

MARINE ENVIRONMENT PROTECTION  
COMMITTEE  
2nd extraordinary session  
Agenda item 2

MEPC/ES.2/2/8  
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## **CONSIDERATION AND ADOPTION OF AMENDMENTS TO MANDATORY INSTRUMENTS**

**Assessment of impact of the IMO Net-Zero Framework as presented in document  
MEPC/ES.2/2 and identification of issues and shortcomings which present  
unacceptable risks to the shipping sector and its energy transition goals**

**Submitted by the United States**

### **SUMMARY**

*Executive summary:* This document evaluates shortcomings of the approved measures in document MEPC/ES.2/2, and the associated risks with regard to the costly economic impact, the shipping industry's practical ability to meet emissions reductions targets considering availability of qualifying fuels, and the disbursement of funds to support the emissions reduction goals. Specifically: (1) the proposed measures risk imposing significant economic burdens on the shipping industry and its customers, driving inflation for consumers; (2) affordable and proven transitional fuels like liquefied natural gas (LNG) and biofuels are unfairly penalized under the measures, especially given the lack of clear existing alternatives; (3) rapid Greenhouse Gas Fuel Intensity (GFI) reduction targets could lead to excessive revenue accumulation without achieving meaningful environmental goals; and (4) the management and disbursement of revenues under the framework, which must be within the legal purpose of reducing air pollution from ships, is ill-defined and insufficient to ensure the efficacy of any emissions reduction framework.

*Strategic direction, 3  
if applicable:*

*Output:* 3.2

*Action to be taken:* Paragraph 8

*Related documents:* MEPC/ES.2/2, MEPC/ES.2/4; MEPC 83/17 and MEPC 83/17/Add.1.

## Introduction and background

1 At its eighty-third session, IMO's Marine Environment Protection Committee (MEPC 83) approved draft amendments to MARPOL Annex VI for the IMO Net-Zero Framework. These amendments have been circulated through Circular Letter No.5005 and the Committee will consider these amendments for adoption at its extraordinary session, MEPC/ES.2.

2 The proposed measures for the IMO Net-Zero Framework would impose a significant economic burden on the global commercial shipping industry, the leisure tourism industry and general consumers, driving steep increases in costs. These costs will ultimately be passed to consumers and will exacerbate inflation, curtail industries and impose regulations that constrain the economic competitiveness of shipping enterprises.

3 Zero or near-zero emission fuels (ZNZs) remain unavailable at scale and undefined under the IMO Net-Zero Framework reward mechanisms, yet transitional fuels are not given the due consideration required to achieve an immediate reduction of emissions.

4 Furthermore, the steep GFI reduction trajectories could result in excessive revenue accumulation in an IMO Net-Zero Fund, without achieving meaningful environmental goals. Compounding these issues is the lack of institutional guidelines for how this fund would be managed, issue disbursements and ensure transparency. The creation of the fund raises concerns about mechanisms that could create carve-outs, prejudices, or dedicated allocations for specific fuels, technologies, or countries and unfairly shift financial burdens onto specific members.

## Discussion

5 Despite much collaboration and progress among MARPOL Annex VI Parties under the Net-Zero Strategy, several key areas of the approved amendments continue to suffer from insufficient analysis and/or development and lack appropriate implementing guidelines. Of particular concern:

- .1 **Creation of de facto global carbon tax:** The proposed measures would impose substantial economic burdens on the shipping sector and its customers, are likely to drive inflation globally, and would negatively impact consumers worldwide. The socio-economic impacts of higher shipping costs jeopardize jobs and consumer access to affordable goods. The unnecessary costs would arise under the banner of environmental protection, yet too many unknowns and loopholes remain in the framework to achieve the desired emissions reduction. Furthermore, increased costs would impact vulnerable nations that import the majority of their food.
- .2 **Lack of ZNZ fuel availability and feasibility:** The proposed steep GFI reduction trajectories are unrealistic given the current state of zero-emission fuel technologies, which are not yet at the commercial scale needed to power international shipping. Transitional fuels, such as LNG and biofuels, are proven available alternatives to conventional marine fuel oil which offer immediate GHG reductions, but are disincentivized under the current framework. A pragmatic approach to GFI trajectories is needed to ensure that the shipping sector can transition effectively without excessive financial burdens or reliance on unproven technologies. A framework that reflects the reality that LNG and biofuels will remain critical components of the shipping energy mix for decades to come, would allow for lower emissions, and

ensure energy security. On the other hand, excluding these fuels from the definition of compliant fuels would penalize shipowners and operators that have already invested in transitional technologies in efforts to achieve immediate GHG reductions. It would also undermine the technology – and geography-neutral approach that the IMO aims to uphold.

- .3 **Excessive net-zero fund revenue intake:** The envisioned GFI reduction targets could lead to excessive revenue accumulation, which strays from the IMO strategy to genuinely reduce emissions. In addition to the lack of ZNZ fuel availability, delays in establishing supporting port infrastructure, ships, and other supply chain components to service and utilize ZNZs would trigger additional compliance fees for nearly all shipping companies. Strict ZNZ reward eligibility similarly creates a scenario where billions of dollars of excess penalties could be stranded without a path to practically incentivize ZNZ uptake. This excessive accumulation of remedial unit revenue, at least in the tens of billions of dollars, would exacerbate the undue costs on the shipping industry and inflationary pressures on consumer goods. A balanced approach that prioritizes practical measures and transitional fuels would allow the shipping sector to reduce emissions effectively, while maintaining economic stability and global trade.
- .4 **Undefined guidelines for the net-zero fund revenue management and disbursement:** Setting aside the merits of the creation of a fund at all, the management and disbursement of revenues raised under the framework would risk becoming a redistributionist scheme off the consumers of certain Member States, especially those heavily reliant on international trade. Operationally, the proposed fund is not well defined, lacks specificity over its model and management, with unclear anti-money laundering and financial controls critical to preventing misuse of funds. Disbursement plans are similarly undefined at this stage. The purpose of MARPOL Annex VI is to reduce air pollution from ships, and any proposed use of funds unrelated to that purpose would be inconsistent with that governing instrument. Revenue generated from GHG measures must be sensibly disbursed in a manner that reduces the economic burden of the shipping sector's energy transition and encourages market-based solutions for the efficient reduction of the shipping sector's GHG emissions. Any mechanisms that would create carve-outs, prejudices, or dedicated allocations for specific fuels, technologies, or countries would risk distorting markets, unfairly shifting burdens onto others.

## Proposal

6 In consideration of the above, Member States are invited to oppose the proposed measures, as set out in MARPOL Annex VI on the IMO Net-Zero Framework (MEPC/ES.2/2).

7 The approved MARPOL Annex VI amendments are a product of compromise among diverse Member State positions. This proposal is far from consensus, and the implications of adopting the amendments will continue to generate persistent concerns, and undermine efficacy, all while placing unnecessary burdens on the shipping industry. The proposed amendments in MARPOL Annex VI would impose substantial economic costs and could not be practically implemented to meet the goal of reduced emissions, particularly given the market availability of ZNZ fuels as defined by the amendments, at quantities envisioned by the GFI reduction targets.

**Action requested of the Committee**

8        The United States reiterates its strong objection to the proposed measures set forth for MARPOL Annex VI on the IMO Net-Zero Framework as shown in document MEPC/ES.2/2 and invites the Committee to consider the comments in this document and oppose the adoption of the amendments. It is essential that the Committee take sufficient time to fully analyse the economic ramifications of the proposed framework measures.

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