

# *ACTIO INSIGHT*



THE CII IN BRIEF:  
INDONESIA'S PERSPECTIVE



## THE CII IN BRIEF: INDONESIA'S PERSPECTIVE

By Setyawati Fitriangraeni and Fildza Nabila Avianti<sup>1</sup>

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### A Background

Climate change is currently a high-profile issue faced globally which requires the awareness and commitment of governments around the world and support from all levels of business and industry to tackle the negative impact of climate change. As part of their commitment, world leaders at the UN Climate Change Conference (COP21) reached an agreement known as the Paris Agreement that has entered into force on 4 November 2016. One of its long-term goals is to reduce global greenhouse gas emissions to ensure that global temperature in this century rise no more than 2 degrees Celsius, while pursuing efforts to limit the increase even further to 1.5 degrees.

In response to the Paris Agreement, International Maritime Organization (IMO) showed its own commitments by incorporating and implementing the decarbonization programs in IMO's strategic plan. The IMO's initial strategy envisages:

1. A reduction of the average carbon intensity (carbon dioxide (CO<sub>2</sub>) emissions per transport work) by international shipping by at least 40% by 2030, and pursuing efforts towards 70% by 2050, as compared to 2008 levels: and
2. To reduce the total annual GHG emissions from shipping by at least 50% by 2050 compared to 2008, while pursuing efforts towards phasing them out entirely within this century.

In June 2021, at IMO's 76th Marine Environment Protection Committee ("MEPC 76"), IMO adopted two additional measures (i) Energy Efficiency Design Index for Existing Ships ("EEXI") and Carbon Intensity Indicator ("CII") that will come into force in January 2023 as IMO's commitment to tackle climate change. This article will discuss the CII and its implication to the Indonesian maritime Industry.

### B. The CII

#### a. What is CII?

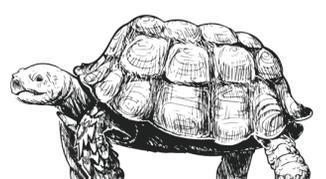
The CII is one of two new measurements entered into force on 1 January 2023 along with EEXI. EEXI is a framework for determining the efficiency of the design of in-service vessels over 400 GT falling under MARPOL Annex VI. The CII is an operational measure of how efficiently a ship transports goods or passengers measured, in essence, in grams of CO<sub>2</sub> emitted by cargo-carrying capacity and nautical miles. We may conclude that EEXI are technical measures while CII is operational measures.

The CII is applicable to vessels of 5,000 GT and above which aligns with the requirements for recording ship's fuel consumption in accordance with the IMO Data Collection System (IMO-DCS). The certification will be issued on an annual basis based on their performance over the previous year.

#### b. How does the CII rating work and calculated?

As CII is considered an operational measure, it will be calculated on an annual basis rather than per voyage. The attained annual operational CII will be based on IMO-DCS, and all the required data shall be submitted through the IMO-DCS. The emissions report shall at least include the Annual Emissions Ratio (AER) (for general cargo, tankers, bulk carriers, LNG carrier, gas carrier, combination carriers and reefers, and container ships) or capacity gross ton Distance ("cgDist").

The CII also will work alongside with the Ship Energy Efficiency Management Plan ("SEEMP") as required by Marpol Annex VI, SEEMP needs to be enhanced to support the information regarding the implementation of CII on board vessels. SEEMP will contain information encompassing:





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- The methodology used to calculate the vessel's attained annual operational CII
- The required annual operational CII for the next three years
- A plan on how the vessels will achieve the required annual operational CII during the next three years
- The process of reporting to the Flag State for verification and or improvement

### c. Compliance and Corrective Plan

The proof that the vessel is in compliance with the CII's requirements shall be in the form of a Statement of Compliance ("SoC"). The SoC will reflect the fuel consumption, the annual carbon intensity reduction, and the rating itself compared to carbon intensity reduction performance against the required carbon intensity reduction. The first SoC shall be received by the shipowners on 1 January 2023.

If a vessel is rated D or E for three consecutive years, then shipowners are required to submit and implement a corrective action plan on how shipowners can improve the vessel's efficiency to rating C or above. The corrective action plan shall be included in the SEEMP.

### C. The CII for the maritime industry

#### a. What does CII mean for shipowners?

Since 2019, IMO has mandated ship operators to comply with the IMO's data collection system, including fuel consumption, hours underway, and distance travelled within a calendar year. Fuel consumption is influenced by factors such as how a particular ship is operated, technical efficiency and operational parameters (vessel speed, cargo transported, weather conditions, and the general condition of the vessel), and type of fuel used. This data is then verified by an approved verifier who will have to calculate the attained CII of each ship. Based on the attained and required CII, a CII rating will be given to a ship, ranging from A to E. The most environmentally friendly will receive an A rating, while the highest polluters will be rated E.

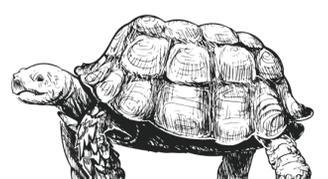
The initial rating thresholds are set using 2019 as a base and will become stricter over time. By 2023, the reduction factor will be set at 5%. This means, for a ship to stay or maintain a preferred rating, it will have to continuously perform better each year. Assuming a ship is rated as C in 2021 and not able to sustain the rating, the rating will decrease if the operator does not continuously improve the operational performance of their ships. From 2023 onwards, if a ship is rated D or E, the owner of that ship will be seen as not doing enough to comply, and therefore not doing enough to fight the climate crisis. The direct impact is that ship owners will need to update their Ship Energy Efficiency management plan (SEEMP) with how to improve their rating.

What CII means for each stakeholder in shipping can mean differently. For ship owners, they can control the CII through optimizing operations and ensuring vessels are in good condition. For charterers, CII will bring a major shift on the ships they charter by selecting the speed.

For owners/operators, they will need to continuously monitor ship performance, ship consumption trends, and apply timely maintenance, and hull cleaning to keep CII in check. Since consumption constantly fluctuates, depending on the ship's speed, draft, and weather conditions, regular monitoring and correcting these factors will result in having an insight to improve one's CII rating.

#### b. The CII's implications to the Indonesian Maritime Industry

Currently, Government of Indonesia has not issued any regulation yet related to the CII rating. Therefore, it remains unclear how the Government of Indonesia is going to regulate EEXI and CII, this includes the application of SoC. SoC itself is a part of the compliance mechanism under EEXI, in conjunction with complying with CII. However, considering shipowners and managers have to comply with both EEXI and CII, it is likely that Indonesia will apply SoC as well. We see the same requirements being practiced in Japan.





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In Japan, Statement of Compliance issued by administrator is among the data collected for IMO DCS (Data Collection System).

But there are a few criticisms from the Indonesian maritime industry with regards to CII. One of them is the need to have more contractual clauses in the charter party agreement, as the charterers are expected to return the ship to the owner with the same rating when the ship was first rented/used. Clarity is also needed as to how owners claim damages if ships are sent back with a lower rating, leaving the owners vulnerable to penalties. Lastly, although the maritime industry recognizes that CII is a step forward towards introducing a standard maritime carbon rating system, there are still doubts that CII can be applied fairly across all ship sizes.

### ct The Government of Indonesia's decarbonization effort prior to CII

Prior to the enactment of CII, in consideration of the MARPOL Convention on Prevention of Pollution from Ships, the Government of Indonesia had prepared a decarbonization program. To fulfill Indonesia's commitment to reduce emissions by 29% by 2030, in accordance with the Paris Agreement, Indonesia has made various efforts, one of them is through decarbonizing ships and ports. This rule was implemented by Indonesia through the issuance of Circular Letter (SE) of the Director General of Sea Transportation of the Ministry of Transportation No. 35 Year 2019 on The Obligation to Use Low Sulfur Fuel and The Prohibition of Transporting or Carrying Fuel That Does Not Meet the Requirements and The Management of Waste from Exhaust Gas Recirculation from Ships. Indonesian Regulation SE No. 35/2019, expressly states that Indonesian-flagged ships and foreign-flagged ships operating in Indonesian waters are required to use fuel with a sulfur content with a maximum value of 0.5% m/m. Indonesia has also updated their Nationally Determined Contributions (NDC) regarding the issue of shipping decarbonization in July 2021.

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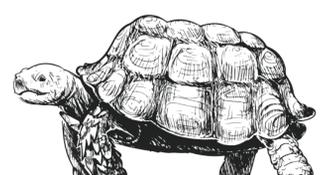
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