



The importance of the 'economic element' in the IMO Net-Zero Framework

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Background

The Net-Zero Framework (the Framework, the NZF) is a draft amendment to MARPOL Annex VI under the International Maritime Organization (IMO). The Framework constitutes the concrete mid-term measures to reduce the greenhouse gas (GHG) emissions from international shipping to net zero at or around 2050, as agreed multilaterally in the 2023 IMO GHG Strategy (the 'Strategy'). The Strategy, agreed with global consensus by Member States in 2023, stipulates that the mid-term measures should comprise both a technical and economic element.¹

What is the economic element?

The economic element is the part of the Net-Zero Framework that sets a price for greenhouse gas (GHG) emissions from ships using fuel that does not meet the emissions intensity criteria. The NZF's technical element, the Global Fuel Standard (GFS), defines two target thresholds for the GHG intensity of a fuel in grams of CO₂ equivalent emitted per tonne of fuel used (CO₂eq/tonne) on a well-to-wake basis: a 'base target', which allows higher CO₂eq/tonne, and a 'direct compliance target', which permits a smaller amount of CO₂eq/tonne. The economic element sets a price on emissions above these thresholds. Ships that do not meet these thresholds must purchase 'Remedial Units' (RUs) to achieve compliance with the NZF. There are two

¹ [MEPC 80-17-Add.1 - Report Of The Marine Environment Protection Committee on Its Eightieth Session \(Secretariat\)](#) (paragraph 4.5)

price bands ('tiers') for these RUs, aligned with the two GHG intensity thresholds, as illustrated in **Figure 1** below:

- Tier 1 emissions are those which meet the less-stringent 'base target' for emissions intensity, but fall above the 'direct compliance target' – the more ambitious target.
- Tier 2 emissions are those that do not meet the 'base target'.
- Vessels using fuels that meet the 'direct compliance target' do not need to purchase RUs. Those using fuels with emissions lower than the 'direct compliance target' may be issued Surplus Units.

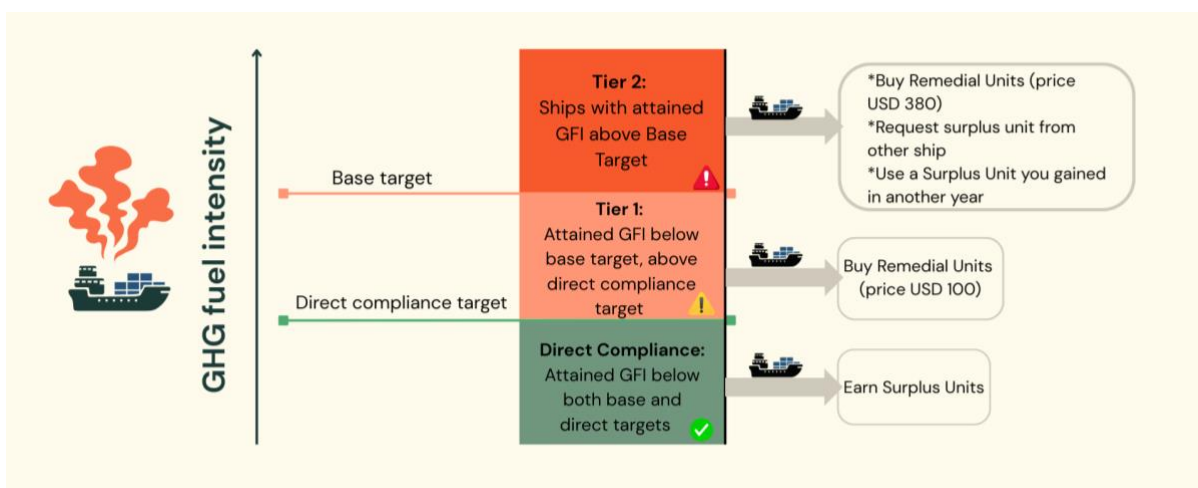


Figure 1: The Global Fuel Standard of the IMO Net-Zero Framework

Why is the economic element important?

1. **Market stability:** Removal of the economic element would create a volatile market for the Surplus Units issued to ships meeting or exceeding compliance standards under the Framework. Trading would be vulnerable to market forces, making price spikes likely, significantly and unpredictably impacting operating costs for shipowners. This volatility could lead to unpredictability in transport costs, disproportionately affecting high-volume, low-value goods and potentially contribute to food insecurity in net food-importing nations.²
2. **Regulatory integrity:** By setting a price for emissions above threshold values, the economic element provides a compliance function, ensuring that the Framework has regulatory 'teeth' through an effective enforcement mechanism. Ensuring compliance supports regulatory certainty and helps create the fiscal conditions needed for investment in truly sustainable fuels and technologies.
3. **Equity and transition finance:** Emissions pricing enables the NZF to raise revenue that can support the maritime transition and – crucially – deliver on the IMO 2023 Strategy to promote a just and equitable transition. One of the only

² Read further analysis on this issue: <https://globalmaritimeforum.org/insight/three-scenarios-and-their-consequences-for-shippings-transition/>

effective ways to support climate vulnerable states to maintain food security and affordability of basic imports is through equitable distribution of revenue.³

³ Read more on this in our report published last year: <https://www.opportunitygreen.org/publication-a-just-and-equitable-transition-for-shipping>

* uploads.transportenvironment.org/production/files/Impact-of-the-IMOs-draft-Net-Zero-Framework-April-2025.pdf

What can the revenues be used for?

Revenues raised from the sale of RUs would be collected into a dedicated fund called the Net-Zero Fund. Research suggests that the NZF could raise some USD 10 billion per year until 2035*. The disbursement of these revenues is governed by Regulation 41 of the draft Framework. According to Regulation 41, revenues from the Net-Zero Fund will be directed towards the following three purposes:

1. Rewards for the use of Zero- and Near-Zero emissions fuels and technologies (ZNZs), in accordance with Regulation 39.

This will provide critical funds to incentivize and crowd in investment in transitioning fleets to ZNZs. Without these rewards, shipowners will struggle to make the changes to their fleets necessary to decarbonise their operation.

2. Promoting a just and equitable transition in States by facilitating environmental and climate protection, adaptation and resilience building within the boundaries of the energy transition in shipping, paying particular attention to the needs of developing countries, in particular least developed countries (LDCs) and small island developing States (SIDS), allocating sufficient revenue for:

- Researching, developing and making globally available and deploying zero and near-zero GHG emission technologies, fuels and/or energy sources, supporting the energy transition of shipping, and developing the necessary maritime, coastal and port-related infrastructure and equipment;
- Enabling a just transition for seafarers and other maritime workforce;
- Facilitating information-sharing, technology transfer, capacity-building, training and technical cooperation supporting the implementation of the regulations in this chapter;
- Supporting the development and implementation of National Action Plans (NAPs),¹¹⁷ including fleet renewal and upgrade; and
- Addressing, as appropriate, “disproportionately negative impacts” on States, including on food security, resulting from the implementation of the regulations in this chapter

3. Cover the administration and operational costs of the Fund and its Governing Board.

Without these revenues, the uptake of ZNZs and the justice and equity of the maritime energy transition would be jeopardised.

* <https://uploads.transportenvironment.org/production/files/Impact-of-the-IMOs-draft-Net-Zero-Framework-April-2025.pdf>

Legal foundation

Although certain states have argued the contrary, Annex VI of the International Convention for the Prevention of Pollution from Ships (MARPOL) provides a legally sound and operationally feasible framework for implementing economic measures that support the IMO's GHG emission reduction goals, as agreed multilaterally through the 2023 GHG Strategy.⁴ These comprise: 1) reaching net zero emissions from global shipping by or around 2050, with interim goals of a 20%, striving for 30%, reduction in GHG emissions by 2030 and 70%, striving for 80%, by 2040 (from a 2008 baseline) and 2) catalysing the uptake of zero- and near-zero fuels and technologies (ZNZs) to 5%, striving for 10%, of energy used in global shipping by 2030.

Threats to the economic element

A number of countries have expressed opposition to the economic element. Two submissions to MEPC 84 in particular set out alternative proposals to the NZF which remove the economic element. Although the NZF as adopted at MEPC 83, including the economic element, survived tough negotiations at MEPC 84, it is important to be aware of the existing counter-proposals and their risks and shortcomings.

Argentina, Liberia, and Panama (in MEPC84/7/38) proposed replacing the NZF with a market-based approach to adjusting the GFI trajectory, explicitly removing the economic element. Under this model, the GFI would only tighten in response to demonstrated affordability, availability, and uptake of low-carbon fuels. This proposal removes the predictable and stable economic elements of the NZF “as is”, creating a clear barrier to early industry investment. The approach also means that the emissions reductions required by the GFI trajectory are dependent on market dynamics, meaning they could be delayed or stall entirely if market conditions do not evolve rapidly.

How to support the economic element

1. Increase awareness and understanding of what the economic element of the NZF would look like and how it could benefit countries in practical terms

One of the challenges facing support for the NZF's economic element is a lack of clarity and understanding about exactly how it would function and how it would benefit countries, especially SIDS and LDCs. Increasing this awareness and understanding will likely bolster support for the economic element. Opportunity Green's report 'A Just and Equitable Transition in Shipping' highlights case

⁴ Read OG's analysis: <https://opportunitygreen.org/shipping/briefings/is-there-a-need-to-create-a-separate-legal-instrument-to-adopt-an-economic-measure-at-the-imo/>

studies of countries with different profiles and how the Net-Zero Fund could concretely contribute to their maritime energy transition.⁵

2. Define the governance and operational processes of the Fund

The way that the Fund will operate and be governed has not yet been established. This uncertainty further contributes to a lack of clear understanding of the Fund. A number of submissions to ISWG-GHG 21 and MEPC 84 made proposals for their development, but no decisions were made. Prioritising achieving consensus and concrete recommendations around these processes at ISWG-GHG 22 and 23 could significantly fortify support for the economic element at MEPC 85 and ES.3.

3. Clarify further detail around the revenue disbursement categories

Likewise, a lack of clarity around the three disbursement categories laid out above, especially the second category and differing interpretations of the wording ‘within the boundaries of the energy transition in shipping’, hamper Member States’ understanding of what they would be eligible to receive. Prioritising achieving consensus and concrete recommendations around these categories at ISWG-GHG 22 and 23 could significantly fortify support for the economic element at MEPC 85 and ES.3.

Conclusion and recommendations

The economic element has been a foundational component of the NZF since its drafting was mandated by the multilaterally agreed 2023 IMO GHG Strategy. It provides the backbone of the NZF’s ability to support justice and equity in the maritime energy transition and constitutes the compliance mechanism critical to ensuring the NZF is implemented in practice. Moreover, it provides the regulatory and operational certainty that shipowners and operators are craving. No other proposed framework or model offers these characteristics, or can compare in terms of emissions reductions.

Without the economic element, the reality is that the NZF will only be implemented in a small handful of developed, technologically advanced countries, leaving developing countries behind. It is also likely to prompt the establishment of a patchwork of more ambitious regional measures, creating an inconsistent regulatory environment and adding complexity to maritime operations.

Opportunity Green encourages States to back the retention of the economic element in the NZF, the acceptance of the NZF through the tacit procedure, and to contribute to its ambitious further development through the draft guidelines. We remain available to

⁵ [A just and equitable transition for shipping - Opportunity Green](#)

discuss any matters relating to the NZF, and to provide technical support and guidance as required.

For more information, please contact:

Em Fenton: em@opportunitygreen.org

Maudie Fraser: maudie@opportunitygreen.org

Sapphire Ross: sapphire@opportunitygreen.org