



Attempt to weaken the IMO Net-Zero Framework

Japan's proposal to remove the Net-Zero Fund and put shipping companies in control of maritime finance



Japan's submission to the International Maritime Organization's (IMO), Marine Environment Protection Committee (MEPC 85/7/1), proposes legal amendments to MARPOL Annex VI that would significantly alter the approved architecture of the IMO Net-Zero Framework (NZF). The submission represents an evolution from the country's April proposal (MEPC 84/7/49) – ([please see Opportunity Green's brief for more details](#)¹). This proposal was expanded on in their most recent submission ISWG-GHG 23/2/4 but it does not dispel any of the risks identified in their original proposal.

In particular, Japan's proposal would remove the Net-Zero Fund and make the purchase of Surplus Units (SUs) the primary mechanism for addressing compliance deficits, while allowing shipping companies to make direct contributions to IMO-approved projects where sufficient SUs are unavailable.

This approach raises four interconnected concerns. Firstly, by removing the Net-Zero Fund and transferring greater control over the use of revenues to private actors, Japan's proposal provides no credible basis for ensuring that revenues are equitably distributed towards a just and equitable transition (JET), particularly in climate-vulnerable developing countries. Secondly, direct contributions by the private sector could result in larger fleet owners paying compliance revenues back into their own supply chains. Thirdly, by weakening the relationship between overcompliance, SU demand, and the value of surplus emissions reductions, the proposal risks creating a pay-to-pollute mechanism that undermines the NZF's core objectives of reducing greenhouse gas (GHG) emissions. Finally, removing the Fund and its associated reward for zero- and near-zero (ZNZ) emission fuels and technologies removes a potentially important source of predictable finance for early ZNZ deployment and investment.

Taken together, these changes threaten the ability of the NZF to deliver both emissions reductions and a just and equitable transition. They also raise broader concerns about the ability to achieve the IMO's own commitment under the 2023 GHG Strategy to leave no one behind and States' international legal obligations to prevent significant harm to the climate system and environment, by regulating both public and private conduct taking place within their jurisdiction in order to avoid transboundary climate harm².

Developments across various jurisdictions also are increasingly placing human rights and environmental obligations on corporate actors themselves, alongside States' own obligations³. Under the customary principle of international co-operation (which is also subject to a strict due diligence standard), States must provide financial assistance and

¹ Opportunity Green, 2026, Japan's MEPC 84 submission: risks to IMO's Net-Zero Framework, available at: <https://opportunitygreen.org/shipping/briefings/japan-submission-mepc84-risks-imo-net-zero-framework/>

² Obligations of States in Respect of Climate Change (Advisory Opinion) (2025) International Court of Justice, paragraph 282

³ See, for example: *Milieudefensie v Royal Dutch Shell*; *Milieudefensie v ING Group*.

technological support in light of achieving the temperature goal, and in line with best available science⁴.

Against this backdrop, removing the Net-Zero Fund and replacing predictable, collectively governing finance with industry-directed contributions risks weakening the NZF's ability to rapidly reduce emissions, incentivise investment in sustainable fuels, and ensure that developing countries can fully participate in the global maritime transition.

1. The IMO Net-Zero Framework as approved by Member States in April 2025

Under the current NZF, which was approved by the majority of Member States at MEPC 83, ships that fail to meet the greenhouse gas fuel intensity (GFI) requirements must address their compliance deficits by either:

- A. Purchasing Remedial Units (RUs) priced at \$100/tonne CO₂eq if the attained GFI falls below the base target, but above the direct compliance target;

OR, in the case of overshooting both targets,

- B. Buying RUs at a higher price (\$380/tonne CO₂eq), requesting Surplus Units (SUs) from GFI-compliant ships, or using SUs gained in another year.

Revenues collected from emissions pricing will be channelled into a dedicated IMO Net-Zero Fund and redistributed towards rewards for the use of zero- near-zero (ZNZ) emission fuels and technology and to support a just and equitable transition. The Fund is a core part of the existing Framework designed to ensure developing countries are not left behind, as it creates a predictable source of finance for investment in ZNZs, enabling infrastructure, capacity building, technology transfer, and resilience measures.

2. Japan's proposal to MEPC 85: a global carbon market

Japan's proposal seeks to significantly alter the approved architecture by proposing to remove the Fund entirely, meaning that the purchasing of SUs would become the primary mechanism for balancing GFI compliance deficits. However, as Japan acknowledges that the supply of SUs may not always be sufficient to match the compliance deficit, ships, at their own discretion, could make direct contributions to IMO-approved projects. Furthermore, Japan suggests that unpredictable increases in compliance costs due to the shortage of SUs, could be avoided by setting a unit price of direct contributions in advance; considering it feasible to apply the price of RUs stipulated in the current NZF⁵.

⁴ Ibid. paragraph 265

⁵ Japan, 2026, MEPC 85/7/3 submitted to the 85th session of the Marine Environment Protection Committee, available on IMO Docs.

2.1. Transfer of decision-making power from Member States to the private sector

The core issue with Japan's proposal is that it would deprive Member States of the decision-making power on where revenues are directed, transferring that authority to the shipping industry.

For climate-vulnerable developing countries, particularly Small-Island Developing States (SIDS) and Least Developed Countries (LDCs), this raises serious concerns about whether sufficient, if any, finance would be available to support them through the maritime transition as evidence shows that global private sector climate investments tend to be channelled towards developed countries⁶, while developing countries must compete for already scarce public finance to fund climate action. In 2021 for example, three-quarters of global climate investments were concentrated in East Asia & Pacific (81% in China), Western Europe, and North America, while the remaining regions received less than a quarter⁷. Leaving the world's most climate-vulnerable regions, including Africa, Latin America, and most of the Pacific without adequate finance. Even more of a concern for SIDS and LDCs, who are already suffering accelerating climate impacts despite being least responsible for the crisis, is the lack of private sector funding for adaptation measures. In 2022, the private sector provided just 8% of adaptation funding worldwide⁸. Low investments in developing countries if often due to perceived risk that they will not yield fast and profitable returns for reasons including greater uncertainty regarding regulatory conditions, long-term revenue stability, small-scale projects with larger upfront costs and lack of enabling infrastructure, as well as domestic capital markets with high-interest rates, immature financial institutions, and exposure to currency and governance risks⁹.

As such, there is no incentive for shipping companies to select JET-aligned climate projects through the IMO, that would allow States to make long-term plans and investments in sustainable maritime solutions. Instead, it could open the door to coercion as project owners seek to try to increase investment in their specific projects. Furthermore, it is probable that private actors, particularly large fleet owners, could select IMO-approved projects that reroute funds back into the shipping industry and their own supply chains, for example, by paying to upgrade their own port terminals. This risks

⁶ Climate Policy Initiative, 2021, Global Landscape of Climate Finance, available at: <https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf>

⁷ Climate Policy Initiative, 2021, Global Landscape of Climate Finance, available at: <https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf>

⁸ Climate Policy Initiative, 2024, Global Landscape of Climate Finance 2024: Insights for COP29, available at: <https://www.climatepolicyinitiative.org/wp-content/uploads/2024/10/Global-Landscape-of-Climate-Finance-2024.pdf>

⁹ Global Maritime Forum, 2026, Delivering a just and equitable transition: alternatives for effective and credible management of shipping's climate funds, available at: <https://globalmaritimeforum.org/insight/delivering-a-just-and-equitable-transition/>

creating a circular system in which shipping companies effectively fund projects that benefit the industry itself, rather than generating additional, predictable finance for a just and equitable transition.

This approach would also place an additional burden on shipping companies, requiring them to assess and choose from the list of IMO-approved projects to determine where their compliance payments should be directed, without ensuring that they have the capacity to do so.

Therefore, Japan's proposal risks abandoning developing countries to the climate crisis, which in turn would further endanger the entire global community as cumulative greenhouse gas emissions would continue to increase, driven.

Whereas the current NZF provides a mechanism through which a portion of the revenues will be directed towards countries facing disproportionate climate impacts and have limited capacity to finance the transition themselves. This strongly aligns with the Paris Agreement that requires mitigation efforts in developing country parties to be supported with finance, technology and capacity-building¹⁰, as well as States legal obligations with respect to climate action.

2.2. Undermining the Surplus Unit market and absolute emissions reduction

Member States should also consider the implications of removing the Fund and the current RU price structure for the functioning of the SU market and the NZF's emissions reduction incentives.

Under the approved NZF, SUs provide one mechanism for ships that exceed the direct compliance target to transfer surplus compliance value to ships facing a deficit. This creates an economic incentive for ships to outperform the GFI requirements and reduce their emissions intensity, while the RU mechanism provides a predictable alternative for meeting compliance obligations.

The RU price also plays an important role in containing uncertainty in the SU market by limiting cost volatility. Removing the RU price would leave SU prices uncapped, potentially creating greater uncertainty and exposing shipping companies to higher pollution penalties, which could ultimately increase transport costs¹¹. Removing the RU price could take away important reward mechanisms and jeopardise the initiation of the transition.

¹⁰ United Nations Environment Programme, 2025, Off target, continued collective inaction puts global temperature goal at risk, available at: <https://wedocs.unep.org/rest/api/core/bitstreams/4830e1a8-14c0-44a5-a066-cdd2ba5b3e10/content>

¹¹ Tristan Smith in 'MEPC 84: Japan calls for removal of payments to the IMO's Net-Zero Fund', (2026), *Engine*, available at: <https://www.engine.online/news/mepc-84-japan-calls-for-removal-of-payments-to-the-imos-net-zero-fund-791a>

While Japan's proposal would make SU purchases the primary means of addressing compliance deficits, it also introduces the option of direct contributions to IMO-approved projects where sufficient SUs are unavailable. This risks weakening the relationship between over-compliance and the value of SUs. If ships can instead satisfy their compliance obligations through a predetermined contribution to projects, the demand for SUs could be reduced, weakening the motivation for ships to generate and retain surplus compliance performance. Over time, this could undermine both the functioning of the SU market and the emissions-reduction incentive embedded in the NZF.

Any alternative compliance mechanism should therefore be assessed not only against its ability to manage compliance costs, but also against its effect on SU demand, the value of over-compliance, and the overall incentive to reduce GHG emissions beyond the minimum regulatory requirement.

3. Recommendations for achieving ambitious climate action and a just and equitable transition through the approved Net-Zero Framework

To ensure climate vulnerable developing countries are not left behind in the transition away from fossil fuels, a collective finance mechanism is needed in the shipping sector to fund public goods and direct resources according to equity and need. While voluntary contributions from the private sector are a welcome and much needed addition in international climate finance, they are not an adequate substitute for the predictable mandatory payments into an IMO Net-Zero Fund under, due to the nature of profit-seeking investments.

Therefore, during the intersessional period and at MEPC 85 in December 2026, Member States should aim to:

- Retain the mandatory economic element as an integral part of the NZF
- Reserve decision-making on the equitable distribution of revenues to Member States
- Protect the integrity of the Surplus Unit market
- Preserve the collective architecture of the approved NZF