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GHG Pricing for International Shipping: Why It Matters and How Is It Going?

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Over millennia, maritime transport has played a vital role in the flourishing of human civilization, allowing for long-distance commerce and cultural exchange. Up to the Industrial Revolution, ships were propelled primarily by humans and wind power, but since the 19th century, the industry shifted towards the use of fossil fuels for propulsion. As a result, today shipping accounts for about 3 percent of global GHG emissions. As part of the global effort to mitigate climate change, the international shipping sector is embarking on a new path that may see the revamp of the use of wind power and the uptake of alternative fuels as energy sources for this sector.

At the global level this new path was set last year by the International Maritime Organization (IMO) —the United Nations agency that regulates pollution from ships— with the adoption of its [new greenhouse gas \(GHG\) strategy](#). According to this strategy, international shipping will need to reach net-zero GHG emissions [by or around 2050](#) and meet stringent interim GHG emissions reduction goals for 2030 and 2040.

Why Does this Matter? A Look Beyond Shipping

The shift towards new energy sources will have profound implications for industry, as it will require adopting new technologies, new safety regulations, and retraining maritime transport workers. But there are at least three reasons why this revolution can have significant consequences beyond the shipping sector and its climate change implications.

First, its potential trade impacts: Today, the international shipping industry plays a vital role in the global economy, accounting for about [80 percent of international trade](#). The energy transition of international shipping — whether driven by a GHG levy or other GHG economic instrument— will increase transport costs and potentially impact import and export opportunities for some countries. Some developing countries that rely heavily on international shipping for imports are increasingly voicing concerns about potential food security risks related to the energy transition. Further research on these risks and how to best address them is needed.

Second, to meet these goals, the IMO is working on the adoption of a basket of measures, which

includes both a technical element and an economic element, being a GHG pricing instrument. At the moment, it is unclear what type of GHG pricing mechanism will be adopted, as various delegations have [supported different types of GHG pricing mechanisms](#). One of the two leading options on the table of the ongoing negotiations amongst IMO member states as evident from the last round of negotiations during the 82nd Session of the Marine Protection Committee is the implementation of a GHG levy. If adopted, this would be the first global GHG levy. Research conducted at DCU in collaboration with the World Bank shows that implementing a carbon price in international shipping could raise up to [40-60 billion US dollars per year up to 2050](#). To put this into perspective, [public international climate finance](#) mobilized by developed countries for developing countries in 2022 was about 90 billion US dollars. An IMO carbon levy can be a new significant source of finance to support climate action and an equitable transition of the sector, including [addressing potential negative trade impacts](#) related to its decarbonization. Many see the next COP, as the “[finance COP](#)”. International shipping can help to close the gap between climate needs of developing countries and current climate flows by providing a new and [additional source of finance](#). The journey to that destination will be clearer in [April 2025 at the 83rd IMO Marine Environmental Protection Committee Meeting](#) when the member states are expected to agree on the economic instrument to be adopted as part of the basket of mid-term measures under strategy.

Last but not least, this revolution offers new development opportunities related to the production of new alternative fuels: The energy transition of international shipping will require the uptake of new zero-carbon bunker fuels. At the moment, it is unclear which fuels will play the primary role, but many look at green ammonia and methanol. For many developed and developing countries, these fuels offer [new development opportunities](#). In addition, the production of these fuels for shipping can create economies of scale for their production for other sectors, and therefore contribute to the decarbonization of the wider economy.

Charting the New Path for Net-Zero Shipping: How is it going?

The IMO is expected to approve new measures to decarbonize shipping in 2025. The last round of negotiations [concluded recently in London](#) saw increasing convergence among countries on some of the key matters. This is important because the IMO tends to work based on consensus. If consensus can not be found, a [qualified majority vote](#) will be needed to amend the existing international convention on emissions from shipping.

At this point, the IMO is still on track to deliver new climate measures according to its strategy. However, there remains some divergence as regards the type of economic instrument to adopt to accelerate the journey towards net-zero, which requires to be bridged. Failure to deliver on these expectations would be a significant step back for climate and development. It may induce individual countries to act unilaterally and the EU to step up its [efforts on this matter](#). This may result in a less coherent and effective regulatory environment to decarbonize the sector, leaving behind some climate-vulnerable countries, and [increasing compliance costs for the industry](#). It will also mark a huge step backwards for the IMO and its membership in providing leadership through a multilateral and [public-private partnership](#) in decarbonizing the shipping sector.

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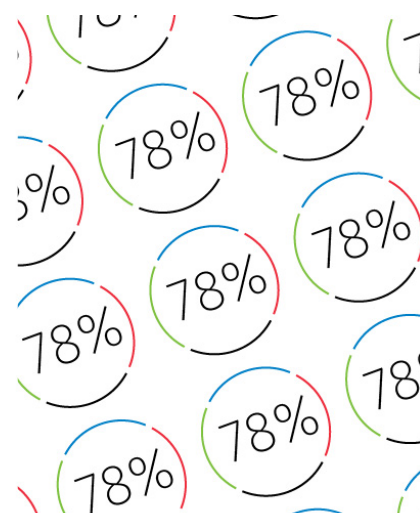
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