the valid Statement of Compliance issued pursuant to paragraph 9 of this regulation without further verification.]

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would be redundant.

<sup>20</sup> *Editor's Note:* IMSF&F and EU+JPN propose for new title and paragraph 9 to be inserted after current paragraph 8.

<sup>21</sup> *Editor's Note:* EU+JPN does not include "and" after sub-paragraph 2.

<sup>22</sup> *Editor's Note:* IMSF&F proposes new paragraph 10 to be inserted after new paragraph 9.

### **[<sup>23</sup> Statement of Compliance related to the annual GHG fuel contribution**

10 Upon receipt of the electronic confirmation of receipt of the annual GHG fuel contribution pursuant to regulation X11.4, including in cases where the annual GHG fuel contribution is made pursuant to regulations X10.3 and X11.2, the Administration or any organization duly authorized by it shall:

.1 verify that the annual GHG fuel contribution is based on the data verified in accordance with regulation 6.9 of this Annex;

.2 determine that the annual GHG fuel contribution corresponds to the well-to-wake GHG emissions produced by the fuel used on board the ship; and

.3 issue a Statement of Compliance related to the annual GHG fuel contribution no later than [eight] months from the beginning of the calendar year, upon verification pursuant to paragraph 10.1 of this regulation. In every case, the Administration assumes full responsibility for this Statement of Compliance.]

### **[<sup>24</sup> Statement of Compliance – [Maritime GHG Emissions Pricing Mechanism] [International Greenhouse Gas Mechanism (IGGM)]**

9 [Pursuant to regulation 38.9 of this Annex,] upon receipt of the [IGGM] Annual Account Statement [pursuant to regulation xx of this Annex] the Administration, or any organization duly authorized by it, shall determine whether [the annual GHG fee] [contribution] has been made [via the maritime GHG emission pricing mechanism] [to the GHGF] in accordance with [regulation 38.1 of] this Annex by [verifying] [checking] whether the information provided in the [IGGM] Annual Account Statement is consistent with the ship's fuel oil consumption data pursuant to regulation [27.3] [xxxx] of this Annex and, if so, issue a Statement of Compliance related to the [maritime GHG emission pricing mechanism] [IGGM] no later than six months from the beginning of the calendar year. In every case, the Administration assumes full responsibility for this Statement of Compliance.

10 With respect to a ship not registered in a Party to this Annex, the Statement of Compliance related to the [maritime GHG emission pricing mechanism] [IGGM] may be issued by the appropriate Administration of any Party to this Annex [or any organization duly authorized by it], if satisfied that the [GHG fee] [contribution] required under regulation [38.1] [xx] of this Annex has been made [via the maritime GHG emission pricing mechanism] [to the GHGF] for the previous calendar year for that ship [and corresponds to consumption data reported in accordance with MEPC.1/Circ.871]. A<sup>25</sup> Statement of Compliance so issued shall have the same force and receive the same recognition as a Statement of Compliance issued under paragraph 9 of this regulation.]

### **[<sup>26</sup> Statement of Compliance – Green Balance Mechanism**

9 Pursuant to regulation X5.5 of this Annex, upon receipt of the Confirmation Statement, the Administration, or any organization duly authorized by it, shall determine whether the applicable fee has been paid to the Green Balance Fund in accordance with regulation X5.1 of this Annex, and if so, issue a Statement of Compliance related to the Green Balance Mechanism no later than six months from the beginning of the calendar year. In every case, the Administration assumes full responsibility for this Statement of Compliance.

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<sup>23</sup> *Editor's Note:* EU+JPN proposes for new title and paragraph 10 to be inserted after new paragraph 9.

<sup>24</sup> *Editor's Note:* ICS and SI propose for new title and paragraphs 9 and 10 to be inserted after current paragraph 8.

<sup>25</sup> *Editor's Note:* SI proposes sentence to begin "Such a Statement of Compliance so issued" instead of "A Statement of Compliance so issued".

<sup>26</sup> *Editor's Note:* WSC proposes new paragraphs 9, 10 and 11 to be inserted after current paragraph 8.

10 Pursuant to regulation X6.5 of this Annex, upon receipt of the Confirmation Statement, the Administration, or any organization duly authorized by it, shall determine whether an allocation has been made from the Green Balance Fund in accordance with regulation X6.1 of this Annex, and if so, issue a Statement of Compliance related to the Green Balance Mechanism no later than six months from the beginning of the calendar year. In every case, the Administration assumes full responsibility for this Statement of Compliance.

11 With respect to a ship not registered in a Party to this Annex, the Statement of Compliance related to the Green Balance Mechanism may be issued by the appropriate Administration of any Party to this Annex, if satisfied that for the previous calendar year for that ship the fee required under regulation X5.1 of this Annex has been paid to the Green Balance Fund or the allocation required under regulation X6.1 of the Annex has been made by the Green Balance Fund. A Statement of Compliance so issued shall have the same force and receive the same recognition as a Statement of Compliance issued under paragraph 9 or paragraph 10 of this regulation.] ]

#### **.4 Form of certificates and Statements of Compliance (regulation 8)**

[ *Form of Certificates and Statements of Compliance ~~related to fuel oil consumption reporting, and operational carbon intensity rating,~~ [the annual GHG fuel intensity and the annual GHG fuel contribution] [and the maritime GHG emissions pricing mechanism] [and the International Greenhouse Gas Mechanism (IGGM)] [and the Green Balance Mechanism]*

[\*\*<sup>27</sup> **Statement of Compliance related to the [annual] GHG fuel intensity**

\*\* 3bis The Statement of Compliance pursuant to regulation 6.9 [of this Annex] shall be drawn up in a form corresponding to the model given in appendix X[bis] to this Annex and shall be at least in English, French or Spanish. If an official language of the issuing Party is also used, this shall prevail in case of a dispute or discrepancy.]

[<sup>28</sup> **Statement of Compliance related to the annual GHG fuel contribution**

3ter The Statement of Compliance pursuant to regulation 6.10 of this Annex shall be drawn up in a form corresponding to the model given in appendix Xbis to this Annex and shall be at least in English, French or Spanish. If an official language of the issuing Party is also used, this shall prevail in case of a dispute or discrepancy.]

[<sup>29</sup> **Statement of Compliance – Maritime GHG Emissions Pricing Mechanism**

5 The Statement of Compliance pursuant to regulations 6.9 and 6.10 of this Annex shall be drawn up in a form corresponding to the model given in appendix [XII] to this Annex and shall at least be written in English, French or Spanish. If an official language of the issuing country is also used, this shall prevail in case of a dispute or discrepancy.

#### **Feebate Eligibility Confirmation Statement – Maritime GHG Emissions Pricing Mechanism**

6 Pursuant to regulation 39.4 of this Annex, the Feebate Eligibility Confirmation Statement shall be drawn up in a form corresponding to the model given in appendix [XIII] to this Annex and shall at least be written in English, French or Spanish. If an official language of the issuing country is also used, this shall prevail in case of a dispute or discrepancy.]

[<sup>30</sup> **Statement of Compliance – International Greenhouse Gas Mechanism**

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<sup>27</sup> *Editor's Note: IMSF&F and EU+JPN propose new title and paragraph 3bis to be inserted after current paragraph 3.*

<sup>28</sup> *Editor's Note: EU+JPN proposes for new title and paragraph 3ter to be inserted after new paragraph 3bis.*

<sup>29</sup> *Editor's Note: ICS proposes for new titles and paragraphs 5 and 6 to be inserted after current paragraph 4.*

5 The Statement of Compliance pursuant to regulations xx of this Annex shall be drawn up in a form corresponding to the model given in appendix [--] to this Annex and shall at least be written in English, French or Spanish. If an official language of the issuing country is also used, this shall prevail in case of a dispute or discrepancy.

9. If a state is notified that a vessel that is in transition though the state's national/territorial waters/ EEZ is not in compliance with this chapter it may prevent the passage of the non-compliant vessel until compliance/payment is documented.]

#### [<sup>31</sup> **Statement of Compliance – Green Balance Mechanism**

5 The Statement of Compliance pursuant to regulations 6.9, 6.10 and 6.11 of this Annex shall be drawn up in a form corresponding to the model given in appendix [XII] to this Annex and shall at least be written in English, French or Spanish. If an official language of the issuing country is also used, this shall prevail in case of a dispute or discrepancy.] ]

## **.5 Duration and validity of Certificates and Statements of Compliance (regulation 9)**

[ *Duration and validity of Certificates and Statements of Compliance ~~related to fuel oil consumption reporting, and operational carbon intensity rating~~ [, the annual GHG fuel intensity and the annual GHG fuel contribution] [and maritime GHG emissions pricing mechanism] [and the International Greenhouse Gas Mechanism] [and the Green Balance Mechanism]*

#### [\*\* <sup>32</sup> **Statement of Compliance related to the [annual] GHG fuel intensity**

13 The Statement of Compliance issued pursuant to regulation 6.9 of this Annex shall be valid for the calendar year in which it is issued and for the first [six] [ten] months of the following calendar year. [The duration and validity of the Statement of Compliance endorsed pursuant to regulation 6.10 of this Annex shall be kept unchanged.] All Statements of Compliance shall be kept on board for at least five years.]

#### [<sup>33</sup> **Statement of Compliance related to the annual GHG fuel contribution**

14 The Statement of Compliance issued pursuant to regulation 6.10 of this Annex shall be valid for the calendar year in which it is issued and for the first [eight] months of the following calendar year. All Statements of Compliance shall be kept on board for at least five years.]

#### [<sup>34</sup> **Statement of Compliance – Maritime GHG Emissions Pricing Mechanism**

13 The Statement of Compliance issued pursuant to regulations 6.9 and 6.10 of this Annex shall be valid for the calendar year in which it is issued and for the first six months of the following calendar year. All Statements of Compliance shall be kept on board for at least five years.]

#### [<sup>35</sup> **Statement of Compliance – International Greenhouse Gas Mechanism**

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<sup>30</sup> *Editor's Note: SI proposes for new title and paragraph 5 to be inserted after current paragraph 4.*

<sup>31</sup> *Editor's Note: WSC proposes for new title and paragraph 5 to be inserted after current paragraph 4.*

<sup>32</sup> *Editor's Note: IMSF&F and EU+JPN propose for new title and paragraph 13 to be inserted after current paragraph 12.*

<sup>33</sup> *Editor's Note: EU+JPN proposes for new title and paragraph 14 to be inserted after new paragraph 13.*

<sup>34</sup> *Editor's Note: ICS proposes for new title and paragraph 13 to be inserted after current paragraph 12.*

<sup>35</sup> *Editor's Note: SI proposes for new title and paragraph 13 to be inserted after current paragraph 12.*

13 The Statement of Compliance pursuant to regulations xx and xx of this Annex shall be valid for the calendar year in which it is issued and for the first six months of the following calendar year. All statements shall be kept onboard for at least 5 years.]

### <sup>36</sup> Statement of Compliance – Green Balance Mechanism

13 The Statement of Compliance issued pursuant to regulations 6.9, 6.10 and 6.11 of this Annex shall be valid for the calendar year in which it is issued and for the first six months of the following calendar year. All Statements of Compliance shall be kept on board for at least five years.] ]

## .6 Port State control (regulation 10)

[ <sup>37</sup> In relation to chapter [s 4 and] [\*\*\*5] [6] [5.1] of this Annex, any port State inspection [\*\*\* may verify] [\*\* shall be limited to verifying] [, whether the ship has a receipt for payment of the contribution in accordance with regulation xx and as indicated in the corresponding bunker delivery to the ship, and], when appropriate, that there is a valid Statement of Compliance related to [fuel oil consumption and GFI data reporting and operational carbon intensity rating, a valid Statement of Compliance related to GHG Fuel Intensity, an International Energy Efficiency Certificate and a Ship Energy Efficiency Management Plan on board,] [the annual GHG fuel intensity and a valid Statement of Compliance related to the annual GHG fuel contribution] [the IGGM on board [the maritime GHG emissions pricing mechanism on board] [the Green Balance Mechanism] in accordance with article 5 of the present Convention. [\*\* [If no appropriate receipt for payment of the contribution to the GHGF or no valid Statement of Compliance related to the GHGF is on board the ship] [In the event where it is found that the Statements above are not in order] , the Party shall [take such steps as to] ensure that the ship does not sail until the situation has been brought to order in accordance with the requirements of [Chapter 5] [this Annex].] [Each Party to this Annex shall ensure that the above Statements are in force in respect of any ship, irrespective of its flag, entering or leaving a port in its territory, or arriving at or leaving an off-shore terminal in its territorial sea.]

[6 Notwithstanding the requirements in paragraph 5 of this regulation, any port State inspection may inspect whether the Ship Energy Efficiency Management Plan is duly implemented by the ship in accordance with regulations s 28, X4 and X5 of this Annex.]

[8 If a Party becomes aware that a ship is operating without appropriate documentation for payment of the contribution to the GHGF or no valid Statement of Compliance it shall notify the flag state and any known future port of call.] ]

## Chapter 4 – Regulations on the carbon intensity of international shipping

### .7 SEEMP (regulation 26)

[ [OPTION 1: No text.]

[OPTION 2:

<sup>38</sup> In the case of a ship to which Chapter 5 applies:

.1 On or before 1 January [2027], the SEEMP shall include:

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<sup>36</sup> *Editor's Note:* WSC propose for new title and paragraph 13 to be inserted after current paragraph 12.

<sup>37</sup> *Editor's Note:* IMSF&F proposes this provision under current paragraph 5; EU+JPN proposes this provision under new paragraph 5bis; ICS and WSC propose this provision under new paragraph 7.

<sup>38</sup> *Editor's Note:* EU+JPN proposes “[additional information to be included as necessary]” under subparagraph 2.

.1 a description of the methodology that will be used to collect the data required by regulation 27 and to calculate the ship's attained annual GFI required by regulation X4 of this Annex; and

.2 the processes that will be used to report the data required by regulation 27 to the ship's Administration.<sup>39</sup> ] ]

## **.8 Data Collection System (regulation 27)**

[ 1 From calendar year ~~2027~~ 2019, each ship to which both or either chapters 4 and 5 apply of 5,000 gross tonnage and above shall collect the data specified in Part A of appendix IX to this Annex, for that and each subsequent calendar year or portion thereof, as appropriate according to the methodology included in the SEEMP.

1bis Notwithstanding the requirements in paragraph 1 of this regulation, from calendar year [2027], each ship of [400] [5,000] gross tonnage and above shall additionally collect the data specified in Part B of appendix IX to this Annex, for that and each subsequent calendar year or portion thereof, as appropriate according to the methodology included in the GHG fuel intensity data collection and report plan. ]

2 Except as provided for in paragraphs 4, 5, ~~and~~ 6 and 6bis of this regulation, at the end of each calendar year, the ship shall aggregate the data collected in that calendar year or portion thereof, as appropriate.

3 Except as provided for in paragraphs 4, 5, ~~and~~ 6 and 6bis of this regulation, within [three] months after the end of each calendar year, the ship shall report to its Administration or any organization duly authorized by it, the aggregated value for each datum specified in appendix IX to this Annex, via electronic communication and using a standardized format to be developed by the Organization.

[...]

6bis For the purposes of Chapter 5 of this Annex, data on fuel used on board collected pursuant to paragraphs 3, 4, 5 and 6 of this regulation shall be reported to the Administration, or any organization duly authorized by it, in a disaggregated format that will allow the verification of compliance of the ship pursuant to regulations X5 and 6.10 of this Annex, taking into account the guidelines to be developed by the Organization<sup>40</sup>. The disaggregated data that underlies the reported data noted in appendix IX to this Annex shall be readily accessible for a period of not less than 5 years from the end of that calendar year and be made available to the Administration and the IMO Net Zero Fund upon request.

[...]

9 The Administration shall ensure that the reported data noted in appendix IX to this Annex by its registered ships to which this regulation applies are transferred to the IMO Ship Fuel [Use Oil Consumption] Database via electronic communication and using a standardized format to be developed by the Organization not later than one month after issuing the Statements of Compliance of these ships.

9bis For the purposes of Chapter 5.2 of this Annex, the Secretary General of the Organization shall ensure that the data reported to the IMO Ship Fuel [Use] Database

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<sup>39</sup> *Editor's Note: EU+JPN proposes for a new paragraph 4 to be inserted after current paragraph 3.*

<sup>40</sup> see Guidelines to be developed by the Organization on methods for determining, collecting and storing [ship fuel use] data under regulation 27 of Annex VI for the purposes of compliance with Chapter 5 of Annex VI.

pursuant to regulation 27.9 are transferred automatically to the IMO Net-Zero Fund established by the Organization [under regulation X13].

[...]

11 The Secretary-General of the Organization shall grant the Administration of a ship to which regulations 28 and Chapter 5 of this Annex applies access to all the reported data for all the preceding calendar years in the IMO Ship Fuel [Use] Database for that ship. ]

## **[.9 New Chapter 5.1: Goal-based marine fuel standard regulating the phased reduction of the marine fuel's GHG intensity<sup>41</sup>**

### **.1 Application (regulation X)**

*{Structural Note: Placement of Application regulation (5.1 or whole Chapter 5) to be further considered.}*

[ Regulation [\*\*\*X1] [32] [1]

#### **Application**

1 This chapter shall apply to all ships [\*\*\* of [400] [5,000]<sup>42</sup> gross tonnage and above [and from calendar year [20XX], each ship of 400 gross tonnage and above].

2 The provisions of this chapter shall not apply to:<sup>43</sup>

*[\*\*\* .1 ships solely engaged in voyages within waters subject to the sovereignty or jurisdiction of the State the flag of which the ship is entitled to fly.] [However, each Party should ensure, by the adoption of appropriate measures, that such ships act in a manner consistent with the requirements of chapter 4bis of this Annex, so far as is reasonable and practicable.]*

*.2 [\*\*\* ships not<sup>44</sup> propelled by mechanical means, and platforms including FPSOs and FSUs and drilling rigs, regardless of their propulsion.]*

[3. For the purposes of compliance with Chapter 5.1., a ship which is entitled to fly the flag of a State which is not a Party to this Annex may submit to any Administration of a Party to this Annex or any organisation duly authorised by it the data noted in appendix IX of this Annex. In that case, that Administration or any organisation duly authorised by it shall apply Chapter 5.1 after determination that the data has been reported in accordance with regulation 27 and shall ensure that the reported data are transferred to the IMO Ship Fuel [Use] Database within the period mentioned in regulation 27.9. Nothing in this regulation relieves any Party from its obligations under Article 5.4 of this Convention and regulation 10 of this Annex.] *{Editor's Note: ICS suggests a provision relating to this paragraph under point 2.3 (Certificates and Statements of Compliance (regulation 6))} ]*

### **.2 Goal (regulation X)**

*{Structural Note: Text perhaps not necessary<sup>45</sup>.}*

<sup>41</sup> WSC proposes title of Chapter 5.1 to be “Integrated GFI and Green Balance Mechanism”; SI proposes title of Chapter 5 to be “International Greenhouse Gas Contribution”.

<sup>42</sup> In principle, ICS believes the tonnage threshold should be 400 GT, but if this was agreed now it is recognised that this would require changes to the DCS and additional administrative burdens for Member States.

<sup>43</sup> *Editor's Note: colon inserted to align texts of proponents.*

<sup>44</sup> *Editor's Note: SI proposes “ships which are not” instead of “ships not”.*

{*Structural Note: \*\* Regulation should relate to the whole Chapter 5*<sup>46</sup>.}

[ **Regulation [\*\*\* X2] [32bis]**

### Goal

The goal of this Chapter is to [\*\*\*\* reduce the [GHG fuel intensity] [\*\*\* GHG emissions] of<sup>47</sup> international shipping [and, as a matter of urgency, phase them out as soon as possible, whilst ensuring a just and equitable transition], working towards] [provide a regulatory mechanism for international shipping to enable the commercial investments and operations necessary to meet the objectives including] the levels of ambition [and indicative checkpoints] set out in the<sup>48</sup> [\*\* 2023] IMO Strategy on reduction of GHG emissions from ships<sup>49</sup>.]

[**OPTION 2: No text. ] ]**

## .3 Functional requirements (regulation X)

{*Structural Note 1: Regulation should cover whole Chapter 5.*}

{*Structural Note 2: Text perhaps not necessary*<sup>50</sup>.}

{*Structural Note 3: Requirements relating to [Economic mechanism(s) to incentivize the transition to net-zero] should be under Chapter 5.2*<sup>51</sup>.}

[ **\*\*\* Regulation [\*\* X3] [32ter]**

### Functional requirements

In order to achieve the goal set out in regulation [\*\*X2] [32bis] of this Annex, a ship to which this chapter applies shall

[**OPTION 1: comply, as applicable, with the GHG fuel intensity requirements in accordance with regulations X4 to X10 of this Annex.**]

[**OPTION 2:**

**\*\* .1** reduce its greenhouse gas fuel intensity (GFI) in accordance with regulation[s X4 and X5] [33 of this Annex]; and

**.2** [make an annual GHG fuel contribution] [pay GHG fees and receive feebates] in accordance with regulations [X10 and X11] [38 and 39] of this Annex. ] ]

## .4 Attained GHG fuel intensity (GFI) (regulation X)

[ **\*\*\* Regulation [\*\* X4] [X5]**

[**Attained annual GHG fuel intensity (attained annual GFI) [Attained GFI]**

**1\*\*\*** [\*\*After the end of calendar year [2027] [From 1 January [2028]] and for every calendar year thereafter, each ship [of [400] [\*\* 5,000] gross tonnage and above,] shall

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<sup>45</sup> Structural suggestion from CAN.

<sup>46</sup> Structural suggestion from EU+JPN and TUV.

<sup>47</sup> *Editor's Note: SI proposes "from" instead of "of".*

<sup>48</sup> *Editor's Note: WSC proposes "forth in 2023" instead of "out in the 2023".*

<sup>49</sup> Resolution MEPC.377(80).

<sup>50</sup> Structural suggestion from CAN.

<sup>51</sup> Structural suggestion from US.

calculate the attained annual GFI<sup>52</sup> [values of fuels used] over a 12-month period from 1 January to 31 December for the preceding calendar year [\*\* (reporting period)], [\*\*, using the data collected in accordance with regulation 27 of this Annex] [\*\* taking into account] [and in accordance with] the guidelines<sup>53</sup> to be developed by the Organization.<sup>54 55</sup>

<sup>2</sup><sup>56</sup> Within three<sup>57</sup> months after the end of each calendar year, the ship shall report to its Administration, or any organization duly authorized by it, the attained annual GFI<sup>58</sup> [values] for [fuels used during] that [\*\* reporting period] [calendar year] [together with the data specified in part B of appendix IX] via electronic communication and using a standardized format<sup>59</sup> to be developed by the Organization [for the purpose of verifying the compliance of each ship with regulation X5].

[2 The Attained GFI shall be the weighted mean GFI for the n fuels<sup>60</sup> within each of the following fuel zones: a) Fee Zone, b) Allocation Zone 1, and c) Allocation Zone 2, consumed by the ship on an energy basis during the reporting period and shall be determined as follows:

$$\text{Attained GFI} = \frac{\sum_{i=1}^n m_i d_i g_i}{\sum_{i=1}^n m_i d_i} = \frac{\sum_{i=1}^n e_i g_i}{\sum_{i=1}^n e_i}$$

where, m is the mass of a given fuel i, in metric tonnes, consumed by the ship. d is the energy density of the fuel in MJ per metric tonne, and g is the GHG intensity of the fuel in gCO<sub>2</sub>e/MJ on a Well-to-Wake basis<sup>61</sup>. n is the set of fuels and the associated energy consumed by the ship and the energy of each fuel consumed, e<sub>i</sub>, is defined as e<sub>i</sub> = m<sub>i</sub>d<sub>i</sub>.

3 The attained GFI, GFI<sub>A</sub> (gCO<sub>2</sub>/MJ), is calculated for each of the three zones identified in paragraph 2 above. The Attained GFI is the weighted mean for the n fuels in each of the three zones, calculated separately for the Fee Zone, Allocation Zone 1, and Allocation Zone 2.

$$GFI_{A, Fee\ Zone} = \frac{\sum_{i=1}^n e_i g_i}{\sum_{i=1}^n e_i} \text{ for all fuels, } n, \text{ in the Fee Zone}$$

$$GFI_{A, Zone\ 1} = \frac{\sum_{i=1}^n e_i g_i}{\sum_{i=1}^n e_i} \text{ for all fuels, } n, \text{ in Allocation Zone 1}$$

$$GFI_{A, Zone\ 2} = \frac{\sum_{i=1}^n e_i g_i}{\sum_{i=1}^n e_i} \text{ for all fuels, } n, \text{ in Allocation Zone 2}$$

<sup>52</sup> *Editor's Note: WSC proposes "Attained GFI" instead of "attained annual GFI".*

<sup>53</sup> Refer to the Guidelines on the calculation methods of the attained annual GHG fuel intensity (GFI Calculation Guidelines).

<sup>54</sup> see draft Guidelines for the calculation of the attained Greenhouse Gas Fuel Intensity, as set out in Annex 1 to ISWG-GHG 16/2/7 (Austria et al.), to be updated as necessary.

<sup>55</sup> As may be required.

<sup>56</sup> *Editor's Note: WSC proposes this provision as paragraph 4 instead of paragraph 2.*

<sup>57</sup> *Editor's Note: EU proposes "three" to be put in square brackets.*

<sup>58</sup> *Editor's Note: WSC proposes "Attained GFI" instead of "attained annual GFI".*

<sup>59</sup> Refer to the 2022 Guidelines for the development of a ship energy efficiency management plan (SEEMP), to be updated.

<sup>60</sup> Proportionality is a key principle under the Green Balance Mechanism to ensure that fuels consumed by the ship are incentivised on the basis of the emission reductions attained per MJ. Proportionality will be reflected in the algorithms used to calculate the fees paid (regulation X5) and allocations made (regulation X6).

<sup>61</sup> In accordance with the 2024 LCA Guidelines. An amendment to Appendix V of MARPOL Annex VI "Information to be included in the bunker delivery note (regulation 18.5)" is expected to be adopted to require to be listed as an item on the BDN the "Well-to-Tank" GHG Fuel Intensity of the fuel delivered to the ship for consumption by the ship.

where,  $e$  is the energy of fuel  $i$  consumed, in MJ, and  $g$  is the well-to-wake GHG intensity of the fuel, in gCO<sub>2e</sub>/MJ. The attained GFI is separately calculated for the sets of  $n$  fuels with a GHG intensity in the Fee Zone, Allocation Zone 1, or Allocation Zone 2, respectively.

5 The Administration, or any organization duly authorized by it, shall verify within one month the Attained GFI values reported in accordance with paragraph 2 of this regulation on the basis of the data reported in accordance with regulation 27.3 of this Annex.]

<sup>362</sup> **[\*\* Notwithstanding paragraphs 1 and 2 of this regulation]** [and in accordance with regulations 27.4, 27.5 or 27.6 of this Annex], in the event of any transfer of a ship **[\*\* addressed in regulations 27.4, 27.5 or 27.6]** completed after 1 January **[\*\* 2027<sup>63</sup> [2028]**, a ship shall, after the end of the calendar year in which the transfer[(s)] takes place, calculate and report [to its Administration] the attained annual GFI<sup>64</sup> for the **[\*\* full]** 12-month period from 1 January to 31 December in the calendar year during which the transfer took place, in accordance with paragraphs 1 and 2 of this regulation, for verification **[\*\* in accordance with regulation 6.9 of this Annex]**, taking into account the guidelines<sup>65</sup> to be developed by the Organization.<sup>66</sup> Nothing in this regulation relieves any ship of its reporting obligations under regulation[s] 27 [X5, X7] or this regulation<sup>67</sup> of this Annex.

*{Editor's Note: ICS suggested regulation 34, set out under point 9.7 (Alternative compliance approaches (regulation X)) combines text which addresses also this point 9.4 (Attained GHG fuel intensity (GFI) (regulation X)).}*

#### **[<sup>68</sup> Reward factor for the use of sustainable fuels and zero-emissions on-board fuel energy sources**

Without prejudice to the flexible compliance mechanism, a ship may use until 2035 a reward factor (RWD<sub>f</sub>) of 2 to sustainable fuels and/or a reward factor of 1.5 to zero-emissions on-board non-fuel energy sources (RWD<sub>k</sub>) when determining its attained annual GFI.] ]

## **.5 Target/Required GFI (regulation X)**

**[ Regulation [X6<sup>69</sup>] [X5] [X3] [33]**

**[Target annual] **[\*\* GHG fuel intensity<sup>70</sup>]** [Standard (GFI)] [(target annual GFI)] [Goal-based marine fuel standard for GHG intensity]**

[1 Each ship shall have an attained annual GFI which is equal to or lower than the required annual GFI in accordance with this regulation.]

**\*\*\* 1** [At the end of calendar year [2027], the value of the Reference] [From January 2028,] **the<sup>71</sup> [required] [target] **[\*\*annual]** [GHG Fuel Intensity (Required) GFI] of energy used on board the] **[\*\* for each] ship **[\*\* to which this regulation applies] shall **[\*\*\* be determined]********

<sup>62</sup> *Editor's Note: WSC proposes this provision under paragraph 6.*

<sup>63</sup> *Editor's Note: EU proposes "2027" to be put in square brackets.*

<sup>64</sup> *Editor's Note: WSC proposes "Attained GFI" instead of "attained annual GFI".*

<sup>65</sup> Refer to the 2022 Guidelines for Administration verification of ship fuel oil consumption data and operational carbon intensity, to be updated.

<sup>66</sup> see draft Guidelines for the calculation of the attained Greenhouse Gas Fuel Intensity, as set out in Annex 1 to ISWG-GHG 16/2/7 (Austria et al.), to be updated as necessary.

<sup>67</sup> *Editor's Note: WSC proposes "this regulation" to come first.*

<sup>68</sup> *Editor's Note: CSC proposes this provision to be incorporated under heading 5.1.4 (Attained GHG fuel intensity (GFI)).*

<sup>69</sup> The reference value and reduction factors provided by the co-sponsors are solely for demonstration purposes in order to facilitate understanding.

<sup>70</sup> *Editor's Note: WSC propose "Fuel Intensity" to be expressed in capital letters*

**[OPTION 1:** [**\*\* as follows:**] [on the basis of the annual reports produced in accordance with regulation 27.10 of this Annex for the calendar year[s] [2024, 2025 and 2026], taking into account guidelines to be developed by the Organization<sup>72</sup>.]

[2 On the basis of the Reference GFI determined in accordance with paragraph 1 of this regulation, the GFI shall be determined as follows:]

$$[\text{required annual}] [\text{target annual}] [*** GFI = (1 - Z^{73} / 100) \cdot GFI_R, \text{ where,}]$$

[\*\*\*  $GFI_R$ <sup>74</sup> is<sup>75</sup> the [\*\*\*  $GFI$ <sup>76</sup>] reference value

**[OPTION 1A:** [representing the required annual GFI of ships to which this regulation applies at the end of calendar year [2025], determined on the basis of the annual reports produced in accordance with regulation 27.10 of this Annex for the calendar years [2023, 2024 and 2025], using the methodology contained in the Guidelines on life cycle GHG intensity of marine fuels (LCA guidelines, Resolution MEPC.376(80)) ]

**[OPTION 1B:** [equivalent to [76.2] gCO<sub>2</sub>e/MJ] ] ; and]

[\*\*\*  $Z$ <sup>77</sup> the [**\*\* annual**] reduction factor, specified in Table X1<sup>78</sup> for the [required][target] annual GFI compared to the GFI reference value] [, that ensures that the average GFI of international shipping is in line with regulation X2 of this Annex:]

**[OPTION 1A:** [**\*\* Table [X1] – Reduction factors (in percentage) for the [required][target] annual GFI relative to the GFI reference value] [(example values)]**

[

[Year]	[Z]
[2027]	[XX]
[2028]	[XX]
[2029]	[XX]
[2030]	[XX]
[2031]	[XX]
[2032]	[XX]
[2033]	[XX]
[2034]	[XX]
[2035]	[XX]
[2036]	[XX]
[2037]	[XX]
[2038]	[XX]
[2039]	[XX]
[2040]	[XX]
[2041]	[XX]
[2042]	[XX]
[2043]	[XX]
[2044]	[XX]

<sup>71</sup> *Editor's Note:* IMSF&F and EU+JPN propose for provide for the provision to start as: "The ...".

<sup>72</sup> [As may be required.]

<sup>73</sup> *Editor's Note:* WSC proposes to use the capital letter "A" instead of "Z" for the same element.

<sup>74</sup> *Editor's Note:* WSC proposes to start with definition of the "Z" element instead of the " $GFI_R$ " element.

<sup>75</sup> *Editor's Note:* WSC proposes "=" instead of "is".

<sup>76</sup> *Editor's Note:* WSC proposes "Reference GFI value" instead of "GFI reference value".

<sup>77</sup> *Editor's Note:* WSC proposes "=" instead of "is".

<sup>78</sup> *Editor's Note:* WSC proposes "Y1" instead of "X1".

[2045]	[XX]
[2046]	[XX]
[2047]	[XX]
[2048]	[XX]
[2049]	[XX]
[2050]	[XX]

]]

**[OPTION 1B: Table Y1 - Reduction factors (in GHG intensity) relative to the Reference GFI value**

Year	Reduction factor
[2027]	[GFI <sub>R</sub> ]
2028	[XX]
2029	[XX]
2030	[XX]
2031	[XX]
2032	[XX]
2033	[XX]
2034	[XX]
2035	[XX]
2036	[XX]
2037	[XX]
2038	[XX]
2039	[XX]
2040	[XX]
2041	[XX]
2042	[XX]
2043	[XX]
2044	[XX]
2045	[XX]
2046	[XX]
2047	[XX]
2048	[XX]
2049	[XX]
2050	[XX]

]

[3 Within [one] month after the reporting of the attained annual GFI in accordance with regulation X4.2, including in cases where the reporting takes place pursuant to regulation X4.3 the Administration, or any organization duly authorized by it, shall determine, on the basis of the data reported pursuant to regulation 27, whether the attained annual GFI of each ship is equal to, higher or lower than the required annual GFI set for that reporting period in accordance with paragraph 1, and verify the compliance surplus or compliance deficit, if any, taking into account the guidelines to be developed by the Organization.<sup>79</sup>

4 Where the verified attained annual GFI is higher or lower than the required annual GFI, regulation X7 of this Annex shall apply.]

<sup>79</sup> [see Guidelines to be developed by the Organization on the Flexibility Compliance Mechanism and method of calculation of compliance surpluses and compliance deficits for ships.]

## [Requirement for use of minimum amount of sustainable fuels onboard ships

5bis<sup>80</sup> Without prejudice to the flexibility compliance mechanism contained in Regulation 28ter, by 2030, each ship shall ensure a minimum share of 5% of sustainable fuels in the total annual energy consumption.] ]

### [OPTION 2:

<sup>81</sup> not exceed [98%] of the GFI reference value<sup>82</sup> (gCO<sub>2e</sub>/MJ)<sup>83,84,85</sup>.

2 From 1 January 2030, the GHG Fuel Intensity (Required GFI) of energy used on board the ship shall not exceed [95%] of the GFI reference value (gCO<sub>2e</sub>/MJ).

3 From 1 January 2040, the GHG Fuel Intensity (Required GFI) of energy used on board the ship shall not exceed [70%] of the GFI reference value (gCO<sub>2e</sub>/MJ).

4 The standards set forth in paragraphs 2 and 3 of this regulation shall be subject to a review to be completed by 1 January 2028 to determine:

- .1 the cost and availability of marine fuels which comply with the standards set forth in these paragraphs and confirmation by the Parties that it is possible for ships to comply; and
- .2 further reductions in the GHG Fuel Intensity (Required GFI) of energy used on board which the ship shall not exceed from 1 January 2032, and further reductions in GHG Fuel Intensity (Required GFI) that the ship shall not exceed at intervals agreed thereafter, taking account of GHG reduction trajectories for international shipping as agreed by the Organization.

5 Pursuant to regulation 18.2.1 of this Annex, a ship not able to purchase compliant fuel oil to meet the requirement set out in paragraphs 1 and 2 of this regulation, shall notify its Administration taking into account guidelines developed by the Organization<sup>86</sup>.] ]

## .6 GFI data collection and reporting (regulation X)

[ [OPTION 1: **Regulation X4**

### **GHG fuel intensity data collection and report plan (the GFI Data Plan)**

1 From calendar year [2027], each ship to which chapter 4bis applies shall keep on board a ship specific GHG fuel intensity data collection and report plan (the GFI Data Plan).

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<sup>80</sup> *Editor's Note: CSC suggested amendment to the draft MARPOL amendments contained in Annex to ISWG-GHG 15/3/1 (Austria et al.) by adding a new paragraph 5bis.*

<sup>81</sup> *Editor's Note: ICS proposes this provision under paragraph 1.*

<sup>82</sup> [GFI reference value to be calculated on approval of the draft amendments and corresponds to the fleet average greenhouse gas (gCO<sub>2e</sub>/MJ) intensity of the energy used on board by ships in [2019] determined on the basis of fuel oil consumption data collected and reported pursuant to regulation 27 of MARPOL Annex VI and using guidelines to be developed by the Organization.]

<sup>83</sup> [GFI given in terms of the mass of GHG emissions per unit of energy used on board the ship based on the Guidelines on Life Cycle GHG Intensity of Marine Fuels (LCA guidelines) MEPC.391(81), as amended.]

<sup>84</sup> [As per the requirements of regulation 1418.51 of MARPOL Annex VI, the GHG Fuel Intensity (GFI) of fuel supplied to the ship to be recorded on a Bunker Delivery Note, with consequential amendments required to the provisions of regulations 18.4, and 18.5 and Appendix V of MARPOL Annex VI.]

<sup>85</sup> [Pursuant to regulation 4 of MARPOL Annex VI, compliance with the GHG Fuel Intensity (GFI) could be achieved through an equivalent means such as carbon capture and storage.]

<sup>86</sup> [Guidelines to be developed based on the 2019 Guidelines for consistent implementation of the 0.50% sulphur limit under MARPOL Annex VI (resolution MEPC.320(74)), including pro-forma fuel oil non-availability report (FONAR).]

This shall form part of the ship's Ship Energy Efficiency Management Plan (SEEMP) pursuant to regulation 26 of this Annex. The GFI Data Plan shall be developed and reviewed, taking into account the guidelines<sup>87</sup> developed by the Organization. ]

{*Editor's Note: ICS suggested regulation 34, set out under point 9.7 (Alternative compliance approaches (regulation X)) combines text which addresses also this point 9.6 (GFI data collection and reporting (regulation X)).*}

[OPTION 2: No text] ]

## .7 Alternative compliance approaches (regulation X)

[OPTION 1:

[\*\* Regulation X7

### [Compliance approaches]

[1 A ship shall be considered compliant if its attained annual GFI is equal to or lower than the target annual GFI.

2 Notwithstanding paragraph 1 of this regulation, ships are allowed to comply with the target annual GFI through the flexible compliance approaches as set out in paragraphs 1, 2 and 4 of this regulation, taking into account the guidelines to be developed by the Organization, provided its final compliance balance is zero.]

1 A ship with [the attained annual GFI lower than the target annual GFI] [a verified compliance surplus] may [receive] [have] Surplus [Compliance] Units [issued by the GFI Registry established pursuant to regulation X8 and credited to that ship's account in the GFI Registry. The amount of SCU to be issued and credited shall be equal to the amount requested by that ship and, in any case, not surpassing the verified compliance surplus of that ship for that reporting period, communicated to the GFI Registry in accordance with regulation X8.3.]

2 The [Surplus Units] [SCU credited to the account] of a ship [in the GFI Registry] can be:

.1 transferred [, at the request of the ship in whose account they are credited,] to [other ships in the same compliance pool] [any other ship's account that they designate];

.2 banked for use in the following reporting period[s, subject to the conditions in paragraph 5]; [and/] or

[.3 rewarded by the Sustainable Shipping Fund (SSF).]

[.3 cancelled by the GFI Registry in accordance with paragraph 3.1.]

3<sup>88</sup> [By 31 May each calendar year,] a ship with [the attained annual GFI higher than the target annual GFI] [a verified compliance deficit, communicated to the GFI Registry in accordance with regulation X8.3] [will have Deficit Units. Such a ship shall be considered compliant provided its Deficit Units are balanced through:] [shall comply with regulation X5 through the use of SCU or Remedial Compliance Units (RCU), concurrently or alternatively, in an amount determined in accordance with paragraph 4]:

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<sup>87</sup> Refer to the 2022 Guidelines for the development of a ship energy efficiency management plan (SEEMP), to be updated.

<sup>88</sup> *Editor's Note: IMSF&F proposes this provision under paragraph 6.*

**[OPTION 1A:**

- .1 the Surplus Units obtained from other ships in the same compliance pool; and/or
- .2 the Surplus Units banked from the last reporting period; and/or
- .3 the Remedial Units obtained through making contributions to the Sustainable Shipping Fund (SSF).]

**[OPTION 1B:**

.1 through the use of SCU, whereby the GFI Registry cancels SCU credited to a ship's account in accordance with paragraph 1, equal to the amount of SCU requested by that ship and subject to the conditions of paragraph 5.

.2 through the use of RCU, whereby:

- .1 The GFI Registry issues and credits RCU to a ship's account upon its request, equal to the amount of RCU requested by that ship;
- .2 Each RCU is compensated for through the IMO Net-Zero Fund [established under regulation 13] in accordance with paragraph 6;
- .3 The GFI Registry cancels RCU credited to a ship's account, equal to the amount of RCU requested by that ship, only after proof of compensation thereof is furnished to the GFI Registry, subject to the conditions in paragraph 6.]

4 The total amount of [Surplus Units] [SCU and RCU] used for the purposes specified in paragraph 3<sup>89</sup> of this regulation shall be

**[OPTION 1A:** right equivalent to original amount of the Surplus Units and shall be deducted from the original amount, so that the final compliance balance of the ship will be zero.

7 The total Deficit Units balanced through the approaches specified in paragraph 3 of this regulation shall be right equivalent to the original amount of the Deficit Units and shall be deducted from the original amount, so that the final compliance balance of the ship will be zero.])

**[OPTION 1B:** [determined as follows, taking into account guidelines to be developed by the Organization<sup>90</sup>:

(verified attained annual GFI – required annual GFI) \* total amount of energy generated by the fuel used on board during the reporting period]

[5 Only the GHG reductions achieved using fuels of Categories A+, A, B, and C are eligible to generate Surplus Units. The sustainability of fuels shall be evaluated and determined taking into account the guidelines<sup>91</sup> to be developed by the Organization.]

[5 Each SCU shall have a validity of [XX] years after the date of their issuance from the GFI Registry. SCU not used by the ship in whose account they are credited by the date of expiry of their validity will be cancelled as expired and cannot be used by any ship for any purpose under this Chapter.

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<sup>89</sup> *Editor's Note: IMSF&F proposes the cross-reference to cover paragraphs 1 and 2 instead of paragraph 3.*

<sup>90</sup> see Guidelines to be developed by the Organization on the Flexibility Compliance Mechanism and method of calculation of compliance surpluses and compliance deficits for ships

<sup>91</sup> Refer to the Guidelines on sustainability criteria for assessment and categorization of fuels used on board (Sustainability Criteria Guidelines).

6 The compensation for one RCU shall be determined annually in accordance with guidelines to be developed by the Organization and announced by the Secretary-General of the Organization before the start of each reporting period<sup>92</sup>. Each RCU shall be valid for compliance only for the reporting period for which it is issued. For each RCU compensated for by a ship, the IMO Net-Zero Fund shall issue proof of compensation to that ship. The GFI Registry shall cancel as expired RCUs where no proof of compensation is made available in the account where the RCU is credited within the period mentioned in paragraph 3.

7 The entity responsible for compliance with paragraph 3.1.2 shall be the company at the time mentioned in paragraph 1 of this regulation.<sup>93</sup> ]

## [OPTION 2:

### Regulation 34

#### Alternative compliance by a ship

1 From 1 January 2028, for each ship which uses fuel oil which has a GHG Fuel Intensity (Attained GFI) that exceeds the Required GFI stipulated by regulation 33 of this Annex:

- 1 for each tonne of CO<sub>2</sub>e emitted due to Attained GFI exceeding Required GFI, the ship shall obtain from the Organization, in accordance with the maritime GHG emissions pricing mechanism, a Surcharge Fee (SF) that shall be determined as follows:

$$SF = ((\text{tonnes CO}_2\text{e Attained GFI}) - (\text{tonnes CO}_2\text{e Required GFI}))$$

$$. ([X\%]<sup>94</sup> \text{ of } [US\$17.5]<sup>95</sup> \text{ per tonne of CO}_2\text{e})$$

Where, tonnes of CO<sub>2</sub>e = Y . M . LCV

Y = GHG intensity of the fuel used (gCO<sub>2</sub>e/MJ)

M = mass of fuel used in metric tonnes (MT);

LCV = Lower Calorific Value of fuel used (MJ/g);

- 2 from 1 January 2030, subject to the review required by regulation 33.4 of this Annex, the Surcharge Fee will subject to [X%] of the GHG fee specified by regulation 38.3 of this Annex;
- 3 from 1 January 2040, subject to the review required by regulation 33.4 of this Annex, the Surcharge Fee will subject to [X%] of the GHG fee specified by regulation 38.3 of this Annex; and
- 4 pursuant to regulation 27 of this Annex, fuel oil data used to determine the additional tonnes of CO<sub>2</sub>e emitted due to Attained GFI exceeding the Required GFI, shall be reported by the ship to the Administration<sup>96</sup>. Pursuant to regulation

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<sup>92</sup> see Guidelines to be developed by the Organization on the determination of the price of Remedial Compliance Units under the Flexibility Compliance Mechanism.

<sup>93</sup> *Editor's Note: EU+JPN proposes "[Additional conditions to be inserted]" after paragraph 7.*

<sup>94</sup> The Surcharge Fee is a product of the CO<sub>2</sub>e emissions in excess of the Required GI and is a percentage of the "GHG fee", the "GHG fee" being required to be paid for all CO<sub>2</sub>e emissions.

<sup>95</sup> "GHG fee" as may be specified in regulation 38.3 of this Annex.

<sup>96</sup> MEPC.348(78) 2022 Guidelines for Administration verification of ship fuel oil consumption data and operational carbon intensity, as amended by resolution MEPC.389(81)

38.5 of this Annex, data shall be submitted to the Organization in accordance with the maritime GHG emissions pricing mechanism.

2 From 1 January 2032, and at intervals to be agreed thereafter, the Surcharge Fee which shall be due if the ship is unable to comply with regulation 33 of this Annex shall be based on the GHG Fuel Intensity (Required GFI) determined following the review required by regulation 33.4 of this Annex. ]

**[OPTION 3:**

**Regulation X5**

**Green Balance Fee**

1 From calendar year [2029], on the basis of the reported Attained GFI in accordance with regulation X4.3 of this Annex, within six months after the end of each calendar year, each ship of [5,000] gross tonnage and above to which this Chapter applies is required to pay the Green Balance Fund a Green Balance Fee per metric tonne CO<sub>2</sub>e (\$/MT CO<sub>2</sub>e) emitted above the Green Balance GFI that shall be determined<sup>97</sup> as follows:

where, *Attained GFI* is not in Allocation Zone A or Allocation Zone B

$$\text{Green Balance Fund fee} = \text{Green Balance Fee (\$/MT CO}_2\text{e)} \cdot \text{Total emissions}_{\text{fee}}$$

$$\text{Green Balance Fee (\$/MT CO}_2\text{e)} = \left( \frac{\text{Total Allocations (\$)}}{\text{Total emissions}_{\text{fee}}} \right) \cdot \left( 1 + \frac{F}{100} \right)$$

where, pursuant to regulation X6.1 of this Annex, Total Allocations (\$) is the sum of all allocations made from the *Green Balance Fund* and shall be determined as follows:

$$\text{Total allocations (\$)} = \sum (\text{Allocations}_{\text{Zone 1}} + \text{Allocations}_{\text{Zone 2}})$$

total allocations per allocation zone (the MAC for each allocation zone multiplied by the abatement per allocation zone) shall be determined as follows:

$$\text{Allocations}_{\text{Zone 1}} = \text{MAC}_{\text{Zone 1}} \cdot \text{Abatement}_{\text{Zone 1}}$$

$$\text{Allocations}_{\text{Zone 2}} = \text{MAC}_{\text{Zone 2}} \cdot \text{Abatement}_{\text{Zone 2}}$$

abatement per allocation zone (the difference in emissions between the GFI and the *Attained GFI* for the set of *n* fuels within each allocation zone) shall be determined as follows:

$$\text{Abatement}_{\text{Zone 1}} = (\text{GFI} - \text{Attained GFI}_{\text{Zone 1}}) \cdot \sum_i^n e_i \text{ for } n \text{ fuels in Allocation Zone 1}$$

$$\text{Abatement}_{\text{Zone 2}} = (\text{GFI} - \text{Attained GFI}_{\text{Zone 2}}) \cdot \sum_i^n e_i \text{ for } n \text{ fuels in Allocation Zone 2}$$

<sup>97</sup> In the first year of operation of the *Green Balance Fund*, as no allocations have been made, the *Green Balance Fee* would be based on expected production, uptake, and costs of fuels with a *GFI* equal to or superior to the *Green Balance GFI* on commencement of regulation X7 of this Annex.

Attained GFI<sub>Zone 1</sub> is the energy,  $e$ , weighted mean Attained GFI for  $n$  fuels consumed by ships in Allocation Zone 1.

Attained GFI<sub>Zone 2</sub> is the energy,  $e$ , weighted mean Attained GFI for  $n$  fuels consumed by ships in Allocation Zone 2.

Total emissions<sub>fee</sub> is the sum total of emissions from fuels consumed by a ship, or pool of ships, that are required to pay the *Green Balance Fee* and shall be determined as follows:

$$\text{Total emissions}_{\text{fee}} = \text{Attained GFI}_{\text{fee}} \cdot \sum_i^n e_i$$

Attained GFI<sub>fee</sub> is the weighted mean Attained GFI for the energy,  $e$ , of the  $n$  fuels consumed by ships paying the Green Balance Fee.

$F$  is the administrative fee for the *Green Balance Fund* as a percentage of the total fees disbursed in accordance with regulation X7.2.3 of this Annex, and which may be re-evaluated alongside fees and allocations to ensure no costs to the Organization.

2 Pursuant to paragraph 1 of this regulation, within four months after the end of each calendar year, the Shipping Company shall provide the Green Balance Fund with the verified Attained GFI values and applicable provisional Green Balance Fee.

3 Pursuant to paragraph 2 of this regulation, no later than one month after receiving the verified Attained GFI and the provisional Green Balance Fee, the Green Balance Fund shall determine that the provisional Green Balance Fee paid to the Green Balance Fund for the applicable ship for the previous calendar year is in accordance with paragraph 1 of this regulation, including the portion thereof as provided for in paragraphs 6 and 7 of this regulation and, where verified, shall issue to the Shipping Company a Confirmation Statement.

4 Pursuant to paragraph 3 of this regulation, where the Green Balance Fund determines that the provisional Green Balance Fee is not in accordance with paragraph 1 of this regulation, the Shipping Company shall be notified by the Green Balance Fund of the verified Green Balance Fee. No later than one month after being notified, the Shipping Company shall provide the verified Green Balance Fee to the Green Balance Fund.

5 Following receipt of the Confirmation Statement, the Shipping Company shall promptly provide the Administration, or any organization duly authorized by it, with the Confirmation Statement.

6 In the event of the transfer of a ship from one Administration to another, the Green Balance Fee paid by the ship in accordance with paragraph 1 of this regulation shall cover the period of the calendar year corresponding to the losing Administration.

7 In the event of a change from one Shipping Company to another, the Green Balance Fee made by the ship in accordance with paragraph 1 of this regulation shall cover the portion of the calendar year corresponding to the previous Shipping Company.

8 In the event of change from one Administration to another and from one Shipping Company to another concurrently, paragraph 7 of this regulation shall apply.

[9 With the approval of the Administration, a ship below 5,000 gross tonnage may pay a Green Balance Fee to the Green Balance Fund provided that the Administration provides the Green Balance Fund with a verified Attained GFI, and that a Statement of Compliance is

issued to that ship in accordance with regulation 6.9 of this Annex. Regulation 6.11 of this Annex shall not apply to ships below 5,000 gross tonnage.]

## Regulation X6

### Green Balance Allocation

1 From calendar year [2029], on the basis of the Attained GFI values reported in accordance with regulation X4.3 of this Annex, each ship of [5,000] gross tonnage and above to which this Chapter applies shall be eligible to receive a Green Balance Allocation from the Green Balance Fund that shall be determined as follows:

.1 For Allocation Zone 1 =  $0.20 \bullet GFI_R < \text{Attained GFI} \leq 0.35 \bullet GFI_R$  for the periods where  $0.35 \bullet GFI_R$  is less than or equal to the GFI

$$\text{Allocation}_{\text{Zone 1}} (\$) = \text{MT CO}_2\text{e abated relative to the GFI} \bullet \text{MAC}_{\text{Zone 1}}$$

.2 For Allocation Zone 2 =  $\text{Attained GFI} \leq \min\{0.2 \bullet GFI_R, \text{GFI}\}$

$$\text{Allocation}_{\text{Zone 2}} (\$) = \text{MT CO}_2\text{e abated relative to the GFI} \bullet \text{MAC}_{\text{Zone 2}}$$

where, for sub-paragraphs 1.1 and 1.2 of this regulation, the energy weighted *Marginal Abatement Cost (MAC)* for each allocation zone, shall be determined as follows:

$$\text{MAC}_i = \frac{C_i - C_{\text{GFI}}}{\text{GFI} - \text{GFI}_i}$$

$C_i$  is the observed market price of fuel  $i$ ,  $C_{\text{GFI}}$  is the observed market price of fuel, or weighted average price of set of fuels, that corresponds to the GFI. GFI is the GHG fuel intensity standard in the reporting period, and  $\text{GFI}_i$  is the GHG fuel intensity of fuel  $i$ .

$$\text{MAC}_{\text{Zone 1}} = \frac{\sum_{i=1}^n e_i \text{MAC}_i}{\sum_{i=1}^n e_i} \text{ for } n \text{ fuels in Allocation Zone 1}$$

$$\text{MAC}_{\text{Zone 2}} = \frac{\sum_{i=1}^n e_i \text{MAC}_i}{\sum_{i=1}^n e_i} \text{ for } n \text{ fuels in Allocation Zone 2}$$

$e$  is the energy consumed through a set of fuels in MJ on a Well-to-Wake basis, MAC of a fuel,  $i$ , observed in the market, is given in \$ per metric tonne CO<sub>2</sub>e abated.  $n$  defines the number of fuels.

.3 paragraph 1.1 of this regulation shall be revoked when  $\text{GFI} = 0.35 \bullet \text{GFI}_R$ .

2 Pursuant to paragraph 1 of this regulation, from four months after the end of each calendar year, the Shipping Company operating the applicable ship and wishing to receive a Green Balance Allocation shall provide the Green Balance Fund with the verified Attained GFI.

3 Pursuant to paragraph 2 of this regulation, no later than one month after receiving the verified Attained GFI values, the Green Balance Fund shall determine the Green Balance Allocation to be made in respect of the previous calendar year, including the portion thereof as provided for in paragraphs 6 and 7 of this regulation, in accordance with paragraph 1 of this regulation.

4 Pursuant to paragraph 3 of this regulation, the Green Balance Fund having determined that the Green Balance Allocation is in accordance with paragraph 1 of this

Annex, the Green Balance Fund will disburse the allocation to the Shipping Company and issue a Confirmation Statement.

5 Following receipt of the Confirmation Statement, the Shipping Company shall promptly provide the Administration, or any organization duly authorized by it, with the Confirmation Statement.

6 In the event of the transfer of a ship from one Administration to another, the allocation received by the ship in accordance with paragraph 1 of this regulation shall cover the period of the calendar year corresponding to the losing Administration.

7 In the event of a change from one Shipping Company to another, the allocation received by the ship in accordance with paragraph 1 of this regulation shall cover the portion of the calendar year corresponding to the previous Shipping Company.

8 In the event of change from one Administration to another and from one Shipping Company to another concurrently, paragraph 7 of this regulation shall apply.

[9 With the approval of the Administration, a ship below 5,000 gross tonnage may be eligible for an allocation provided that the Administration provides the Green Balance Fund with a verified Attained GFI values, and that a Statement of Compliance is issued to that ship in accordance with regulation 6.10 of this Annex. Regulation 6.11 of this Annex shall not apply to ships below 5,000 gross tonnage.]

## **Regulation X7**

### **Green Balance Fund**

1 The Organization shall establish a Green Balance Fund for the purpose of administering the collection of the Green Balance Fee and the funding of the Green Balance Allocation, to be administered by [the Organization], taking into account Guidelines to be adopted by the Organization.<sup>98</sup>

2 The Green Balance Fund shall be used for the following purposes:

- .1 receipt of fees in accordance with regulation X5 of this Annex;
- .2 payment of allocations in accordance with regulation X6 of this Annex;
- .3 administration of the Green Balance Fund, including the establishment and administration of a fee and allocation mechanism ensuring this entails no costs to the Organization.<sup>99</sup>

3 The fees paid to the Green Balance Fund shall only be used for the purposes specified in paragraph 2 of this regulation.

4 By [30 June] of each calendar year, the Green Balance Fund shall determine the Green Balance Fee and Green Balance Allocation quanta for the following calendar year using a [three-year rolling][annual] assessment of fuel pricing data, taking into account Guidelines to be adopted by the Organization.<sup>100</sup>

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<sup>98</sup> By MEPC resolution adopted at the time of adoption of these amendments. Draft Annex to resolution is set out in annex 2 to this document.

<sup>99</sup> Budget to administer the fund will be agreed by the Committee, consistent with other financial instruments and funds within the UN system.

<sup>100</sup> As may be required.

5 The Marine Environment Protection Committee shall oversee the activities and governance of the Green Balance Fund in accordance with the rules and regulations of the Organization.

## Regulation X8

### Flexible ship energy compliance approach

1 For applicable ships, the Administration shall approve the use by each ship in a group of ships a flexible approach to demonstrate compliance with regulation X4.1 of this Annex.

2 From calendar year [2029], on the basis of the reported Attained GFI in accordance with regulation X4.3 of this Annex, each ship using a flexible ship energy compliance approach may aggregate the Attained GFI with ships in the group, provided that the Attained GFI of each ship participating in the group, as defined in paragraph 3 of this regulation, taking into account guidelines to be developed by the Organization<sup>101</sup> shall be as follows:

$$\text{Attained GFI} \leq \text{GFI}$$

3 The Attained GFI of each ship subject to a flexible ship energy compliance approach shall be the weighted mean GFI of the ships participating in the group, over the period the ship is a member of the same group, and shall be determined as follows:

$$\text{Attained GFI} = \frac{\sum_{i=1}^n e_i a_i}{\sum_{i=1}^n e_i}$$

where, e is the total energy consumed by group participant, i, and a is the Attained GFI.

n is the set of group participants.

4 The average Attained GFI of each ship subject to a flexible ship energy compliance approach shall be verified by the ship's Administration or any organization duly authorized by it at intervals specified by the Administration, but not exceeding 12 months, and documented in the Statement of Compliance – Green Balance Mechanism issued by the Administration or any organization duly authorized by it.

## Regulation X9

### Dates for implementation

1 Implementation of the requirements stipulated under chapter 5.1 of this Annex shall commence on a date after the *Green Balance Fund* has been established in accordance with the requirements of regulation X7 of this Annex, and that the *Green Balance Fund* is ready to commence operations.

2 Implementation of the requirements stipulated under regulation X6 of this Annex shall commence on a date 12 months after implementation of the requirements stipulated under regulation X5 of this Annex.

3 The Organization shall review and confirm that the requirements under regulation X7 of this Annex have been met no later than 12 months after entry into force of chapter 5.1 of this Annex. The Parties, based on the review undertaken by the Organization, shall decide whether the *Green Balance Fund* shall commence operations. If the Parties to

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<sup>101</sup> As may be required.

this chapter decide that the *Green Balance Fund* is not ready to commence operations then a further review should be undertaken within six months.

## Regulation X10

### Review of this chapter

1 Two years prior to the required GFI reaching an 80% reduction threshold, the Organization shall review the availability and use of fuels across the global fleet and determine what amendments or actions may be necessary to achieve IMO's Net-Zero goal. After a period of [two years], beginning on the date that this chapter enters into force, the Organization shall review the status of this Chapter and amend the relevant provisions if necessary.

2 Upon completion of the Green Balance Mechanism and with the approval of the Organization, the Green Balance Fund shall cease operations. Upon such a determination, Chapter 5.1 of this Annex and its requirements shall be reviewed and regulations X3 and X4 of this Annex retained, unless the Parties determine otherwise.]]

## .8 Central GFI Registry (regulation X)

### [\*\* Regulation X8

#### [GHG fuel intensity Registry]

1 From calendar year [2027], the [Secretary General of the] Organization shall [set up and operate a platform, i.e. the GHG fuel intensity Registry (the GFI Registry)] [maintain the GHG Fuel Intensity Registry (the GFI Registry)] to facilitate the implementation of regulations [X4, X5 and X7] [in chapter 5], [taking into account] [in accordance with] the guidelines to be developed by the Organization.<sup>102</sup>

2 Each [company responsible for one or more ships to which chapter 5 applies] [ship] [after the end of a calendar year shall open] [shall maintain] an account [for each ship] with the GFI Registry. [The company shall by 30 June each year pay] [By 31 May<sup>103</sup> each year, each ship shall submit] an annual administration fee of [XXX USD per GT/ per ship] [[XXX units of account] to the IMO Net Zero Fund] to compensate the administration cost of the GFI Registry [and the Sustainable Shipping Fund Governing Board]. [The entity responsible for compliance with this paragraph shall be the company at the time mentioned in this paragraph.]

3 [For each ship to which chapter 4bis applies, the verified data as specified in Part B of Appendix IX] [The outcome of verification of regulation X5.3 in respect of each ship] shall be transmitted [by the Administration] to the GFI Registry within [six] [four<sup>104</sup>] months after the end of each calendar year [and a zero final compliance balance shall be achieved within eight months after the end of each calendar year].

[4 For a ship that has achieved a zero final compliance balance and has duly paid the annual administration fee, a Confirmation of Clearance shall be issued by the GHG fuel intensity Registry within nine months after the end of each calendar year.]

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<sup>102</sup> see Guidelines to be developed by the Organization on the development and management of the GHG Fuel Intensity Registry, as set out in Annex 2 to ISWG-GHG 16/2/7 (Austria et al.), to be updated as necessary.

<sup>103</sup> *Editor's Note: EU+JPN proposes "31 May" to be put in square brackets.*

<sup>104</sup> *Editor's Note: EU+JPN proposes "Within [four] months after the end of each calendar year, ..." to precede "...the outcome of verification of regulation X5.3 ..." and "four" to be put in square brackets.*

5<sup>105</sup> The GFI Registry shall maintain the following information per ship [and compliance period]:

.1 the verified attained annual GFI [for each ship];

2<sup>106</sup> [transactions] [a transaction log] of [Compliance Units] [SCU and RCU used under regulation X7.3] [including] [and] [contributions to and reward claims from the Sustainable Shipping Fund (SSF)] [administrative fees submitted under paragraph 2];

**[OPTION 1:**

.2 the initial compliance balance and the original amount of Compliance Units, which may be Surplus Units or Deficit Units;

.4 allocation of the ship to a compliance pool; and

.5 the final compliance balance.

6 The GFI Registry shall maintain the following information per compliance pool and calendar year:

.1 the reference number of the pool;

.2 the IMO number of each ship in the pool;

.3 the total amount of original Compliance Units, including total Surplus Units and total Deficit Units; and

.4 the final pool compliance balance. ]

**[OPTION 2:**

.2 the verified compliance surpluses and verified compliance deficits for each reporting period and the total amount of Surplus Compliance Units (SCU) and Remedial Compliance Units (RCU) held by the ship in its account;

.3 the outcome of verifications under regulation X5.3.<sup>107</sup> ]

[5 On the basis of the information maintained in accordance with paragraph 5 of this regulation, the Secretary-General of the Organization shall produce an annual report to the Marine Environment Protection Committee summarizing the data collected, transaction patterns in the issuance, transferring, usage and cancellation of SCU and RCU and such other relevant information as may be requested by the Committee.]

7<sup>108</sup> [For the purposes of regulation X5 and X7 of this Annex, the Secretary General of the Organization shall ensure that the GFI Registry has access to the information retained by the IMO Net Zero Fund relating to the compensation of RCU by ships under regulation X7.3.2.2]. Access shall be granted by the Secretary-General of the Organization to the Administration of a ship [or any organization duly authorized by it] in respect of all ship accounts which belong to ships registered by that Administration and to all the recorded data pursuant to paragraphs 1 to 7 of this regulation for all the preceding calendar years for that ship.<sup>109</sup> ] ]

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<sup>105</sup> *Editor's Note:* EU+JPN proposes this provision under paragraph 4.

<sup>106</sup> *Editor's Note:* IMSF&F proposes this provision under sub-paragraph 3; EU+JPN proposes this provision under sub-paragraph 4.

<sup>107</sup> *Editor's Note:* EU+JPN proposal includes “; and” instead of “.” sign.

<sup>108</sup> *Editor's Note:* EU+JPN proposal includes this provision under paragraphs 6 and 7.

<sup>109</sup> *Editor's Note:* EU+JPN proposes “[Additional conditions to be inserted.]” under paragraph 7.

## **.10 New Chapter 5.2 - Economic mechanism(s) to incentivize the transition to net-zero**

*{Structural Note: Different options to select and adopt the economic element exist, including adopting amendments of both elements as a package, separate MARPOL amendments or as different instruments.}*

**N/A**

[ **Regulation 6**

### **Purpose of the mechanism**

1 The purpose of the mechanism is to effectively promote the energy transition of shipping and provide the world fleet with a needed incentive while contributing to a level playing field and a just and equitable transition.

2 Contributions to the mechanism should be sufficient to significantly disincentivize the use of GHG emitting fuels, and provide the world fleet with a necessary incentive. ]

### **.1 Application (regulation X)**

[**\*\* Regulation [X1] [X9] [32]**

#### **Application**

1 This chapter shall apply to all ships of [400] [5,000]<sup>110</sup> gross tonnage and above [and from calendar year [20XX], each ship of 400 gross tonnage and above].

2 The provisions of this chapter shall not apply to:<sup>111</sup>

.1 ships solely engaged in voyages within waters subject to the sovereignty or jurisdiction of the State the flag of which the ship is entitled to fly. [However, each Party should ensure, by the adoption of appropriate measures, that such ships act in a manner consistent with the requirements of chapter 4bis of this Annex, so far as is reasonable and practicable.] [**\*\* and**

.2 ships not propelled by mechanical means, and platforms including FPSOs and FSUs and drilling rigs, regardless of their propulsion.]

[3. For the purposes of compliance with Chapter 5.2., a ship which is entitled to fly the flag of a State which is not a Party to this Annex may submit to any Administration of a Party to this Annex or any organisation duly authorised by it the data noted in appendix IX of this Annex. In that case, that Administration or any organisation duly authorised by it shall apply Chapter 5.1 after determination that the data has been reported in accordance with regulation 27 and shall ensure that the reported data are transferred to the IMO Ship Fuel [Use] Database within the period mentioned in regulation 27.9. Nothing in this regulation relieves any Party from its obligations under Article 5.4 of this Convention and regulation 10

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<sup>110</sup> In principle, ICS believes the tonnage threshold should be 400 GT, but if this was agreed now it is recognised that this would require changes to the DCS and additional administrative burdens for States. If an absolute fuel standard as proposed by ICS (and IBIA) is accepted – see regulation 33 - the tonnage threshold for the Goal-based marine fuel standard could immediately be introduced at 400 GT, consistent with other fuel standards in MARPOL Annex VI, as use of the DCS is not required.

<sup>111</sup> *Editor's Note: colon inserted to align texts of all proponents.*

of this Annex.] *{Editor's Note: ICS suggests a provision relating to this paragraph under point 3 (Certificates and Statements of Compliance (regulation 6)).}*

## [Regulation 36

### Maritime GHG Emissions Pricing Mechanism

1 The Organization shall establish a maritime GHG emissions pricing mechanism (“the mechanism”) to be administered by the Organization, taking into account Guidelines adopted by the Organization<sup>112</sup>, to collect GHG fees from ships for the CO<sub>2</sub>e emitted during the previous calendar year as required by regulation 38 of this Annex.

2 The mechanism shall establish an account for each ship to which this chapter applies, in accordance with the IMO ship identification scheme (resolution A.1078(28)), to which GHG fees can be submitted by the Company responsible for that ship as defined by paragraph 2.8 of regulation 2 of MARPOL Annex VI.] ]

## .2 Calculation of economic contribution by ships (regulation X)

[ Regulation [X8] [X10] [38] [10]

### [OPTION 1:

#### Sustainable Shipping Fund (SSF)

1 From calendar year [2027], the Organization shall set up and operate the Sustainable Shipping Fund (the Fund), taking into account the guidelines<sup>113</sup> to be developed by the Organization.

4 The price of Remedial Units and Surplus Units shall be determined and announced by the committee before the starting of a new reporting period. Any payment or reward shall be authorised by the GFI Registry and logged as a transaction. ]

### [OPTION 2:

1

#### [Calculation and collection of GHG fees]

[\*\* 1 [Subject to regulation 41 of this Annex, within [five] months] [After the end of calendar year [2027] and] after the end of each following calendar year, [\*\*\* each ship<sup>114</sup> to which this chapter applies shall submit<sup>115</sup> [an annual GHG fuel contribution] [an annual GHG fee to be collected by the Organization via the maritime GHG emissions pricing mechanism.] [contribution to the International Greenhouse Gas Fund (GHGF).] [corresponding to the GHG emissions resulting from fuel used on board over a 12-month period from 1 January to 31 December of the preceding calendar year (reporting period) in accordance with the provisions set forth in this regulation and regulation X11, using the data collected and verified in accordance with regulation 27 of this Annex, taking into account the guidelines to be developed by the Organization<sup>116</sup>.]

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<sup>112</sup> By MEPC resolution adopted at the time of adoption of these amendments. Draft Annex to resolution is set out in annex to this document.

<sup>113</sup> Refer to the Guidelines for the administration and management of the Sustainable Shipping Fund (SSF Guidelines).

<sup>114</sup> *Editor's Note: ICS proposes “all ships” instead of “each ship”.*

<sup>115</sup> *Editor's Note: ICS proposes “contribute” instead of “submit”; EU+JPN and SI propose “make” instead of “submit”.*

<sup>116</sup> see Guidelines to be developed by the Organization on the determination of the annual GHG fuel contribution for

[5 Within three months after the end of each calendar year, each ship shall provide the Organization, via the mechanism, with fuel oil consumption data as reported to the Administration, or any organization duly authorized by it, in accordance with regulations 27.3, 27.4 or 27.5 of this Annex.]

[3 Each ship shall provide the GHGF [annually] [at the time of bunkering] with data of the fuel bunkered and make the corresponding payment of the contribution to the GHGF. The GHGF shall issue a receipt. Upon request of an authorized port state control officer, the GHGF shall confirm if all due payments of the contribution to the GHGF have been made.]

## 2

### **[OPTION 2A:**

<sup>117</sup> On the basis of data specified in appendix IX transferred to the IMO Net Zero Fund pursuant to regulation 27.9bis, the IMO Net Zero Fund shall notify to the ship the required annual GHG fuel contribution each year. ]

### **[OPTION 2B:**

6 No later than one month after receiving fuel oil consumption data from each ship, the Organization shall provide the ship with a Provisional Statement, accessible via the mechanism to the Company responsible for that ship, which sets out the annual CO<sub>2</sub>e emissions of the ship, the CO<sub>2</sub>e emissions prevented by the use of a zero and/or near-zero fuel, technology and/or energy source which is eligible for feebates pursuant to regulation 40 of this Annex, and the annual GHG fee which is due to be received by 30 April. If the ship is eligible for a feebate pursuant to regulation 39 of this Annex and the feebate to be received is less than the annual GHG fee, this shall be deducted from total annual GHG fee set out in the Provisional Statement.]

## 3

### **[OPTION 2A:**

<sup>118</sup> The required annual GHG fuel contribution shall be determined as follows, taking into account guidelines to be developed by the Organization<sup>119</sup>:

[Required annual GHG fuel Contribution =  $V_{\text{contribution}} * T$ , where:

$V_{\text{contribution}}$  is the value of the contribution rate per tonne of CO<sub>2</sub>eq emitted based on fuel used on board set at [XX] units of account;

T is the mass of GHG emitted, in tonnes of CO<sub>2</sub>eq, on Well-to-Wake basis, as reported in accordance with Appendix IX<sup>120</sup>. ]

### **[OPTION 2B:**

2 For a minimum period of 5 years after entry into force of this chapter, the total GHG fees to be collected annually via the mechanism shall be sufficient to:

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ships.

<sup>117</sup> *Editor's Note: EU+JPN proposes this provision under paragraph 2 first sentence.*

<sup>118</sup> *Editor's Note: EU+JPN proposes this provision under paragraph 2 second sentence.*

<sup>119</sup> see Guidelines to be developed by the Organization on the determination of the annual GHG fuel contribution for ships.

<sup>120</sup> see proposal to amend Appendix IX, taking into account LCA Guidelines (MEPC 376(8), as amended) and other Guidelines to be developed by the Organization.

.1 provide feebates for the prevention of 100<sup>121</sup> million tonnes of CO<sub>2</sub>e emissions by the use of zero and near-zero GHG energy sources, at the feebate rate specified by regulation 39.1 of this Annex; and

.2 provide the sum to be allocated annually to the IMO Net Zero Shipping Fund, in accordance with regulation 37.6 of this Annex, unless feebates need to be provided for the prevention of more than 100 million tonnes of CO<sub>2</sub>e emissions in any calendar year.

3 To meet the requirements specified under paragraph 2 of this regulation, for a minimum period of 5 years after entry into force of this chapter, the annual GHG fee for each ship to which this regulation applies shall be fixed at a rate and value of [US\$17.5]<sup>122</sup> per tonne of CO<sub>2</sub>e emitted, with the equivalent rate and value of the contribution per tonne of fuel oil consumed to be determined by the Organization, taking into account Guidelines adopted by the Organization.<sup>123</sup>

4 For ships emitting zero CO<sub>2</sub>e emissions, taking into account Guidelines adopted by the Organization<sup>124</sup>, the GHG fee required under paragraph 1 of this regulation shall be zero.  
]

### [OPTION 3

<sup>125</sup> The contribution for each ship to which this regulation applies shall be fixed at a rate and value to be determined in accordance with guidelines to be developed by the Organization on the basis of:

.1 the lifecycle GHG emission associated with the fuel type or blend compared to the lifecycle GHG emission of HFO

.2 the quantity of fuel bunkered.

2 The initial baseline quantum shall correspond to [150] USD/ton of CO<sub>2</sub>e, and shall be regulated upwards by decision of the Marine Environment Protection Committee at least every five years. ]

4 [\*\* In the event of the transfer of a ship<sup>126</sup>

### [OPTION 2A:

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<sup>121</sup> For the purpose of this regulation, assuming that one billion tonnes of CO<sub>2</sub>e are produced by shipping annually and that the upper end of the IMO 2030 zero/near-zero energy target is achieved in any calendar year within the first 5 years of implementation of the measure, it is assumed that feebates would be needed for the CO<sub>2</sub>e prevented by the use of zero/near-zero GHG sources equivalent to 10% of the energy used by shipping, i.e., the prevention of 100 million tonnes of CO<sub>2</sub>e per year.

<sup>122</sup> A possible GHG fee of [US\$17.5] per tonne of CO<sub>2</sub>e emitted could be sufficient to meet the objectives of regulation 38.2 if the feebate rate was set at US\$100 per tonne of CO<sub>2</sub>e prevented by the use of zero/near-zero GHG fuels, and about 250 million tonnes of fuel oil per annum (i.e. the total consumed by ships above the 5,000 GT threshold, i.e. emitting 800 million tonnes of CO<sub>2</sub>e) are subject to GHG fees. If the GHG fee was set at this level, the cost gap with conventional Liquid Fuel Oil would be reduced by a further US\$56 per tonne of fuel consumed due to zero GHG fuels being exempt from the GHG fee.

<sup>123</sup> By MEPC resolution adopted at the time of adoption of these amendments. Draft Annex to the MEPC resolution is set out in annex to this document.

<sup>124</sup> Guidelines to be developed on eligible zero/near-zero GHG fuels, based on the LCA guidelines.

<sup>125</sup> *Editor's Note: SI propose this provision as second sentence of paragraph 1.*

<sup>126</sup> *Editor's Note: EU+JPN proposes this provision under paragraph 3; ICS proposes this provision under paragraph 10.*

<sup>127</sup> addressed in regulations 27.4, 27.5 or 27.6 completed after 1 January [2027], a ship shall, after the end of the calendar year in which the transfer takes place, make an annual GHG fuel contribution corresponding to the full 12-month period from 1 January to 31 December in the calendar year during which the transfer took place, in accordance with paragraphs 1, 2 and 3 of this regulation for verification in accordance with regulation 6.10, taking into account guidelines to be developed by the Organization<sup>128</sup>. Nothing in this regulation relieves any ship of its obligations under regulation 27, X11 or this regulation of this Annex. ]

#### [OPTION 2B:

<sup>129</sup> from one Administration to another, the annual GHG fee made by the ship in accordance with paragraph 1 of this regulation shall cover the period of the calendar year corresponding to the losing Administration.

11 In the event of a change from one Company to another, the annual GHG fee made by the ship in accordance with paragraph 1 of this regulation shall cover the portion of the calendar year corresponding to the previous Company.

12 In the event of change from one Administration to another and from one Company to another concurrently, paragraph 8 of this regulation shall apply.]]]

### .3 Collection of economic contribution by ships (regulation X)

[\*\*\* Regulation [X8] [X10] [38] [10]

#### [OPTION 1:

##### **Sustainable Shipping Fund (SSF)**

2 The Fund shall collect revenues through sale of Remedial Units to ships, distribute rewards based on received Surplus Units, and allocate and distribute remaining revenues. The Fund may also receive contributions from other sources, such as voluntary donations. ]

#### [OPTION 2:

1

##### [Calculation and collection of GHG fees]

[\*\*1 [Subject to regulation 41 of this Annex,] within [seven] [five] months after the end of each calendar year each ship<sup>130</sup> [to which this chapter applies] shall submit<sup>131</sup> an annual GHG [fuel contribution] [fee] to [be collected by] the [IMO Net-Zero Fund established by the] Organization [under regulation X13 equal to the amount calculated in accordance with regulation X10.3, taking into account the guidelines to be developed by the Organization]<sup>132</sup> [via the maritime GHG emissions pricing mechanism].

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<sup>127</sup> *Editor's Note: EU+JPN proposes this provision under paragraph 3.*

<sup>128</sup> see Guidelines to be developed by the Organization on the determination of the annual GHG fuel contribution for ships.

<sup>129</sup> *Editor's Note: ICS proposes this provision under paragraph 10.*

<sup>130</sup> *Editor's Note: ICS proposes "all ships" instead of "each ship".*

<sup>131</sup> *Editor's Note: ICS proposes "contribute" instead of "submit"; EU+JPN propose "make" instead of "submit".*

<sup>132</sup> see Guidelines to be developed by the Organization on the collection by the IMO Net Zero Fund of the annual GHG fuel contribution for ships.

[3 Each ship shall provide the GHGF [annually] [at the time of bunkering] with data of the fuel bunkered and make the corresponding payment of the contribution to the GHGF. The GHGF shall issue a receipt. Upon request of an authorized port state control officer, the GHGF shall confirm if all due payments of the contribution to the GHGF have been made.]

2

**[OPTION 2A:**

2 The annual GHG fuel contribution can be made in installments, provided that the total amount of the annual GHG fuel contribution is made within the period mentioned in paragraph 1. In case the total amount of GHG fuel contribution is not made within the period mentioned in paragraph 1, the Administration is entitled to recover from the ship the amount not collected by the IMO Net-Zero Fund, together with an administrative fee [not higher than [XX]% of the amount of the annual GHG contribution thus recovered and maximum of XXXXX [units of account]. The Administration shall transfer to the IMO Net-Zero Fund the amount of the annual GHG contribution recovered from the ship pursuant to this paragraph as soon as possible.

5 The entity responsible for compliance with this regulation shall be the company at the time mentioned in regulation X11.1. ]

**[OPTION 2A:**

13 The mechanism shall allow the Company, as defined by paragraph 2.8 of regulation 2 of this Annex, that is responsible for GHG fees on behalf of the ship, to make a single annual payment calculated from the data reported to the mechanism in accordance with paragraph 5 of this regulation. In addition, the mechanism shall allow the Company the option to make contributions in advance, on a quarterly basis or as frequently as may be required, based on fuel oil purchased for consumption by the ship. ]

3

**[OPTION 2A:**

3 Upon receipt of the annual GHG fuel contribution in accordance with paragraph 1, including in cases where the annual GHG fuel contribution is made pursuant to regulation X10.4 and paragraph 2 of this regulation, the IMO Net Zero Fund shall issue an electronic confirmation of receipt in respect of each ship. ]

**[OPTION 2B:**

[7 No later than one month after receiving the annual GHG fee from each ship, as required under paragraph 1 of this regulation, the Organization, via the maritime GHG emissions pricing mechanism, shall provide an Annual Account Statement to each ship confirming that the total GHG fee to be made for that ship for the previous calendar year, including the portion thereof as provided for in paragraphs 8 and 9 of this regulation, has been made.]

[4 Within three months after the end of each calendar year, the GHGF shall provide a GHGF Annual Account Statement to each ship confirming that the total contribution to be made to the GHGF for that ship for the previous calendar year, has been made.] ]

4

**[OPTION 2A:**

The electronic confirmation of receipt in respect of each ship shall be communicated to the Administration or to any organisation duly authorised by it and be automatically transferred to the IMO Ship Fuel [Use] Database. Access to this information shall be granted to that ship, the Administration or to any organisation duly authorised by it and to the officers duly authorized by a Party to this Annex to perform a port State inspection under regulation 10.5bis. ]

**[OPTION 2B:**

<sup>133</sup> [\*\* Following receipt of the Annual Account Statement, the ship shall promptly provide the Administration, or any organization duly authorized by it, with the [IGGM] Annual Account Statement.]

9 No later than one month after receiving the Annual Account Statement from the ship, the Administration, or any organization duly authorized by it, shall issue a Statement of Compliance in accordance with regulation 6.9 of this Annex. ]]

## **.4 Flexible compliance mechanism(s) (regulation X)**

[ \*\* Regulation [X7] [35]

**[OPTION 1A:**

### **Compliance Approaches**

1 A ship shall be considered compliant if its attained annual GFI is equal to or lower than the target annual GFI.

2 Notwithstanding paragraph 1 of this regulation, ships are allowed to comply with the target annual GFI through the flexible compliance approaches as set out in paragraphs 3 and 4 of this regulation, taking into account the guidelines<sup>134</sup> to be developed by the Organization, provided its final compliance balance is zero.

3 A ship with the attained annual GFI lower than the target annual GFI may have Surplus Units. The Surplus Units of a ship can be:

- .1 transferred to other ships in the same compliance pool;
- .2 banked for use in the following reporting period; and/or
- .3 rewarded by the Sustainable Shipping Fund (SSF).

4 The total amount of Surplus Units used for the purposes specified in paragraph 3 of this regulation shall be right equivalent to original amount of the Surplus Units and shall be deducted from the original amount, so that the final compliance balance of the ship will be zero.

5 Only the GHG reductions achieved using fuels of Categories A+, A, B, and C are eligible to generate Surplus Units. The sustainability of fuels shall be evaluated and determined taking into account the guidelines<sup>135</sup> to be developed by the Organization.

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<sup>133</sup> *Editor's Note: ICS proposes this provision under paragraph 8; SI proposes this provision under paragraph 5.*

<sup>134</sup> Refer to the Guidelines on the flexible compliance approaches related to GHG fuel intensity (GFI Compliance Guidelines).

<sup>135</sup> Refer to the Guidelines on sustainability criteria for assessment and categorization of fuels used on board (Sustainability Criteria Guidelines).

6 A ship with the attained annual GFI higher than the target annual GFI will have Deficit Units. Such a ship shall be considered compliant provided its Deficit Units are balanced through:

.1 the Surplus Units obtained from other ships in the same compliance pool; and/or

.2 the Surplus Units banked from the last reporting period; and/or

.3 the Remedial Units obtained through making contributions to the Sustainable Shipping Fund (SSF).

7 The total Deficit Units balanced through the approaches specified in paragraph 6 of this regulation shall be right equivalent to the original amount of the Deficit Units and shall be deducted from the original amount, so that the final compliance balance of the ship will be zero.]

#### **[OPTION 1B:**

##### **Energy pooling compliance mechanism for ships**

1 For applicable ships, the Administration may approve the use, by a ship, of an energy pooling mechanism to demonstrate compliance with regulation 33 of this Annex<sup>136</sup>. Each ship in the energy pooling compliance mechanism shall be issued with a Pooled Energy Intensity Compliance Certificate (PEICC)<sup>137</sup> either by the Administration or any organization duly authorized by it.

2 Each ship in an approved energy pooling compliance mechanism that has an Attained GFI superior to the Required GFI, as set out under regulation 33 of this Annex, may allocate the verified excess GFI to the energy pooling compliance mechanism, taking into account the guidelines developed by the Organization<sup>138</sup>.

3 The verified excess GFI of a ship participating in an approved energy pooling compliance mechanism can be used by a ship in the same energy pooling compliance mechanism to comply with regulation 33 of this Annex, provided that the Attained GFI<sup>139</sup> of each ship participating in the same energy pooling mechanism shall comply with the required GFI as set out in regulation 33 of this Annex.

4 The Attained GFI of a ship participating in an approved energy pooling compliance mechanism shall be the arithmetic mean GFI of the ships participating in the pool, over the period the ship is a member of the same energy pooled compliance mechanism.

5 The Attained GFI of each ship participating in an approved energy pooling compliance mechanism shall be verified by the ship's Administration or any organization duly authorized by it, and included on the PEICC issued by the Administration or any organization duly authorized by it.

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<sup>136</sup> Energy pooling compliance mechanism guidelines for Administrations to be developed which could be a standalone set of guidelines or incorporated in the SEEMP Guidelines. This can be done after approval of this chapter.

<sup>137</sup> Form of the Pooled Energy Intensity Compliance Certificate (PEICC) to be developed. This can be done after approval of this chapter.

<sup>138</sup> Energy pooling compliance mechanism guidelines for ships to be developed which could be a standalone set of guidelines or incorporated in the SEEMP Guidelines. This can be done after approval of this chapter.

<sup>139</sup> This provision to be expanded on in the guidelines for Administrations MEPC.348(78) 2022 Guidelines for Administration verification of ship fuel oil consumption data and operational carbon intensity, as amended by resolution MEPC.389(81).

6 An approved energy pooling compliance mechanism may include ships of more than one Administration provided that the Administration of any ship participating in the pool has approved the energy pooling compliance mechanism and issued the ship with a PEICC.

7 Each Administration that allows the use of an energy pooling compliance mechanism as set forth in paragraph 1 of this regulation shall communicate to the Organization for circulation to the Parties particulars thereof, for their information and appropriate action, if any. ]

[OPTION 2: No text. ] ]

## **.5 Central management/oversight of collected revenue (regulation X)**

[ Regulation [X10] [X13<sup>140</sup>] [40] [[X11], [X11bis]]

[OPTION 1:

### **Sustainable Shipping Fund Governing Board (SSB)**

1 From calendar year [2027], the Organization shall establish the Sustainable Shipping Fund Governing Board (SSB), taking into account the guidelines<sup>141</sup> to be developed by the Organization.

2 The SSB, the members of which are appointed by the Parties, shall have a geographically balanced composition and safeguard that the Fund and the GFI Registry is established and operated, and that funds are managed and used in accordance with regulations in this Annex.

3 The SSB shall produce an annual report to the Committee summarizing:

- .1 its annual activities;
- .2 the information collected through the GFI Registry, including the information related to the GFI data, transactions of Compliance Units, compliance pools, and the status of missing data;
- .3 the information related to the operation of the Fund, including total revenues generated by the Fund and the allocations made; and
- .4 other relevant information as may be requested by the Committee. ]

[OPTION 2:

*{Editor's Note: ICS suggested regulation 38, set out under point 10.2 (Calculation of economic contribution by ships (regulation X)) and 10.3 (Collection of economic contribution by ships (regulation X)) addresses also this point 10.5 (Central management/oversight of collected revenue (regulation X)).}*

### **Regulation 40**

#### **IMO Net Zero Shipping Fund**

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<sup>140</sup> *Editor's Note: EU+JPN proposes "[to be further developed]" under "Central management/oversight of collected revenue (regulation X13)".*

1 Within 12 months of entry into force of this chapter, the Organization shall establish an IMO Net Zero Shipping Fund in accordance with terms of reference established by the Organization as required in paragraph 2 of this regulation, to support the projects and programmes set out in regulation 37.2 of this Annex as may be decided by a supervisory committee comprising representatives of Parties to this chapter, balanced in terms of geographical representation.

2 The Organization shall establish terms of reference<sup>142</sup> for the governance and management of the IMO Net Zero Shipping Fund, including principles and priorities for the disbursement of revenues, taking into account Guidelines adopted by the Organization.

3 The Marine Environment Protection Committee shall oversee the activities and governance of the IMO Net Zero Shipping Fund in accordance with the rules and regulations of the Organization, taking into account Guidelines adopted by the Organization. ]

### **[OPTION 3:**

#### **[Regulation X11**

##### **IMO Net Zero Fund**

1 The Organization shall establish an IMO Net-Zero Fund in accordance with terms of reference established by the Organization as required in paragraph 2, to support the activities under paragraph 3, as may be decided by the Parties to this chapter.

2 The Organization shall establish terms of reference for the establishment, governance and management of the IMO Net-Zero Fund, including sources of funding and disbursement criteria, taking into account Guidelines adopted by the Organization.

3 The Marine Environment Protection Committee shall oversee the activities and governance of the IMO Net-Zero Fund in accordance with the rules and regulations of the Organization, taking into account Guidelines adopted by the Organization.]

#### **[Regulation X11bis**

##### **IMO Net-Zero Fund**

1 The Organization shall establish an IMO Net-Zero Fund in accordance with terms of reference established by the Organization as required in paragraph 2, for the purpose of:

.1 funding for projects and programmes that may include:

.1 capacity-building to support the decarbonisation of shipping in developing countries, especially SIDS and LDCs;

.2 funding, inter alia, for the IMO GHG TC Trust Fund<sup>143</sup> to support other maritime GHG reduction projects in developing countries, especially SIDS and LDCs;

.3 funding for applied research and development (R&D) programmes of alternative fuels and innovative technologies; and

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<sup>142</sup> A draft document for the establishment and governance of the IMO Net Zero Shipping Fund (then called the IMSB) is set out in annex 4 of document ISWG-GHG 14/3. To be finalised for submission to ISWG-GHG 17?

<sup>143</sup> IMO “GHG TC Trust Fund” is the voluntary multi-donor trust fund to sustain the Organization’s technical cooperation and capacity-building activities to support the implementation of the 2023 IMO GHG Strategy with terms of reference set out in annex 11 of document MEPC 81/16/Add.1

.4 funding for seafarer training on alternative fuels and innovative technologies;

.5 promotion of a just and equitable transition; and

.2 administration of the IMO Net-Zero Fund, including the establishment and administration of a fee and allocation mechanism ensuring this entails no costs to the Organization.

2 The Organization shall establish terms of reference for the establishment, governance and management of the IMO Net-Zero Fund, including sources of funding and disbursement criteria, taking into account Guidelines adopted by the Organization.

3 The funds paid to the IMO Net-Zero Fund shall only be used for the purposes specified in paragraph 1 of this regulation.

4 The Marine Environment Protection Committee shall oversee the activities and governance of the IMO Net-Zero Fund in accordance with the rules and regulations of the Organization, taking into account Guidelines adopted by the Organization. ] ]

## **.6 Distribution of revenue (regulation X)**

[ **\*\*\* Regulation [X8] [X14] [37, 39] [11]**

**[OPTION 1:**

### **Sustainable Shipping Fund (SSF)**

3 The revenues collected shall be used as a priority to satisfy reward claims for Surplus Units. The remaining funds shall be allocated for the purposes such as applied research and development (R&D) programmes and technology transfer regarding alternative fuels and innovative technologies, in-sector capacity building and negative impact mitigation in developing countries, and promoting a just and equitable transition in the context of the Strategy the IMO Strategy on reduction of GHG emissions from ships, following the principles predetermined by the Organization.

5 The Committee can at any given point in time request an audit of the Fund. ]

**[OPTION 2:**

### **Distribution of revenue**

#### **Annual fuel reward**

1 After the end of calendar year [2027], within [six] months after the end of each subsequent calendar year until the uptake of eligible fuels in international shipping reaches [30%] and, at the latest, by 2040, each ship can make a request to the IMO Net Zero Fund for an annual monetary reward which corresponds to the amount of eligible fuels used by the ship over a 12-month period from 1 January to 31 December for the preceding calendar year (annual fuel reward) in accordance with paragraphs 2 to 5 of this regulation, using the data collected and verified in accordance with regulation 27 of this Annex, taking into account the guidelines to be developed by the Organization.<sup>144</sup> The request for an annual fuel reward shall be made via electronic communication and using a standardized format to be developed by the Organization.

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<sup>144</sup> see Guidelines to be developed by the Organization on the determination by the IMO Net Zero Fund of the annual fuel reward.

2 The annual fuel reward shall be determined as follows:

$$\text{Annual Fuel Reward} = \sum_{i=1}^I E_i \times R \times ([10] - GHG_i), \text{ where:}$$

*i* is the type of eligible fuel used during the reporting period, in accordance with the guidelines to be developed by the Organization

*I* is the total number of eligible fuel types used during the reporting period

*E<sub>i</sub>* is the total amount of energy consumed by the ship by using fuel *i*, expressed in MJ, calculated according to the LCA Guidelines

*R* is the value of the reward rate, expressed in [units of account] per each unit of energy consumed (units of account/MJ), calculated in accordance with paragraph 3

[10] is the threshold value of eligible fuels in g CO<sub>2</sub>eq/MJ

*GHG<sub>i</sub>* is the GHG intensity of eligible fuel *i*, expressed in CO<sub>2</sub>eq/MJ, calculated according to the LCA Guidelines

3 The value of the reward rate mentioned in paragraph 2 shall be determined annually and made publicly available by the IMO Net Zero Fund on [1 January] of each calendar year. The value shall be [based on the estimated cost difference between the cheapest fuel delivering on the required annual GFI and the cheapest eligible fuel, in accordance with the guidelines to be developed by the Organization<sup>145</sup>].

4 After receipt of the data transferred to it pursuant to regulation 27.9bis of this Annex, the IMO Net Zero Fund will verify the use of eligible fuels by the ship, taking into account the guidelines developed by the Organization.

5 Within [eight] months after the end of the calendar year, each ship who has requested an annual fuel reward and whose use of eligible fuels has been verified in accordance with paragraph 4, shall be granted an annual fuel reward equal to the amount calculated in accordance with paragraph 2.

6 In the event of any transfer of a ship addressed in regulations 27.4, 27.5 or 27.6 completed after 1 January [2027], a ship intended to make a request to the IMO Net Zero Fund for annual fuel reward shall, after the end of the calendar year in which the transfer takes place, make its request for annual fuel reward on the basis of the eligible fuels used for the full 12-month period from 1 January to 31 December in the calendar year during which the transfer took place, in accordance with regulation X14.1, taking into account guidelines to be developed by the Organization.

### **GFS integrity financing**

7 Any revenues received pursuant to regulation X7.3.2.2 shall be disbursed by the IMO Net Zero Fund exclusively on initiatives that reduce the GHG emissions within the boundaries of the energy system of international shipping, in accordance with guidelines to be developed by the Organization.<sup>146147</sup>

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<sup>145</sup> see Guidelines to be developed by the Organization on the determination by the IMO Net Zero Fund of the annual fuel reward, which shall provide, amongst others, for the value of the reward rate to be determined in accordance with regulation X14.3 after factoring in the annual GHG contribution for each ship and the impact of the SCUs in reducing the price gap between eligible fuels and fuels which comply with the required annual GFI.

<sup>146</sup> see Guidelines to be developed by the Organization on the distribution of revenues sourced from the [Alternative compliance approaches] to the Goal-based marine fuel standard.

<sup>147</sup> *Editor's Note: EU+JPN proposes "[Additional conditions to be inserted]" under paragraph 7.*

## Promoting a Just and Equitable transition

8 *[Under further examination - Other objectives with regards to distribution of revenues towards effecting a just and equitable transition will be included, including where to best provision them (MARPOL Convention or elsewhere). In particular, this objective should address:*

- *Disproportionately Negative Impacts (DNI), if any: Estimations of the possible financial needs for addressing DNI, if any, are not available at this stage; the comprehensive impact assessment will bring clarity on this;*
- *Support for climate transition in LDCs and SIDS, within the value chain of energy for shipping.]*

## Research, Development and Innovation (R&D&I)

9 *[Under further examination - Other objectives with regards to promoting the energy transition of shipping through Research, Development and Innovation (R&D&I) will be included. This objective includes among others support to novel, efficient technologies for fuel production, bunkering technologies, zero- and near-zero technologies and cutting-edge energy efficiency improvements in shipping. Special funding windows for R&D&I in developing states could be considered to ensure a more equitable distribution of funds.<sup>148</sup> ]*

### [OPTION 3:

#### Regulation 37

#### Purpose of the mechanism and disbursement of revenue

1 The GHG fees collected via the mechanism shall be used for the following purposes:

- .1 ensuring that at least 5% to 10% of the energy used by shipping comes from zero or near-zero GHG sources as soon as possible, on a pathway to net zero GHG emissions, by incentivizing the accelerated production and uptake of zero and near-zero GHG fuels, energy sources and technologies through the provision of annual feebates to ships for the CO<sub>2</sub>e emissions prevented by reducing, in combination with the application of a GHG fee, the cost gap between zero and near-zero GHG fuels and conventional Liquid Fuel Oil; and
- .2 administration of the maritime GHG emissions pricing mechanism, including establishment and administration of the feebate element pursuant to regulation 39 of this Annex, ensuring this entails no costs to the Organization.

2 For five years after entry into force of this chapter, provided that the total GHG fees collected for CO<sub>2</sub>e emissions occurring in any calendar year shall be adequate to meet the purposes set out in paragraph 1 of this regulation, up to [20%<sup>149</sup>] of the total GHG fees collected may be allocated to the IMO Net Zero Shipping Fund, established in accordance

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<sup>148</sup> *Editor's Note: EU+JPN proposes "[...]" under paragraph 9.*

<sup>149</sup> Assuming that for the initial 5 years of implementation about 250 million tonnes per year of conventional fuel oil (800 million tonnes of CO<sub>2</sub>e) is subject to GHG fees, read in combination with regulation 38.2 concerning the need for total GHG fees to be adequate to provide feebates for the prevention of up to 100 million tonnes of CO<sub>2</sub>e per year, the GHG fee of [US\$17.5] per tonne of CO<sub>2</sub>e suggested in regulation 38.3, and the feebate rate of US\$100 per tonne of CO<sub>2</sub>e prevented suggested in regulation 39.1, in practice this means that a sum less than about US\$ 2.5 billion per year being allocated to the Fund would only occur if more than 10% of the energy used by shipping in any year between 2027 and 2032 came from zero or near-zero GHG sources.

with regulation 40 of this Annex, to support maritime GHG reduction projects and programmes in developing countries. These projects and programmes may include:

- .1 capacity-building in developing countries, especially SIDS and LDCs, including deployment of zero or near-zero GHG maritime fuel production facilities and new bunkering infrastructure that may be required in ports to expedite transition;
- .2 funding, inter alia, for the IMO GHG-TC Trust Fund to support other maritime GHG reduction projects in developing countries, especially SIDS and LDCs;
- .3 funding for applied research and development (R&D) programmes of alternative fuels and innovative technologies; and
- .4 funding for seafarer training in developing countries and promotion of a just transition.

3 The GHG fees collected shall only be used for the purposes specified in paragraphs 1 and 2 of this regulation.

4 Any additional GHG fees generated from the provision of Surcharge Fees to ships, in accordance with regulation 34 of this Annex, shall also be allocated to the IMO Net Zero Shipping Fund.

5 Following the review of this chapter, required by regulation 42 of this Annex, the proportion of the total GHG fees collected annually which may be used to provide funding for the IMO Net Zero Shipping Fund, as set out in paragraph 2 of this regulation, may be adjusted.

## **Regulation 39**

### **Feebates disbursed via the maritime GHG emissions pricing mechanism**

1 Each ship using an eligible zero or near-zero GHG fuel, technology and/or energy source, as determined by the Organization, shall receive a feebate, disbursed by the Organization via the mechanism, based on a feebate rate of US\$[100] per tonne of CO<sub>2</sub>e emissions prevented each calendar year, with the equivalent feebate rate per tonne of fuel consumed each calendar year to be determined by the Organization, taking into account Guidelines adopted by the Organization.<sup>150</sup>

2 Within three months after the end of each calendar year, each ship eligible to receive a feebate for CO<sub>2</sub>e emissions prevented during the previous calendar year shall provide the Organization, via the mechanism, with fuel oil consumption data with respect to an eligible zero or near-zero GHG fuel, technology and/or energy source as reported to the Administration, or any organization duly authorized by it, in accordance with regulations 27.3, 27.4 or 27.5 of this Annex.<sup>151</sup>

3 No later than one month after receiving fuel oil consumption data for the previous calendar year from a ship which reports the use of an eligible zero or near-zero fuel, technology and/or energy source, the Organization shall, via the mechanism, provide a Provisional Statement to the ship, as required by regulation 38.6 of this Annex, which sets out the annual feebate to be received by the ship for the CO<sub>2</sub>e emissions prevented during

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<sup>150</sup> By MEPC resolution and annex adopted at the time of adoption of these amendments. Draft Annex to the MEPC resolution set out in annex to this document.

<sup>151</sup> Amendment required to DCS provisions (regulation 27 and appendix IX of MARPOL Annex VI) to include zero/near-zero GHG fuels, technology and/or energy sources eligible for feebates.

the previous calendar year by the use of an eligible zero or near-zero GHG fuel, technology and/or energy source, including the portion thereof as provided for in paragraphs 8 and 9 of this regulation.

4 If the feebate to be received by the ship in accordance with paragraph 3 of this regulation is more than the GHG fee required by regulation 38.3 of this Annex, on receipt of the Provisional Statement, the ship shall forward this to the Administration, or any organization duly authorized by it, requesting a Feebate Eligibility Confirmation Statement which confirms that the fuel consumption data with respect to eligible zero and near-zero GHG fuels, provided by the ship using the maritime GHG pricing mechanism, is the same as that provided in accordance with regulations 27.3, 27.4 or 27.5 of this Annex. If the feebate to be received by the ship is less than the GHG fee, this will be deducted from total amount due to be transmitted by the ship, via the mechanism, as set out in the Annual Account Statement.

5 No later than one month after receiving a request for a Feebate Eligibility Confirmation Statement from the ship, the Administration, or any organization duly authorized by it, shall issue a Feebate Eligibility Confirmation Statement in accordance with regulation 8.6 of this Annex.

6 Following receipt of the Feebate Eligibility Confirmation Statement from the Administration, or any organization duly authorized by it, the ship shall promptly provide the Organization, via the mechanism, with the Feebate Eligibility Confirmation Statement.

7 No later than one month after receiving the Feebate Eligibility Confirmation Statement for the ship, the Organization, via the mechanism, shall disburse the feebate to the ship.

8 In the event of the transfer of a ship from one Administration to another, the feebate received by the ship in accordance with paragraph 1 of this regulation shall cover the period of the calendar year corresponding to the losing Administration.

9 In the event of a change from one Company to another, the feebate received by the ship in accordance with paragraph 1 of this regulation shall cover the portion of the calendar year corresponding to the previous Company.

10 In the event of change from one Administration to another and from one Company to another concurrently, paragraph 8 of this regulation shall apply.

[11 With the approval of the Administration, a ship below 5,000 gross tonnage may be eligible for a feebate provided that GHG fees are made by the ship as required by

regulation 38 of this Annex and that the ship provides the Organization with fuel oil consumption data for that ship, via the mechanism in accordance with regulation 38.5, as reported to the Administration, or any organization duly authorized by it, in accordance with regulations 27.3, 27.4 or 27.5 of this Annex, and that a Statement of Compliance is issued to that ship in accordance with regulation 6.9 of this Annex. Regulation 6.10 of this Annex shall not apply to ships below 5,000 gross tonnage.]

*{Editor's Note: ICS suggested regulation 38.2, set out under point 10.2 (Calculation of economic contribution by ships (regulation X)) addresses also this point 10.6 (Distribution of revenue (regulation X)).} ] ]*

#### **[OPTION 4:**

#### **Revenue disbursement**

1 The GHGF shall disburse the revenues necessary to cover its administration costs, ensuring it is operated at no cost to the IMO.

2 In order to achieve the purpose of the Mechanism, the GHGF shall additionally disburse revenues so as to best achieve the following objectives, taking into account the impacts of climate change, and the relative negative impacts of the implementation of these regulations, on developing countries, especially SIDS and LDCs:

A The levels of ambition set out in paragraphs 3.2, 3.3, and 3.4 of the 2023 IMO GHG Strategy are achieved.

B Emissions from international shipping decrease as quickly for ships when they are bunkering in developing countries, and in SIDS and LDCs, as they do for ships when they are bunkering in developed countries.

C The climate impacts of emissions from international shipping in developing countries, especially SIDS and LDCs, are addressed.

D A just transition for seafarers is promoted, including through seafarer training in developing countries, especially SIDS and LDCs.

E The full and effective participation of developing countries, particularly SIDS and LDCs, in the transition, is ensured.

3 The GHGF shall reserve annually at least [51%] of the received funds for distribution as grants to most vulnerable countries particularly SIDS and LDCs to ensure a just and equitable transition that leaves no country behind, including supportive measures including necessary infrastructure; in accordance with Regulation xx, some or all of this revenue may be channelled through other UN Agencies with appropriate competencies to administer such categorization of funds agreements on the use; ]

**N/A**

[\*\* Regulation [41] [12]

### **Dates for implementation**

1 Implementation of the requirements stipulated under regulation 38 of this Annex shall commence on a date [to be determined by the MEPC] after the [maritime GHG emissions pricing mechanism] [GHGF] has been established [in accordance with the requirements of regulation 36 of this Annex] [with an account that can receive the contributions and facilitates to issue receipts].

2 Implementation of the requirements stipulated under regulations 37 and 39 of this Annex shall commence on a date 12 months after implementation of the requirements stipulated under regulation 38 of this Annex.

3 The Organization shall review and confirm that the requirements under regulations 36 and 38 of this Annex have been met no later than 12 months after entry into force of chapter 5 of this Annex. The Parties, based on the review undertaken by the Organization, shall decide whether the maritime GHG emissions pricing mechanism shall commence operations. If the Parties to this chapter decide that the mechanism is not ready to commence operations then a further review shall be undertaken within six months. ]

## **.11 Review of the chapter]**

[ \*\*\*\* Regulation [X11] [42] [X12]

Review [\*\* of this Chapter]

[OPTION 1:

\*\*1 A review shall be completed by 1 January [2030] [20XX] by the Organization to assess:

[.1 the effectiveness of the regulations in this chapter in promoting the energy transition of shipping and providing the world fleet a needed incentive while contributing to a level playing field and a just and equitable transition;] and

.1 the effectiveness of [the] regulations [of chapter 4bis] [X4, X5, X7 and X13] in reducing the [GHG fuel intensity] [average GFI of international shipping in line with regulation [X2] of this Annex [, taking into account the technological and market developments on the uptake of fuels delivered and used on board ships]];

[.2 the need for adjustment of Z factors;

.3 the need for adjustment of compliant approaches]; and

.4 the need for [adjustment of SSF, the GFI Registry and SSB] [<sup>152</sup>revision of the functions of the IMO Net Zero Fund as defined in regulation X13 of this Annex].

[Further reviews on these matters may be conducted if so decided by the Parties.]

[\*\* 2 If based on the review the Parties decide to adopt amendments to regulations of this chapter, such amendments shall be adopted and brought into force in accordance with the provisions of article 16 of the present Convention.]

[2 Notwithstanding paragraph 1, the Organization shall review the value of the contribution rate per tonne of CO<sub>2</sub>eq emitted mentioned in regulation X10.3 every [five] years.] ]

[OPTION 2:

\*\* 1 After a period of [two years]<sup>153</sup>, beginning on the date that this chapter enters into force, the Organization shall review the status of this chapter and amend the relevant provisions if necessary [, including the maximum proportion of GHG fees collected annually that may be allocated to the IMO Net Zero Shipping Fund.

2 By [2033], and at five year periods thereafter, the Organization shall review the status of this chapter and amend the relevant provisions if necessary.]

\*\* 3 Upon completion of the [work programmes] [activities] of the IMO Net Zero [Shipping] Fund, and with the approval of the Organization, the IMO Net Zero [Shipping] Fund<sup>154</sup> [and/or, as appropriate, the maritime GHG emissions pricing mechanism] shall cease operations. Upon such a determination, [regulations 37, 38, 39 and 40] [Chapter 5.2] of this Annex [and its requirements] shall be [reviewed and may be] dissolved, unless the Parties determine otherwise. ] ]

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<sup>152</sup> *Editor's Note:* EU+JPN proposes this provision under paragraph 1.3.

<sup>153</sup> *Editor's Note:* ICS proposes "two years" outside square brackets; WSC proposes "two years" within square brackets.

<sup>154</sup> *Editor's Note:* WSC proposes "of its activities, and with the approval of the Organization, the IMO Net-Zero Fund" instead of "the activities of the IMO Net Zero Fund, and with the approval of the Organization, the IMO Net-Zero Fund".

## Appendices

### .1 Appendix V (BDN)

[<sup>155</sup> 11 [reference to the Fuel Lifecycle Label (FLL) in accordance with the LCA Guidelines to be inserted.]

12 In case of blending different products, information under points 5 to 11 shall be included in the bunker delivery note in for each product delivered. ]

### .2 Appendix IX (DCS)

[ Information to be submitted to the IMO Ship Fuel [Use] Database (regulation 27)

[Fuel ~~use oil consumption~~, by fuel ~~oil~~ type in metric tonnes on a per voyage basis and methods used for collecting fuel ~~use oil consumption~~ data  
.....

<sup>156</sup> For ships to which Chapter 5 of MARPOL Annex VI apply:

company name and contact details .....

Port of registry .....

attained annual greenhouse gas fuel intensity (attained annual GFI) (g CO<sub>2eq</sub> /MJ)<sup>157</sup>  
.....

Number of Surplus Compliance Units already credited in the account of the ship with the GFI Registry: .....

Number of Surplus Compliance Units or Remedial Compliance Units needed for compliance with the required greenhouse gas fuel intensity (required annual GFI):  
.....

Voyages within the period for which the data is reported per voyage completed, as follows:

port of origin ..... date and time of departure .....

port of destination..... date and time of arrival .....

Power capacity of other energy conversion systems installed onboard (to be stated in MW).....

Standards and characteristics of equipment to allow on shore power supply  
.....

Other on board power sources, not listed above, by energy carrier type (to be stated in MW) and methods used for collecting relevant data .....

Well-to-Wake emission factors covering all GHG emissions, split in Well-to-Tank, Tank-to-Wake and fugitive emissions, of fuels used on board per fuel type and amount, including fuel oil .....

annual Greenhouse gas emissions resulting from fuel used on board (to be stated in tonnes of CO<sub>2eq</sub>) .....<sup>158</sup> ]

<sup>155</sup> *Editor's Note: EU+JPN proposes these provisions are inserted under current paragraph 10 of Appendix V.*

<sup>156</sup> *Editor's Note: EU+JPN propose these parameters are inserted after current parameter "EEOI (gCO<sub>2</sub>/t•nm or others" in Appendix IX.*

<sup>157</sup> Not applicable in the event of any transfer of a ship addressed in regulations 27.4, 27.5 or 27.6.

### .3 Appendix X (Statement of Compliance)

#### [ **Appendix X**

**Statement of Compliance related to the annual GHG fuel intensity<sup>159</sup> ]**

#### [ **APPENDIX [XII]**

#### **Form of the Statement of Compliance – Green Balance Mechanism**

#### **STATEMENT OF COMPLIANCE – GREEN BALANCE MECHANISM**

Issued under the provisions of the Protocol of 1997, as amended, to amend the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 related thereto (hereinafter referred to as "the Convention") under the authority of the Government of:

.....  
(full designation of the Party)

by .....  
(full designation of the competent person or organization authorized under the provisions of the Convention)

Notes:

- |   |  |
|---|--|
| 1 | This Statement of Compliance shall be available on board the ship at all times.  |
| 2 | The Statement of Compliance shall be at least in English, French or Spanish. If an official language of the issuing Party is also used, this shall prevail in case of a dispute or discrepancy.                                    |
| 3 | Entries in boxes shall be made by inserting either: a cross (x) for the answers "yes" and "applicable"; or a dash (-) for the answers "no" and "not applicable", as appropriate.   |
| 4 | Unless otherwise stated, regulations mentioned in this Statement of Compliance refer to regulations in Annex VI of the Convention, and resolutions or circulars refer to those adopted by the International Maritime Organization. |

#### **Particulars of ship<sup>160</sup>**

Name of ship .....

Distinctive number or letters .....

IMO Number<sup>161</sup> .....

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<sup>158</sup> *Editor's Note: EU+JPN propose "[other data to be inserted as necessary.]" after "annual Greenhouse gas emissions resulting from fuel used on board (to be stated in tonnes of CO<sub>2</sub>eq)".*

<sup>159</sup> *Editor's Note: EU+JPN proposes "[to be further developed]" under "Statement of Compliance related to the annual GHG fuel intensity)".*

<sup>160</sup> Alternatively, the particulars of the ship may be placed horizontally in boxes.

Port of registry .....

Gross tonnage.....

THIS IS TO DECLARE THAT:

- 1. the ship has submitted to this Administration a Confirmation Statement required by regulation X5.5 of Annex VI of the Convention; .....
- 2. the ship has submitted to this Administration a Confirmation Statement required by regulation X6.5 of Annex VI of the Convention, .....
- [3. the Attained GFI of the ship from (dd/mm/yyyy) through (dd/mm/yyyy) was: ..... grams-CO<sub>2e</sub>/MJ<sup>162</sup> pursuant to regulation X4.1 of Annex VI of the Convention, for ships to which regulation X4 of Annex VI of the Convention applies;] [or] .....
- [4. the ship is subject to a flexible ship energy compliance approach and the weighted mean Attained GFI of the ship from (dd/mm/yyyy) through (dd/mm/yyyy) was: .....grams-CO<sub>2e</sub>/MJ<sup>163</sup> pursuant to regulation X8.3 of Annex VI of the Convention, for ships to which regulation X4 of Annex VI of the Convention applies .....

This Statement of Compliance is valid until (dd/mm/yyyy) .....

Issued at: .....  
(place of issue of Statement)

Date (dd/mm/yyyy) .....  
(date of issue) (signature of duly authorized official issuing the Statement)

(seal or stamp of the authority, as appropriate)

\*\*\* ] ]

**N/A**

**[ [Appendix Xbis](#)**

**[Statement of Compliance related to the annual GHG fuel contribution<sup>164</sup>](#) ] ]**

<sup>161</sup> In accordance with the IMO ship identification number scheme (resolution A.1078(28)).

<sup>162</sup> On a Well-to-Wake basis in accordance with the 2024 LCA Guidelines (MEPC.391(81))

<sup>163</sup> On a Well-to-Wake basis in accordance with the 2024 LCA Guidelines (MEPC.391(81))

<sup>164</sup> *Editor’s Note: EU+JPN proposes “[to be further developed]” under “Statement of Compliance related to the annual GHG fuel contribution”.*

**+ Possible accompanying new guidelines and consequential amendments to existing guidelines**

*{Editor's Note: To be further developed}*