ANNEX 16

TERMS OF REFERENCE OF THE COMPREHENSIVE IMPACT ASSESSMENT OF THE BASKET OF CANDIDATE MID-TERM MEASURES

Background

1 The 2023 IMO GHG Strategy foresees that in accordance with the timelines in the Strategy and the Work Plan, a basket of candidate measure(s), delivering on the reduction targets, should be developed and finalized comprised of both:

.1 a technical element, namely a goal-based marine fuel standard regulating the phased reduction of the marine fuel's GHG intensity; and

.2 an economic element, on the basis of a maritime GHG emissions pricing mechanism.

The candidate economic elements will be assessed observing specific criteria to be considered in the comprehensive impact assessment, with a view to facilitating the finalization of the basket of measures.

The mid-term GHG reduction measures should effectively promote the energy transition of shipping and provide the world fleet a needed incentive while contributing to a level playing field and a just and equitable transition.

2 In accordance with the 2023 IMO GHG Strategy, the impacts on States of a measure/combination of measures should be assessed and taken into account as appropriate before adoption of the measure(s) in accordance with the *Revised procedure for assessing impacts on States of candidate measures* (MEPC.1/Circ.885/Rev.1). A comprehensive impact assessment of the measure(s) should be conducted as set out in the MEPC.1/Circ.885/Rev.1.

3 The comprehensive impact assessment should assess the impacts on States of the mid-term measure/combination of measures, including on developing States, in particular on least developed countries (LDCs) and small island developing States (SIDS).

4 In accordance with paragraph 18 of MEPC.1/Circ.885/Rev.1, once the impact assessment is completed, and disproportionately negative impacts assessed and addressed, as appropriate, the measure(s) may be considered for adoption.

5 The comprehensive impact assessment should be policy neutral.

Various technically possible combinations

6 In order to initiate the comprehensive impact assessment as soon as possible, and to inform the Committee for its selection of the combination of elements for a basket of measures, the Committee considered that it would be good to have an overview of the impacts of various technically possible combinations, without prejudging which measure(s) will be adopted.

7 Therefore, the Committee identified (a) the various forms of a goal-based marine fuel standard regulating the phased reduction of the marine fuels' GHG intensity; and (b) the various forms of maritime GHG emissions pricing mechanism, in line with the 2023 IMO GHG Strategy, set out in appendix 1, the 'Measures Matrix'.

8 The Committee identified a number of technically possible combinations of a goal-based marine fuel standard and forms of maritime GHG pricing mechanisms, as set out in appendix 2, to be assessed.

9 On the basis of these technically possible combinations, the Committee identified the parameters to set up various scenarios for the comprehensive impact assessment illustrating how different designs of the combinations, as set out in appendix 3, including changes in stringency and use of potential revenue, could influence the impacts.

10 The comprehensive impact assessment should assess the impacts on States of all combinations and scenarios. It should ensure consistency with regard to the maritime activity and BAU emissions scenarios and take care that emission reduction scenarios are consistent across scenarios, and in line with the 2023 IMO GHG Strategy, to form the information basis for the Committee in its final selection of the combination of measures. The comprehensive impact assessment could also assess the impacts of other scenarios, if so decided by the Steering Committee.

Additional guidance on specific elements to be assessed

11 For the purpose of conducting the modelling for the comprehensive impact assessment, the assumption should be that net-zero GHG emissions will be reached by 2050.

12 In accordance with paragraph 16 of the appendix to MEPC.1/Circ.885/Rev.1, the comprehensive impact assessment will include quantifying the impacts of the measure(s) in terms of countries' trade and Gross Domestic Product (GDP) change, using the output of the assessment of impacts on the fleet as its main input at the global level.

13 For the purposes of paragraph 8, the assessment of impacts on States should consider, as appropriate, inter alia, the following terms:

.1 geographic remoteness of and connectivity to main markets;
.2 cargo value and type;
.3 transport dependency;
.4 transport costs;
.5 food security;
.6 disaster response;
.7 cost-effectiveness; and
.8 socio-economic progress and development.

14 The assessment should also consider the parameters referred to in paragraph 19 of the appendix to MEPC.1/Circ.885/rev.1.

15 Information from the comprehensive impact assessment will also be taken into account for the finalization of the measure(s).

Establishment of the Steering Committee to initiate the conduct of the comprehensive impact assessment

16 The Committee requests the Secretary-General to establish the Steering Committee on the comprehensive impact assessment of the basket of candidate mid-term measures, and the Steering Committee to conduct the comprehensive impact assessment in accordance with MEPC.1/Circ.885/Rev.1 and the paragraphs set out above, and to submit its interim report to MEPC 81 for consideration.

17 Member States and international organizations are invited to financially contribute to the comprehensive impact assessment by means of a donation to the GHG TC-Trust Fund.

APPENDIX 1

MEASURES MATRIX

				Economic measure / element on the basis of maritime GHG pricing mechanism										
				a	b	c	d	e	f	g	h	i	j	k
				SRUs*	Sustainable Shipping Fund through RUs* for in-sector purposes			GHG pricing on all GHG emissions / Levy						Feebate
Disbursement of any revenues				No revenues generated, but addresses/ reduces price gap and incentivize first movers	Capacity-building and negative impact mitigation	RD&D	Admin	RD&D	Reward for eligible fuels	General GHG mitigation and adaptation	Address DNI as appropriate	Equitable transition	Admin	Reward for eligible fuel
Technical measure / element	I	Goal-based fuel Standard	Sustainability (criteria) framework											
	II	Goal-based fuel standard	FCUs and GRUs*											
	III	Goal-based fuel standard												
		[placeholder for another option]												

* Some consider the flexibility element of the goal-based fuel standard to be a part of the technical element, others consider it an economic element

List of abbreviations:

DNI: Disproportionately Negative Impacts.
FCUs: Flexible Compliance Units.
GRUs: GHG Remedial Unit.
RD&D: Research, Development and Deployment.
RUs: Remedial Units.
SRUs: Surplus Reward Units.

APPENDIX 2

COMBINATIONS

Combination number	Technical element	Economic elements
1	I	a,b,c,d
2	III	e,f,g,h,i,j
3	II	h,i,j,k
4	II	b,c,d
5	II	e,f,h,i,j
6	II	e,f,g,h,i,j
7	I	a,b,c,d,k

APPENDIX 3

PARAMETERS FOR COMBINATIONS

Parameters for combination 1

TtW GHG intensity pathway of fuel/energy
Sustainability (criteria) framework to identify sustainable fuels/energy
SRUs price: to be determined by market (assumptions could be made)
RUs price, two options: Option 1: Given price before compliance period; or Option 2: 95th percentile of actual SRUs price
Distribution of revenue for b,c,d

Parameters for combination 2

GFI pathway
Level of the levy
Distribution of revenue for e,f,g,h,i,j
Prioritization of revenue use

Parameters for combination 3

Amount of revenue for h,i,j
Feebate method

Parameters for combination 4

GFI pathway
RU price
Distribution of SSF over causes

Parameters for combination 5

GFI pathway
GRU price
Level of the levy
Distribution of revenue for e,f,h,i,j
Prioritization of revenue use

Parameters for combination 6

GFI pathway
GRU price
Level of the levy
Distribution of revenue for e,f,g,h,i,j
Prioritization of revenue use

Parameters for combination 7

TtW GHG intensity pathway of fuel/energy
Sustainability (criteria) framework to identify sustainable fuels/energy
SRUs price: to be determined by market (assumptions could be made)
RUs price, two options: Option 1: Given price before compliance period; or Option 2: 95th percentile of actual SRUs price
Feebate method
Distribution of revenue for b,c,d

Parameters for combination X (not yet defined)

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