

ICHCA DELEGATE REPORT
OF THE 7TH MEETING OF THE IMO INTERSESSIONAL WORKING GROUP ON GREENHOUSE GASES (ISWG-GHG 7)

Monday 19 – Friday 23 October 2020 (Virtual meeting)

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Scope and Purpose

IMO's Intersessional Working Group on Greenhouse Gas Emissions (ISWG-GHG 7) met virtually from Monday 19 to Friday 23 October 2020 in five, three-hour daily sessions. The Group focussed on the development of binding regulations and guidelines to bring about a reduction of GHG emissions in line with IMO's climate change strategy adopted in 2018. These will be submitted to the next meeting of the Marine Environment Protection Committee (MEPC 75) for adoption.

ICHCA was represented by James Hookham, a Board Member of ICHCA International and also Secretary General of the Global Shippers Forum (GSF). This report has been prepared for both organisations use. The meeting focussed on legal and technical measures applying only to vessels and did not deal with activities relating to cargo handling at the ship-shore interface nor to the treatment and dispatch of cargoes and no direct threats to ICHCA or GSF members' interests were identified. However, the wider costs and benefits of the proposed measures will be felt indirectly by all parties across the maritime industry and beyond, should they be adopted.

Summary of Outcomes

The Working Group agreed on recommendations for short-term measures intended to achieve IMO's Initial GHG Strategy to reduce the carbon intensity of shipping by 40% by 2030. The Working Group's final report contains proposals for changes to the MARPOL Convention (Annex VI) that will require binding improvements in a vessel's energy efficiency and carbon intensity over specified time periods, together with certification, inspection and enforcement arrangements and sanctions for non-compliance. The Report also contains Annexes specifying further details on calculation of these indicators for different types of ship. There remains a long list of Guidance documents that have yet to be produced to give practical effect to the measures and enable compliance and enforcement to be undertaken on a globally consistent basis.

Alongside the legal provisions, the Working Group also agreed terms of reference for a comprehensive impact assessment of the measures on the economies of countries.

The agreed package received only lukewarm support from several nations, notably EU members, the UK, Canada and New Zealand, due to a lack of ambition in the scale of reductions and the relative mild sanctions for failure to achieve them, in their view. This may yet lead to the emergence of more demanding regional measures, such as the European Parliament's proposal that shipping be included in the EU Emissions Trading Scheme. However, a clear majority of Members, together with representatives of the shipping industry, supported the final report together with the parallel proposal for the commissioning of an impact assessment study.

The Working Group's final report will be submitted to the 75th meeting of the Marine Environment Protection Committee (MEPC 75) taking place virtually from 16 to 20 November 2020 where the proposed measures will be proposed for adoption.

Proposed Short-Term Measures for GHG Reduction from Ships

The Working Group's agreed package of measures consists of the following elements

Legal requirements

Reductions in GHG emissions would be mandated through amendments to Annex VI of the MARPOL Convention. The Working Group agreed new and amended regulations that would extend the existing Energy Efficiency Design Index (EEDI) certification requirements (that prescribe minimum levels of energy efficiency in newly built ships) to existing vessels. This measure will be known as the Energy Efficiency Existing Ship Index (EEXI) and is to be recorded in the existing Ship Energy Efficiency Management Plan (SEEMP) required for each vessel. This will establish the vessel's baseline level of energy efficiency from which future improvements (i.e. reductions in emissions) will be measured. (*new Regulation 20A*).

The emission reduction measures to be implemented are of two types:

- Technical requirements, which set Reduction Factors for the EEXI value compared to the EEDI baseline to be achieved by each ship type over time.
- Operational requirements, which require the annual calculation and reporting of the attained operational Carbon Intensity Index (CII) against a required target and the setting of a Performance Rating by the State Administration depending on the levels of improvement achieved in practice. **Technical requirements** (*new Regulation 21A*)

The Working Group agreed new Carbon Intensity Reduction Factors (the percentage reductions in the EEXI measure relative to the EEDI baseline) that each vessel will need to achieve over time. Different reduction factors are set for each ship type (bulk carrier, tankers, container ships, etc) and for different ship sizes within each type. (*new Regulation 21A*). These requirements will mainly affect how the vessel is equipped and maintained over that period.

Operational requirements (*Regulations 22, 22A, 22B*)

These requirements will affect the way the ship is operated, including speed, manoeuvring, operation of ancillary equipment, fuel mix, etc. By 1 January 2023, all vessels of 5000 dwt or above will be also be required to amend their SEEMP to include:

- The required operational CII for the vessel to be achieved in each of the following three years
- An Implementation Plan showing how the required annual operational CII is intended to be achieved.
- The methodology for calculating the attained (actual) CII for that vessel
- A Procedure for self-evaluation and assessment

The required annual operational CII will reduce each year by a reduction factor specific to each ship type and size (Factor Z) but values for these have not yet been proposed. (Regulation 22B).

The practical effect of this is that from the beginning of 2023 at the latest, each vessel will have:

- documented its baseline efficiency level
- calculated a target efficiency level to be achieved for each of the following three calendar years
- compiled a plan showing how these targets are to be achieved and how performance against the plan will be assessed and improved.

Vessel Performance Rating (*New Regulation 22B*)

At the beginning of every calendar year, each vessel will then have to report its **attained** CII over the preceding 12 months (Jan-Dec) to their state administrations. Depending on how closely a vessel's

attained CII matches its *required* CII for that year, the Administration will assign an Operational Carbon Intensity Rating to the Vessel which grades its performance against its reduction plan on a scale of A to E. The Required operational CII for each vessel is to be reduced each year by a reduction factor (Z) which will be specified for different ship types and size ranges. However, these values have yet to be proposed or discussed. The middle point of Rating C will be the required CII for each vessel meaning the vessel is achieving the reductions in emissions set out in its Improvement Plan:

Rating	Performance	Meaning
A	Major superior performance	<i>Required CII reduction significantly exceeded</i>
B	Minor superior performance	<i>Required CII reduction exceeded</i>
C	Moderate performance	<i>Required CII reduction attained</i>
D	Minor inferior performance	<i>Required CII reduction not attained</i>
E	Inferior performance	<i>Required CII reduction significantly not attained</i>

Sanctions

States' administrations, port authorities and other stakeholders will be encouraged to devise incentives for vessels rated A and B. Ships rated as E in any calendar year or rated as D for three consecutive years or more will be required to review and revise their SEEMP to show what corrective action will be taken to attain the required CII and then implement it. The revised SEEMP will need to be submitted to the State's Administration for verification.

Guidelines

The measurement, calculation and assessment of these various measures (known as the 'Short-term Measures') will be performed 'taking into account' IMO Guidelines that have yet to be developed. The Working Group's report includes an Annex showing the intended timelines for development of these Guidelines in diagrammatic form, which is annexed to this Delegate Report.

The Working Group agreed draft Terms of Reference for a Correspondence Group on development of the technical guidelines on Carbon Intensity reduction that will report to MEPC 76. This will include the development of a Carbon Intensity Code that will include the operational Carbon Intensity Reduction Factors for different types and sizes of vessel (Factor Z) that will in practice define the 'ambition' of the Short-term Measures in achieving reductions in Greenhouse Gases from ships.

Review

All these measures will be subject to a review by IMO prior to 1 January 2026 to assess their effectiveness and the need for revision of corrective actions, enforcement measures, data collection systems and the Z factor, which determines the year-on-year improvement in Carbon Intensity required of each vessel.

Impact Assessment

The Working Group further agreed draft Terms of reference for the conduct of a comprehensive impact assessment of these measures that will be completed and submitted to MEPC 76, expected to take place in June 2021. This is likely to be undertaken by UNCTAD's Trade and Logistics Division, led by Jan Hoffmann.

Next Meeting

The final report requests approval of MEPC for a further meeting of the Working Group (ISWG-GHG 8) to be held prior to MEPC 76, to finalise many of the outstanding Guidelines necessary to give operational effect to the Short-term measures described above. MEPC 76 is expected to be held in June 2021 but no dates for a meeting of the Working Group were set.

**ANNEX 3
INDICATIVE WORKPLAN ON THE DEVELOPMENT OF GUIDELINES AND THE CARBON INTENSITY CODE***

Activity	2020	2021	2022	2023	2024	2025	2026
Amendments to MARPOL Annex VI	Approval and adoption	Acceptance and entry into force				Review of Reg. 21A and 22B	
Guidelines on the method of calculation of the attained EEXI	Finalization and approval				Application		
Guidelines on survey and certification of the attained EEXI	Finalization and approval				Application		
Guidelines on the Shaft/Engine Power Limitation System to comply with the EEXI requirements and use of a power reserve	Finalization and approval				Application		
Guidelines on operational carbon intensity indicators and the calculation methods (CII guidelines)	Development, finalization and approval				Application		
Guidelines on the reference lines for use with operational carbon intensity indicators (CII Reference line guidelines)	Development, finalization and approval				Application		
Guidelines on the operational carbon intensity reduction factors relative to reference lines (CII Reduction factor guidelines)	Development, finalization and approval				Application		
Guidelines on the operational carbon intensity rating of ships (CII Rating Guidelines)	Development, finalization and approval				Application		
Update of 2016 Guidelines for the development of a Ship Energy Efficiency Management Plan (SEEMP), including to incorporate the development of a plan of corrective actions		Development, finalization and approval	Development, finalization and approval		Application		Consolidated into a Carbon Intensity Code, as appropriate
Update of 2017 Guidelines for administration verification of ship fuel oil consumption data, as appropriate			Development, finalization and approval		Application		
Update of 2017 Guidelines for the development and management of the IMO Ship Fuel Oil Consumption Database, as appropriate			Development, finalization and approval		Application		
Update of 2013 Guidance on treatment of innovative energy efficiency technologies for calculation and verification of the attained EEDI, as appropriate			Development, finalization and approval		Application		
Update of Procedure on submission of data to the IMO data collection system of fuel oil consumption of ships from a state not party to MARPOL Annex VI, as appropriate			Development, finalization and approval		Application		
Update of Procedures for port State control, 2019, as appropriate			Development, finalization and approval		Application		
Development of a Carbon Intensity Code		Development, finalization and approval	Development, finalization and approval	Acceptance and entry into force			Mandatory application

* this indicative workplan will be reviewed and updated, as appropriate, after each session of MEPC
