DRAFT

CAA
POSITION PAPER

IMO
Net-Zero Framework

BACKGROUND

Malta's Context

Malta is positioned in a strategic geographic location and has always been considered as a hub for trade, naval operations, and transshipment. It hosts the largest ship registry in the EU and one of the top globally. The Maltese flag is internationally recognized and compliant with IMO and EU regulations. The registry covers both commercial vessels and pleasure yachts.

The maritime industry is a pillar of Malta's economy, contributing significantly to GDP, employment, tourism, and trade. It provides direct jobs in ports, shipping, and repair, plus indirect jobs in logistics, finance, and legal services.

Malta has invariably constantly advocated for global action in the maritime sector including in its role for decarbonisation in order to preserve competitiveness as a hub as well as from a wider socio-economic context.

EU's Context

The EU's climate policy for the maritime industry seeks to cut emissions in line with the European Green Deal goal of climate neutrality by 2050. From 2024, the EU Emissions Trading System (ETS) applies to shipping, creating financial incentives to reduce greenhouse gases. The Fuel EU Maritime Regulation complements ETS as it requires cleaner marine fuels, accelerating the shift to biofuels, hydrogen, and other zero-carbon options. Additional measures include promoting onshore power supply in ports and funding innovation in green propulsion. These measures aim to promote investment in cleaner fuels and technologies and thereby decarbonising the industry.

Maltese Government Position during EU Fit for 55 package Discussions

The Malta government's position during negotiations of ETS maritime held between 2021 and 2023 yielded several key outcomes.

1. While a ring-fenced monetary contribution from the Innovation Fund for the maritime industry was not secured, the sector can still benefit from specific Innovation fund calls.
2. Crucially, Malta, with Cyprus and Greece, negotiated a carve-out for ETS maritime revenues until 2030, allowing Malta to use these funds for nation-wide economic purposes and road transport purposes.
3. To prevent regulatory overlaps, a review clause was agreed, mandating the Commission to assess ETS Maritime once the IMO global framework is finalized.
4. The ETS Directive now includes provisions to monitor port evasion.
5. Malta successfully secured an ETS Maritime exclusion for ferries under 'public service obligation', safeguarding the Gozo ferries services, and agreed with the Commission not to include smaller vessels (400GT – 5000 GT) in the EU ETS scope.

SALIENT POINTS OF THE IMO GLOBAL FRAMEWORK

The IMO Net-Zero Framework centres on a fuel standard (GFI) and an economic measure for ships of 5,000 gross tonnage and above on international voyages. Annually, ships must calculate their attained GFI and compare it against a specific target. Achieving this target results in 'direct compliance' and the generation of 'surplus units', which can be transferred or banked. Failing to meet the target incurs a 'compliance deficit', requiring the acquisition of 'remedial units' through financial contributions to the IMO Net-Zero Fund at set rates. All these compliance activities, including unit issuance and transfer, are tracked via a mandatory IMO GFI Registry (IMO, 2024).

ETS Maritime Framework vs IMO Global Framework

The IMO Net Zero Framework, comprising of a market-based economic measure and a Greenhouse Gas Fuel Intensity framework (GFI) (IMO, 2024), is similar to the provisions found in the EU's ETS Directive and Fuel EU Regulation respectively. This scope for both IMO and EU legislations applies to vessels of 5,000 GT and above. However, only intra-EEA voyages are subject to the EU ETS's full surrender obligation (100% of emissions) while voyages to or from non-EEA ports are subject to only 50% of the surrender obligation.

Overlaps between ETS Maritime and IMO Global Framework

The IMO Global Framework discussions were still ongoing when the discussions on the ETS Maritime Directive and the Re Fuel EU Maritime were closed. As a result of Malta and other similar countries' insistence, provisions were included in the Directive calling for a review of ETS Directive once an agreement is reached at global level.

The European Commission, as mandated by the ETS Directive (Article 3gg),
"needs to submit a comprehensive report to the European Parliament and the Council within 18 months of its adoption and before its entry into force in 2027, with practical operation beginning in 2028."

The Commission's assessment need to delve into the IMO measure's ambition relative to the Paris Agreement's objectives, its overall environmental integrity when compared to existing EU maritime provisions, and any implications for coherence with the EU ETS. Where appropriate, the Commission may also propose legislative amendments to the EU Directive to ensure it aligns with the Union's climate target and climate-neutrality goal, thereby maintaining the effectiveness of EU climate action while preventing any significant double burden on the industry (EU ETS Directive, Article 3gg(1)).

Moreover, the Fuel EU Regulation states that CION is to seek alignment between EU and IMO's legislations should the latter agree on a 'global approach'.

'Where an agreement on a global approach is reached on matters of relevance to this Regulation, the Commission should review this Regulation with a view to aligning it, where appropriate, with the international rules', (Fuel EU Maritime Directive, Preamble 69).

CAA POSITION

General Remarks on the IMO global Framework

It is widely recognized that the global agreement at the IMO represents a positive step forward. A global measure is viewed as the most effective approach, as it minimizes the risk of carbon leakage, preserves competitiveness, and supports substantial reductions in greenhouse gas emissions. At the same time, a global measure will accelerate the transition of the global maritime industry to decarbonise. The framework is designed not only to encourage the adoption of cleaner fuels but also to promote efficiency improvements across the global fleet. The central challenge, however, lies in establishing a carbon price that is sufficiently strong to drive investment in clean technologies while remaining balanced against socio-economic pressures. Unlike the EU ETS, which embeds a well-established carbon pricing mechanism, the IMO framework does not yet include such a measure. This absence creates uncertainty around its capacity to deliver deep decarbonization and may, in turn, hinder the effective implementation of the framework itself.

ETS vs IMO Global Framework

- Retainment of revenue: A potential reduction in EU ETS scope due to IMO's framework would significantly decrease Malta's revenue from the EU system, impacting climate action investments. Conversely, a successful climate transition critically depends on robust and consistent financial liquidity. Significant capital investments are needed for infrastructure and other initiatives, particularly within the local maritime industry, and EU ETS revenue can provide this essential funding.
- Revenue Distribution: Highlighting that while EU ETS revenues benefit Member States for climate projects, Malta's direct benefit from the IMO Net-Zero Fund (which rewards zero/near-zero emission fuel uptake and supports developing countries) is uncertain due to its status as a developed nation, despite its contributions.
- Harmonization of Reporting and Methodologies: Streamlining data requirements (e.g., common data formats, EU MRV/Thetis-MRV platforms and the new IMO GFI Registry) and aligning well-to-wake (WtW) GHG accounting methodologies and fuel certification standards to ensure consistency.
- Interoperability of currency mechanisms: Addressing the current lack of mutual recognition or exchange between EU ETS allowances and IMO remedial units, and the potential for unequal treatment due to differing fixed (IMO NZ) vs. fluctuating carbon prices (EU ETS).
- Alternative fuels: Align incentives across both frameworks to accelerate the adoption of sustainable technologies and alternative fuels.

PROPOSED WAY FORWARD

Given the existing provisions in the ETS Directive, CAA recommends that the relevant Maltese authorities carry out an analysis of the IMO Framework to identify areas of overlap between the two systems. In particular, the analysis should determine:

- Elements of the ETS that are preferable to those of the IMO Framework (e.g., the established carbon pricing mechanism and the use of ETS revenues).
- Elements of the IMO Global Framework that are preferable to those of the ETS (e.g., the emphasis on improving ship efficiency across the global fleet).

CAA proposal:

In view that the final decision on the IMO Net Zero Framework is expected to be taken towards the end of 2026, CAA suggests to assess theses two instruments in order to be prepared accordingly, despite the delayed decision.

The ETS Maritime Directive provides explicitly for its review, not repeal. Malta should therefore clearly articulate to the European Commission which elements it considers essential and engage in dialogue with the shipping industry on these points. It is crucial for Malta that if this stance by the EU is confirmed, that Malta pushes the EU to work incessantly with IMO to ensure alignment and no overlaps between the two systems in good time before the 2027 IMO Global Framework entry into force.

On this basis, Malta should also urgently put forward its views to the Commission while the internal review of the ETS Maritime Directive is still under way.
To avoid another double-whammy within the Fit for 55 package, CAA is proposing to put forward the following provisions:

- Ships (international calls) that are compliant with the IMO Global Framework should be exempt from the 50% ETS surrendering against proof of compliance of IMO.
- Ships that call between EU port calls (such as European cruises) remain under ETS and be also compliant with IMO Global Framework (subject to official alignment between EU and IMO).
- Ships that call between EU ports and also international calls (e.g. global cruises and feeder vessels) should be allowed the choice of the framework to comply with in order to avoid double reporting for the same emissions reduction effort.