Key outcomes of MEPC84

IMO NZF: Way forward after MEPC 84

The 84th session of the IMO MEPC postponed negotiations on the substance of the Net-Zero Framework (NZF). While the NZF lives to fight another day thanks to ambitious countries including the EU holding firm, key questions over ambition and carbon pricing were postponed to future IMO sessions. At the same time, alternative proposals put on the table before MEPC 84 have concerning implications for the environmental integrity of any future deal.

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A push for further compromise on maritime climate ambition.

Ahead of MEPC 84 three submissions proposed alternatives to the NZF. While substantive discussion was postponed, two of them - MEPC 84/7/49 by Japan, and MEPC 84/7/38 by Argentina, Liberia and Panama - would substantially reduce the ambition of the NZF, and abandon key design elements required for its functioning. At the same time, MEPC 84/7/36 by Fiji et al. recognised the risk of further compromise and introduced an alternative that reintroduces their preference for a, 'universal levy' while maintaining the structure of the NZF, should discussions on potential mid-term measures be reopened.

	IMO NZF	Japan *(MEPC 84/7/49)*	Panama, Liberia, Argentina *(MEPC 84/7/38)*	Fiji et al. *(MEPC 84/7/36)*
GHG reduction targets (gCO2e/MJ)	2028: 89.57 2030: 85.84 2035: 65.31 2040: 32.66 **2050: TBD**	2028: 89.57 2030: 86.8 2035: 72.9 2040: TBD 2050: TBD	Self-adjusts towards available lover GHG marine fuels, i.e. LNG	2028: 89.57 2030: 85.84 2035: 65.31 2040: 32.66 **2050: TBD**
Flexibility mechanisms	Surplus Units can be BANKED, TRADED, POOLED, VOLUNTARILY CANCELLED	Surplus Units can be BANKED, TRADED, POOLED, VOLUNTARILY CANCELLED	Surplus Units can be TRANSFERRED, BANKED, BORROWED	NONE
Incentives for ZNZ Fuel and technologies	ZNZ rewards from fund revenue SU trading from overcompliance	SU trading from overcompliance *if available*	SU trading from overcompliance *if available*	ZNZ rewards from fund revenue
Enforcement	Remedial units at **$380 and $100** per tonne of excess CO_{2e}	Optional donations are considered	Optional port-state enforcement	Remedial units at **$380 and $300** per tonne of excess CO_{2e}
Carbon pricing and revenue distribution	Standalone fund and carbon pricing through RUs	Donations to pre-approved maritime projects	✕	Standalone fund and carbon pricing through RUs

The alternative proposals by Japan, and Argentina et al. compromise on three key areas of the original NZF design:

- **Carbon pricing and the Net Zero Fund:** By removing the centralised fund and economic elements of the NZF, both alternatives remove a key element of the compromise. The fund's revenue is required to incentivise the uptake of ZNZ fuels and technologies, and to support a just and equitable transition under the IMO Strategy.Without these functions, a future framework would fail to close the price gap for new fuels, and lose significant political support from the global south.

- **Enforcement or "alternative compliance"**: Where the NZF sets out Remedial Units as de-facto penalties for noncompliance, neither alternative offers reliable consequences for missing their relaxed fuel standards. Liberia et al. forgoes any centralised structure, rather transferring responsibility to port states, which may - or may not - develop their own enforcement mechanisms. Japan does identify to develop an alternative enforcement structure in the future, but does not offer concrete alternatives beyond the consideration of certified donations to pre-approved maritime projects.

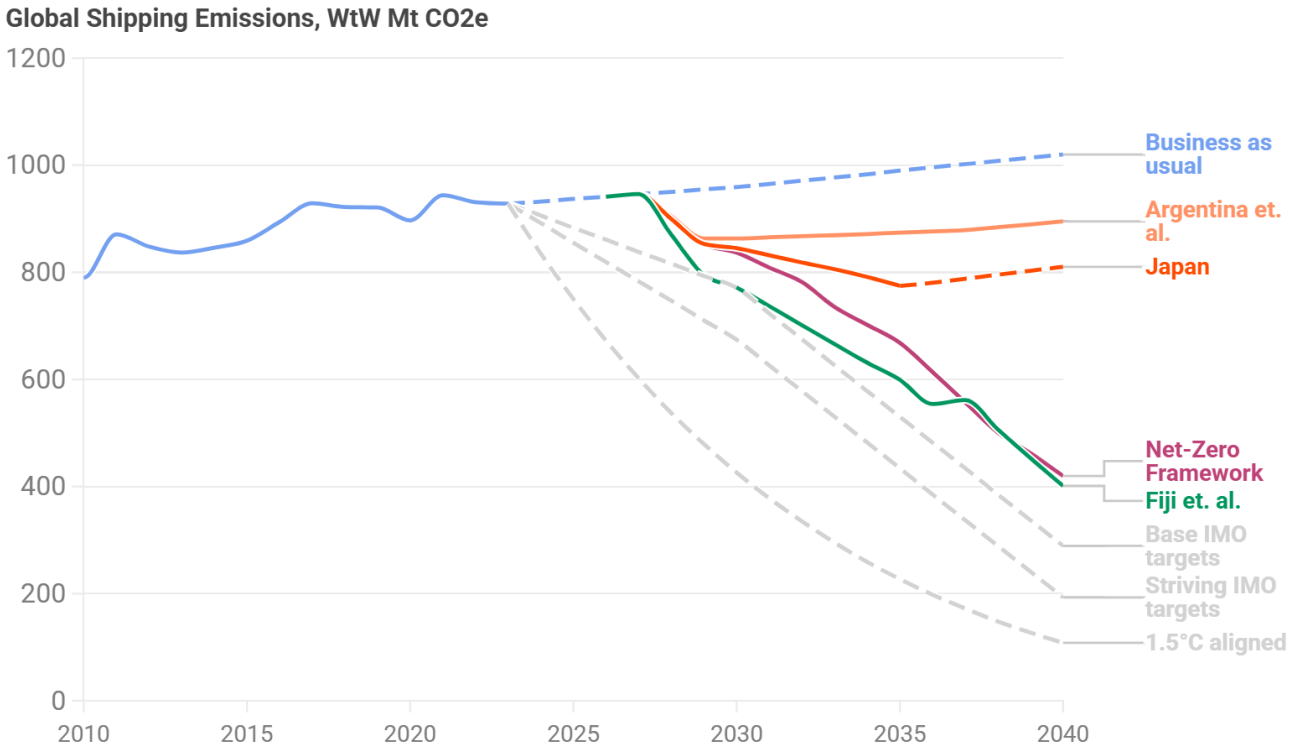
- **Target GFI trajectories:** Japan's proposed targets adjust the fuel standard for a hypothetical 15% increase in future energy efficiency (without proposing how to achieve it). This effectively reduces the required emission reductions from fuel switching by 12% in 2035, compared to the already off-target NZF. Argentina et al. abandon fixed targets entirely, arguing goals should instead adjust to the range of already available fuels. Without additional incentives, this would effectively lock the industry into conventional fuels and fossil LNG, while establishing extremely high barriers to entry for the renewable fuels required for any meaningful energy transition.

These reductions in both ambition and stringency severely limit the GHG abatement potential of either proposal. Indeed, **without enforceable consequences for non-compliance, any policy-driven change remains uncertain.**

We estimated emission reductions from all three alternative proposals alongside the NZF. These scenarios assume that the frameworks are successfully enforced, which is uncertain. In line with their loosened targets, Argentina et al. as well as Japan will fail to drive a long-term transition beyond a fuel switch to fossil LNG (and potentially some crop biofuels). In contrast, Fiji et al.'s higher RU prices would motivate slightly steeper reductions than the NZF, and maintain most of its capacity to induce ZNZ fuel deployment. Both the Argentina et al and Japan proposals would move global shipping even further from the agreed goals of the IMO GHG Strategy, which the NZF would already fail to meet.

If the trajectory set out by the IMO 2023 GHG strategy is to remain within reach, **countries must focus on implementing and sharpening the NZF as fast as possible**, rather than further compromising on ambition at the cost of a genuine maritime energy transition.

Reducing ambition from NZF would ensure failure to meet IMO targets



Source: T&E. Historical data based on IMO GHG studies, DNV (2024) and T&E calculations. BAU based on DNV 'low growth' scenario. Emissions of international shipping 400+ GT. Analysis assumes all proposals come into effect in 2029.

These estimates only include direct emissions and **do not account for the expected reliance on crop-based**, or first-generation biofuels, such as those produced from vegetable oils, including palm oil, soybeans or rapeseed. Currently, while the NZF is likely to incentivise ships to rely on these fuels, no safeguards are built into the measure to limit or cap the use of high-risk feedstocks and prevent associated emissions. Given the impact of crop-based biofuels on deforestation, reliance on these fuels would further limit emissions savings and could even increase total shipping emissions.

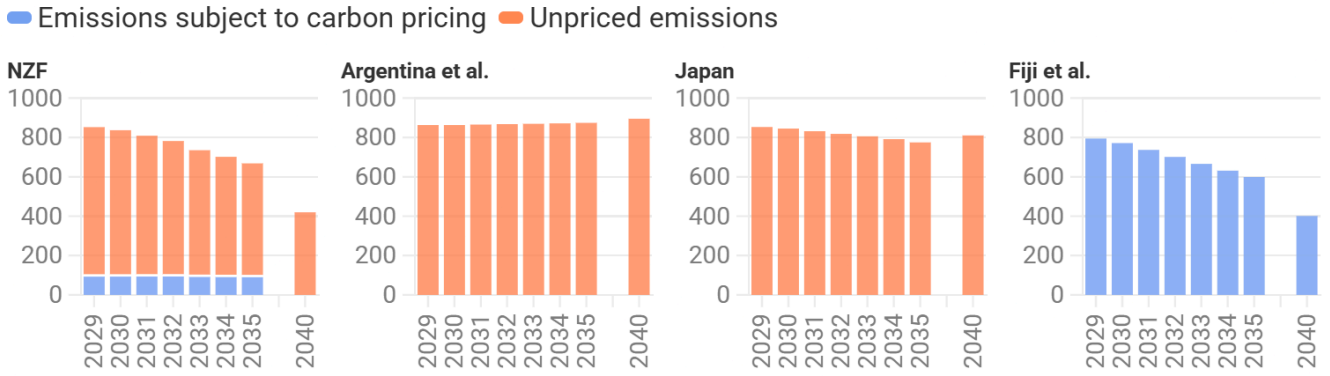
Contentious elements: The role and reach of global carbon pricing

Alongside decarbonisation trajectories, the so-called "economic element" has been at the core of dispute both during last October, and MEPC 84. Not only integral to enforcement and targeted support during the transition, the fund that would collect and distribute any revenues also received growing support as a core requirement of the framework from many developing nations, including the African Union and most Pacific Island states. At the same time, the US vocally opposes any such carbon pricing, reiterating its threat of retaliatory measures, despite the relatively small coverage of emissions in the NZF.

T&E previously estimated that the current NZF proposal would only price about 10% of GHG emissions from maritime transport. This shortcoming leaves a substantial price gap between the

effective costs of using fossil fuels and clean energy sources, while significantly diminishing the resources available to support the transition. Among the three alternative proposals to the NZF, only the Fiji et al. proposal significantly increases carbon pricing coverage.

Shipping polluters would escape penalties under Argentina et al. and Japan proposals



Source: T&E. Graphs show projected emissions per year under each proposal (m. tonnes CO2e), divided into those subject to carbon pricing (e.g. remedial units) and other emissions.

In stark contrast, not only would the proposals by Japan and Argentina et al. underdeliver on GHG emission reductions, these higher emissions would systemically evade liability for penalties or carbon pricing, allowing shipping companies to continue polluting without consequence.

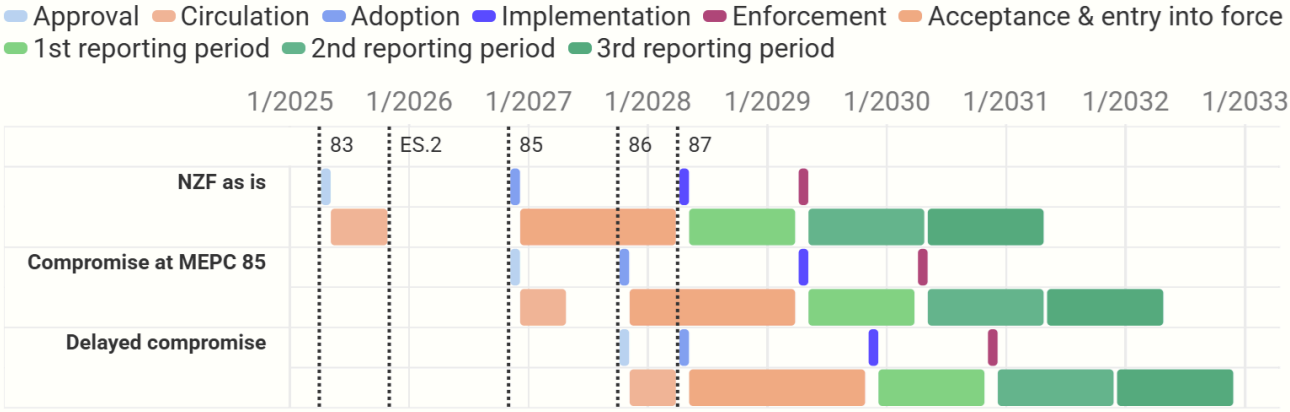
Continued negotiations risk further delays

The original NZF proposal envisioned an adoption in October 2025, which would have allowed for implementation from 2027 onward, and enforcement of compliance in 2028. MEPC ES.2 decided to delay the decision to adopt by one year, which already requires minor adjustments to the framework's annual targets to compensate for lost time.

Reopening the draft text for further amendments will lead to further delays due to the divergent views on key issues, concerns, and attempts to reduce overall ambition. Substantial amendments would require re-approval of the text, triggering a 6-month circulation period before adoption. Even assuming that a new compromise text could be approved at MEPC 85 in autumn 2026, it could only be adopted mid-2027, and enter into force not before early 2029, with 2030 marking the first full year of reporting.

In the likely case that additional time will be spent to find a new compromise, this timeline would be delayed further, even before clearing the important benchmark of adoption. Crucially, there is currently no MEPC meeting scheduled in spring 2027, meaning that in the case of a new compromise, or further delay, an additional 6 months would pass before negotiations can continue. This would lead to the first full year of reporting falling on 2030, with potential further delays depending on the meeting schedule beyond MEPC 87.

Potential timelines for implementation of IMO mid-term measures



Source: T&E based on IMO • Expected timelines for the introduction of an IMO mid-term measure via tacit acceptance procedure, with standard durations assigned to circulation of amendments after approval (6 months), acceptance window after adoption (12 months), and entry into force (6 months). Highlights indicate scheduled MEPC meetings.

Similarly, a formal switch to the IMO's "explicit acceptance procedure" would substantially delay implementation across all scenarios. It would require each MARPOL signatory to actively reconfirm its support for a new treaty amendment, triggering time-consuming domestic processes in many cases.

Technical work ongoing: Life cycle accounting (LCA) guidelines

Any future climate measures will require a robust and comprehensive emissions accounting framework. The IMO LCA guidelines will determine the environmental integrity, certification standards, and viable long-term pathways for the maritime sector. Only if the GHG emissions of the entire lifecycle of maritime fuels and technologies is taken into account can the IMO set the right incentives for a long-term transition, rather than locking in stop-gap solutions, or shifting emissions to shore-side industries. Two key issues are yet unresolved, and have similarly been postponed for future discussion.

- **Indirect land use change is yet to be reflected in IMO rules.** While previous MEPCs agreed to forego assigning GHG emission to indirect land-use change (ILUC), it did acknowledge the need for risk-assessment for biofuel feedstocks. Dubbed "qualitative risk-assessment", MEPC 84 postponed the discussion on whether this methodology will be limited to local or regional certificates, or include robust data-based approaches to assess the extent of agricultural expansion from shipping biofuel demand. Already driving substantial deforestation and biodiversity loss, crop-based biofuels are promoted as an affordable solution, while in reality ILUC emissions can

even increase the carbon footprint of some biofuels by a factor of three - and demand is already growing from domestic road and energy sectors.

- **Onboard Carbon Capture and Storage presents new accounting challenges**. After the first regulatory steps on OCCS, substantial technical work remains, as does political division on system boundaries, i.e. whether IMO accounting should cover the shore-side handling of captured CO2 after it is offloaded. Limiting accounting to the point when carbon offloaded at port would set a dangerous precedent, and leave substantial loopholes that would overstate the abatement potential. The IMO LCA guidelines already account for shore-side, or "upstream" emissions from fuel production and transport. Any potential CO2 reductions from OCCS must be subject to at least equally stringent rules, including a traceable chain of custody and certifiable proof of long-term storage, as well as liability and risk-management mechanisms

Without resolving these fundamental challenges, the IMO risks leaving major emissions unaccounted for the sake of political compromise. Incentivizing biofuels and OCCS without comprehensive accounting would divert much-needed investments from long-term solutions, send misaligned investment signals, and could even promote a transition that is worse than the status quo it is trying to solve.

Maritime decarbonisation cannot wait forever

While the NZF has been preserved as the basis for further work on remaining "concerns and issues", notably during MEPC 85 in November 2026, the alternative frameworks submitted to MEPC 84 by Argentina et al., Japan, and Fiji et al. hint at a large division on key issues among member states.

Notably, the economic element is contested despite being an integral part of the NZF and 2023 IMO GHG strategy, as is the extent to which the maritime decarbonisation pathway should include or even promote LNG. These discussions concern the core of any deal and if they cannot be addressed in autumn, will call into question the IMO's ability to secure an agreement that drives meaningful decarbonisation.

If MEPC 84 was a temperature test after the decision on the NZF was suspended, then MEPC 85 will determine whether governments can overcome opposition from the US and Gulf States to pass an ambitious measure at the IMO. Should delays at the IMO persist, and in lieu of a global framework, maritime decarbonisation is unlikely to gain substantial momentum without additional incentives. While industry initiatives from ports, fuel producers, and shipping companies will play a role, they require clear business cases instead of perpetual regulatory uncertainty.

Even if NZF passes 'as is', further regulation will be needed to meet climate goals and fund the transition. The draft deal is currently set to miss the IMO's own objectives for 2030 by c.8% - without even accounting for the ongoing delay, and potential indirect emissions from biofuels. Similarly, the NZF would only put a price on around 10% of shipping's GHG emissions, compared to 100% potential coverage under regional pricing schemes like the EU ETS.

Governments aiming to drive the transition must remain committed to an effective global measure, while accelerating work on alternative policies - cooperating among the solution-oriented majority, but based on integrated regional frameworks with robust enforcement. Further stalling will only jeopardize the transition.

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Annex: Methodology

Analysis of the potential emissions impact of different proposals is based on previous T&E analysis of the Net-Zero Framework and potential policy variations. The overall modeling approach and the majority of assumptions in this paper are equivalent to those in document ISWG-GHG 20/2/31 (Clean Shipping Coalition), unless otherwise stated.

Many variables are undefined in these alternative proposal scenarios (even for the NZF scenario, the impact of potential guidelines is still unclear) and so we make a number of simplifying assumptions. The model uses the same fleet shares of four main engine technologies for each scenario (Conventional, LNG Dual Fuel, Ammonia DF and Methanol DF), as per ISWG-GHG 20/2/31, and optimises expected operational compliance costs for ships of each engine type. We assume that all scenarios come into effect in 2029 and treat 2028 as a 'bridging' year for emissions. In reality as explored above, implementation may begin even later.

The BAU scenario in this paper is from T&E (2025), based on DNV's (2024) 'low growth' scenario and T&E calculations. For the NZF scenario, assumptions are as per the reference scenario in ISWG-GHG 20/2/31, aside from remedial unit prices, which increase annually from 2031 onwards as in UMAS (2025) to ensure that compliance is fully incentivised.

The 'Argentina et al.' scenario is based on document MEPC 84/7/38. We establish the GFI trajectory by setting GFI_{Max} according to the estimated emissions intensity of the current fleet, and GFI_{Min} at the intensity of Fossil LNG. Under the 'availability' and 'scalability' criteria, there are multiple significant barriers to entry that would likely prevent any new alternative fuel emerging as a viable alternative to existing fossil options. Therefore, we assume that no fuels other than fossil LNG become 'commercially viable fuels'. We assume full compliance for simplification; in reality, the lack of penalties in the regulation is likely to create incentives not to comply, so emissions abatement may be weaker than projected.

In the 'Japan' scenario, assumptions are based on document MEPC 84/7/49. We set the base and direct compliance targets according to Figure 2. For 2036-40 (marked by a dotted line in this paper), we assume that targets remain at their 2035 levels. We assume full compliance with the 'base' targets for simplification. However, the lack of penalties in the regulation, combined with the potential for the Committee to create extra SUs on demand to facilitate compliance, means that emissions abatement may be much weaker than projected.

For the 'Fiji et al' scenario, assumptions are based on document MEPC 84/7/28. We assume an adjusted direct compliance trajectory and remedial unit prices accordingly. Under this scenario, in some years the high level of RU pricing is projected to incentivise over-compliance with the regulation.