

ZEMBA Additionality Statement

Adoption of the Atmospheric Benefit Principle

13 November 2024

Background and Motivation

The concept of additionality is widely regarded as a critical consideration in many efforts to address climate change, but its application differs depending on context.

ZEMBA supports our member companies seeking to engage in voluntary value chain decarbonization. Our members are taking steps to address their value chain emissions by purchasing the decarbonized environmental attributes (i.e., emissions profiles) of goods and services represented in their greenhouse gas (GHG) inventory. In this context, the task at hand is one of attribution of an emissions profile not, as in the case of traditional out-of-sector offsets, determining whether the emissions reductions were additional to an alternative reality and therefore exist at all. ZEMBA's fuel certification and service verification requirements provide strong assurance that the decarbonized service took place and carries the emissions profile documented in the sustainable maritime fuel certificates (SMFc).

When ZEMBA considers additionality in this context, therefore, our focus is narrowly on whether the decarbonized good or service was decarbonized *voluntarily* rather than as the result of *regulation*. This determination is important; companies set voluntary climate targets because current regulation and policy is insufficient to address the threat of climate change. Therefore, actions taken by companies to meet voluntary Scope 3 or value chain targets should lead to emissions reduction or removals greater than what is already required by regulation.

Determining whether a particular good or service was decarbonized due to regulation is not straightforward, however, and has been the subject of recent conversations within the maritime sector. For example, the Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping (MMMCZS) and the Global Maritime Forum (GMF) have recently published a position paper based on conversations with maritime industry stakeholders proposing a consensus joint interpretation of additionality with respect to the various regulations in maritime shipping (i.e., regulatory additionality)¹. ZEMBA is issuing this statement to clarify ZEMBA's philosophy and approach to additionality in the context of value chain decarbonization in preparation for the issuance of ZEMBA's second RFP.

¹ ZEMBA is a signed supporter of, and largely aligns with the end results of, the discussion in the additionality position paper by MMMCZS and GMF. However, ZEMBA has chosen to issue this supplemental additionality statement to clarify in greater detail ZEMBA's expectations of bidders for ZEMBA RfP 2 and to serve as recommendations to ZEMBA freight buyer members and other corporate end customers of sustainable maritime services.

Atmospheric Benefit Principle

ZEMBA applies the Atmospheric Benefit Principle (ABP) in the evaluation of regulatory programs and policies with respect to additionality:

To be claimed towards a voluntary corporate climate target, the GHG emissions mitigation associated with value chain decarbonization actions must go beyond mitigation required by regulation, i.e., create an additional atmospheric benefit beyond regulation.

Climate policies and regulations are newly implemented and regularly updated or changed over time. Using the ABP, ZEMBA will be able to evaluate regulatory programs on a case-by-case basis, ultimately providing a high-level of integrity for the sustainable maritime services voluntarily supported by ZEMBA Members.

ZEMBA recommends the use of the ABP as a best practice and will require conformity to the ABP in ZEMBA's second tender, which will launch in early 2025.

Application of the Atmospheric Benefit Principle

The following examples outline ZEMBA's application of the Atmospheric Benefit Principle to evaluate relevant maritime regulations.

- **FuelEU Maritime – Not compatible with Atmospheric Benefit Principle (ABP).**

Rationale: The FuelEU Maritime regulation will establish EU-wide GHG intensity reduction mandates across regulated maritime vessels. Various measures, including the use of sustainable maritime fuels, can be used by obligated parties to meet the GHG intensity mandate. *Emissions benefits associated with sustainable maritime fuel volumes used to comply with FuelEU Maritime regulatory requirements may not also be counted towards voluntary ZEMBA-enabled Sustainable Marine Fuel Certificates (SMFc) as they are not additional to the emissions reductions required by the regulation.*

- **EU Emissions Trading System (ETS) – Not compatible with the ABP. Fuel that is represented within the EU ETS system can be considered compliant with the ABP and applied to the generation of SMFc only if an appropriate number of EU Allowances (EUAs) are deleted alongside the issuance of SMFc.**

Rationale: The EU ETS sets a declining cap for economy-wide emissions across a group of regulated sectors, including the maritime sector. The emissions cap within the EU ETS is translated into a limited number of EUAs (one EUA representing one metric tonne carbon dioxide equivalent, or mtCO₂e) that are auctioned or allocated to obligated parties under the regulation. Obligated parties are required to annually surrender an equivalent amount of EUAs to their emissions as designated under the EU Monitoring, Reporting, and Verification (MRV) regulation.

If a vessel operator uses a sustainable maritime fuel to lower their verified operational emissions under EU MRV, the number of EUAs that vessel operator would be required to surrender under the EU ETS would correspondingly decrease. Adherence to the ABP through voluntary action would preclude the vessel operator from using this same volume of fuel to generate an SMFc, because the emissions reductions associated with that fuel would overlap with, rather than be additional to, the emissions reductions required by the EU ETS regulation through its compliance obligation. This interaction is illustrated in Figure 1.

EU ETS Compliance Illustration: Scenario A

SMFc counted towards ETS compliance and sold in voluntary market

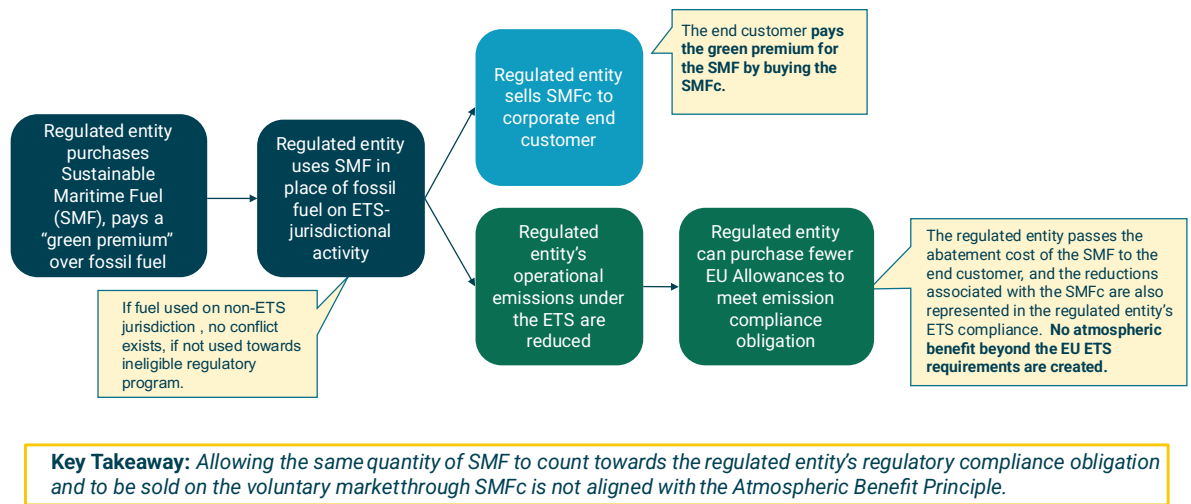


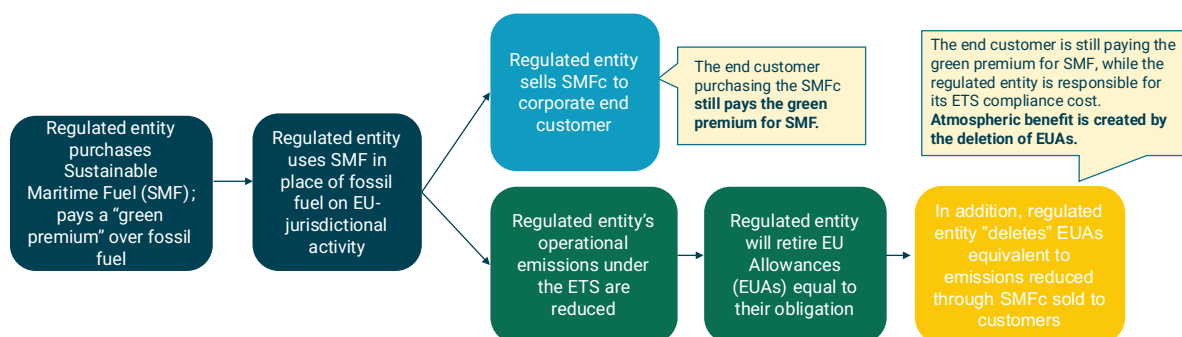
Figure 1: Illustration of non-conformance with ABP

However, vessel operators under the jurisdiction of the EU MRV and EU ETS may still demonstrate additionality of emissions benefits associated with fuel consumed under the jurisdiction of the EU ETS. A vessel operator should do this by deleting EUAs equivalent to the emissions reductions represented on a generated SMFc, without surrendering those allowances towards the vessel operator's verified emissions under the EU ETS. The deletion of EUAs² permanently reduces the number available EUAs, reducing the total emissions allowed within the jurisdiction of the EU ETS. *Therefore, by purchasing and deleting EUAs, an obligated vessel operator can utilize sustainable maritime fuel while demonstrating that the emissions benefits generated by the use of that fuel, and represented on SMFc, go beyond the requirements of the EU ETS regulation, and thus enable the generation of voluntary ZEMBA-enabled SMFc in conformance with the ABP.* This interaction is illustrated in Figure 2.

² EU ETS Regulation. Section 9, Article 57.

EU ETS Compliance Illustration: Scenario B

Additionality to ETS is created by deleting EU Allowances



Key Takeaway: A regulated entity can ensure the atmospheric benefit associated with SMF by voluntarily deleting EU allowances equivalent to emissions reduced through SMF claimed against voluntary targets. Doing so reduces the EU ETS program emissions cap and ensures that emissions reductions that have been used against voluntary claims are producing an atmospheric benefit beyond regulation.

Figure 2: Demonstrating Conformance with the ABP for EU ETS-Jurisdictional Fuel

- **IMO Carbon Intensity Indicator (CII) Regulation – Compatible with the ABP.**

Rationale: The IMO CII Regulation assigns a carbon intensity rating to maritime vessels with a capacity of over 5,000 gross tonnes, based on a measurement of grams CO₂e emitted per cargo carrying capacity of a vessel traveling one nautical mile. Every regulated vessel is assigned an environmental rating, from A to E, based on its environmental performance. Vessels assigned the lowest rankings, D or E, are required to submit a corrective action plan to show how a ranking of C or above will be achieved.

The CII regulation does not mandate any regulation-level emission reductions, and there are no IMO-mandated penalties for noncompliance, so the CII regulation fails to provide a definitive emissions benefit that might overlap with the emissions benefit represented on an SMF.

Therefore, the use of sustainable maritime fuel can be reflected in a vessel's CII score and used to generate an SMF.

CII Regulation is scheduled for revision in 2025, after which ZEMBA will reevaluate the regulation with respect to the ABP.

- **IMO Mid-Term GHG Reduction Measures – To Be Determined.**

Rationale: The structure of the finalized IMO mid-term GHG reduction measures will dictate whether fuel volumes or emissions reductions represented in the regulation will enable

conformance with the ABP through voluntary action. ZEMBA continues to monitor the policy development process at the IMO and will issue an updated additionality statement, if necessary, once the measures have been finalized.

Changes in Policy and Regulation

ZEMBA's interpretation of the ABP at the time of contract execution will be considered applicable for the full duration of the SMFc purchase contracts resulting from ZEMBA's tender. Any regulatory adjustments that take place after contract execution will apply to ZEMBA's next procurement cycle. However, it is ZEMBA's expectation that providers of SMFc will endeavor to seek consistency with the ABP even in the context of regulatory change.