IMO’s net-zero strategy for global shipping starts with pricing carbon but it’s not perfect

The IMO’s new net-zero framework for shipping is an achievement and a starting point, not an end stage. The package introduces carbon pricing for greenhouse gas emissions above a downward sloping target level and redirects the revenues for greening. This pushes shipping companies to act, but ultimately more is needed

The IMO has adopted a framework that puts a price on carbon exceeding target levels

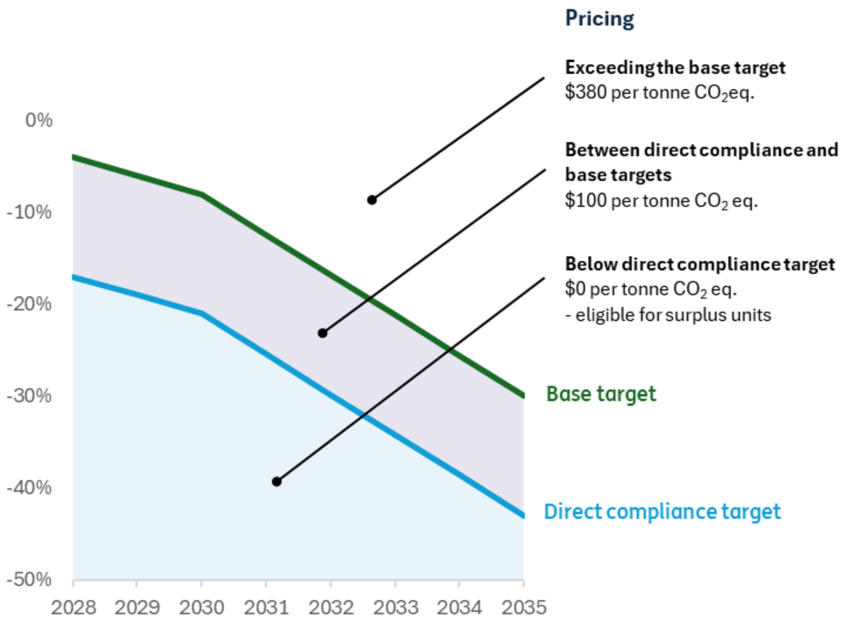
On Friday, 11 April, the Marine Environment Protection Committee (MEPC) of the International Maritime Organization (IMO) agreed upon a set of mid-term measures to get the sector on track to net-zero by 2050. This follows the global shipping regulator's earlier implementation of short-term measures focused on fuel efficiency. The package is due to be adopted by October 2025, with details and implementation guidelines to be specified and approved in spring 2026, before being included in the MARPOL treaty and coming into force in 2027.

The most important elements of the net-zero framework are:

- **Carbon price on target-exceeding emissions**: The framework sets a price of $380 per tonne of CO2 equivalent for emissions that fail to meet the base target of an 8% greenhouse gas reduction by 2030, increasing to a 30% reduction by 2035 compared to 2008 levels (starting in 2027). For emissions falling short of a 21% reduction by 2030, running up to 2040 but below the base target, a charge of $100 is applied (see chart). Shipping companies could end up paying up to $1200 per tonne of bunker fuel emitted above the base target, which would quadruple current prices and force action. This means that the largest fraction of shipping emissions remains out of scope. Transport and Environment expects the framework to generate some $10 billion in revenues until 2035. The charges will be redistributed to support greening. What this will look like exactly still needs to be worked out.
- **Rewarding fast movers:** Companies outperforming the framework in terms of GHG reduction will receive surplus units, which they could save or sell.
- **Fuel agnostic:** The framework introduces a global fuel standard and takes a well-to-wake approach. It doesn't exclude fuels or particular feedstocks, but focuses on greenhouse gas intensity in grams CO2-equivalent per Mega Joule (gCO2eq/MJ).

Exceeding targeted GHG reduction factors will be priced according to two tiers

Targeted reduction of GHG emissions per year on a company level and associated levy per tonne in case of exceeding (reference: 2008)



Source: IMO

But the policy fails to introduce a pricing mechanism covering all shipping emissions

Although the willingness to make progress on pricing measures is encouraging, the proposed framework doesn't introduce full carbon pricing as implemented under the European Union's ETS for shipping. This would not only make bunker fuel less attractive, it generates much more budget to support greening as well. Several market players, including leading global container liners and shippers such as Cargill and Trafigura, have previously advocated for putting a price on all emissions as this could be a forceful instrument to support decarbonisation. Maersk called for a levy starting from $150-200 and preferably even significantly higher to support the transition. However, this also raises the costs of shipping, and adopting this was probably not achievable at the global level at this point. From an economic point of view, though, this would ultimately be necessary to narrow the gap between bunker fuels and costlier renewable fuels like green methanol and ammonia, and support investments in infrastructure and availability.

Fuel neutrality risks putting biofuels at the forefront

The net-zero framework takes a well-to-wake approach and looks at the greenhouse gas intensity of the fuels that companies use. It's still unclear which fuel options will be eligible for subsidies and to what amount, but the agreement doesn't exclude alternative fuels (and includes LNG as well). As such, companies are also allowed to use biofuels, which are often the cheapest and easiest lower-carbon option as they can be used in the existing fleet and don't require investments in new technology. This will boost demand while demand from the aviation sector also starts to mount. It also raises questions about controversial (first-generation) feedstocks without specific requirements. Moreover, it could distract from investments in alternatives.

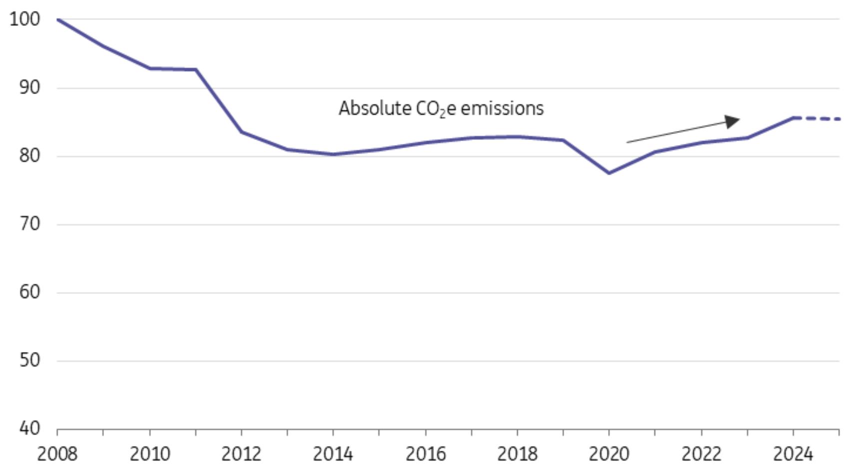
Targets fall short of earlier ambitions

In terms of target setting, the IMO previously adopted a goal of reducing GHG emissions by 20%, striving for 30% by 2030, and 70%, striving for 80% by 2040, both compared to 2008. The adopted framework seems to focus on a reduction of at least 8%-21% by 2030, which looks less ambitious. At the same time, total absolute emissions in shipping have risen in recent years, underscoring the need for more decisive action going forward.

All in all, I believe this framework is definitely a step in the right direction, but it should also be seen as a framework to build upon further down the line.

At the general sector level global shipping GHG emissions have increased in the last couple of years

Index 2008 = 100



Source: Clarksons, ING Research

Author

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

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