



# REGULATORY OVERVIEW OF CARBON INTENSITY INDICATOR (CII) AND ENERGY EFFICIENCY EXISTING SHIP INDEX (EEXI)

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This guidance is part of our comprehensive [Maritime Emissions Regulations](#) section written in consultation with the [law firm HFW](#). This publication was written in consultation with [Alessio Sbraga, Partner](#) and [Alex Andreou, Senior Associate](#), from leading global law firm HFW. Whilst care has been taken to ensure the accuracy of this information at the time of publication, the information is intended as guidance only. It should not be considered as legal advice.

The definitions for technical terms used can be found in the glossary on page 8.

## REGULATORY OVERVIEW OF CARBON INTENSITY INDICATOR (CII) AND ENERGY EFFICIENCY EXISTING SHIP INDEX (EEXI)

1. The IMO has imposed operational requirements for ships to improve their carbon intensity, the Carbon Intensity Indicator (CII), and technical design requirements so that ships meet an energy efficiency baseline, Energy Efficiency Existing Ship Index (EEXI) (together the CII Regulations). The CII Regulations were imposed through amendments to Annex VI of MARPOL Chapter 4, via MEPC Resolution 328(76) ([Revised MARPOL Annex VI](#)) together with guidelines.

### KEY FEATURES OF CII

- 1.1 CII is an operational tool used to measure the carbon intensity generated by the operational performance / commercial activities of individual ships. It applies to all ships above 5,000 gt.
- 1.2 From 1 January 2023, in each reporting period (one full calendar year), each ship has a target annual operational energy efficiency value (required CII) which it should aim to achieve. Up to 2026, the required CII becomes more challenging to attain each year, requiring a continuous improvement of approximately two percent annually.
- 1.3 During the reporting period, ships must record and report fuel consumption data and other relevant data relating to greenhouse gas (GHG) emissions in accordance with the IMO Data Collection System (DCS). This data is then verified by 31 March in the year following the reporting period (verification period). The fuel consumption data is calculated on the basis of the annual efficiency ratio (AER) metric, which is total annual CO<sub>2</sub> emissions over deadweight ton miles (gCO<sub>2</sub>/dwt.nm) and assumes a continuous cargo carriage, even during ballast voyages. The AER metric does not factor in cargo carriage efficiency. In consequence, operational adjustments, such as slow steaming, alternative sustainable maritime fuel and routing, as well as improved fuel consumption efficiency, may be required to comply with the CII regulations depending on the age, type, sector and trade of a ship.
- 1.4 Using the fuel consumption data, a ship calculates its actual annual operational energy efficiency in accordance with the AER metric, expressed on a gCO<sub>2</sub>/dwt.nm basis for a reporting period (attained CII) which is to be submitted to the flag state by 31 March of the verification period. In this article, we refer to the in-year-to-date notional attained CII (pre-verified) as the indicative CII value.
- 1.5 A ship is required to develop (and keep updated) an enhanced ship energy efficiency management plan (SEEMP), which may form part of the ship's safety management system (SMS). The SEEMP must, amongst other requirements, set out the methodology used to monitor and calculate the attained CII and include an implementation plan describing how the required CII will be achieved over the next three years, starting from 2023.



<sup>1</sup> Or an approved entity responsible for verification as delegated by the flag state.

- 1.6 After 30 April and before 31 May in a verification period, the flag state will compare the attained CII against the required CII to produce a verified annual carbon intensity rating (CII rating) from 'A' (superior) to 'E' (inferior). A CII rating of mid "C" is, effectively, the required CII. The attained CII and CII rating are recorded on the DCS and in the statement of compliance (SoC). The SoC must be kept on board the ship for five years.
- 1.7 If a ship has a CII rating of D for three reporting periods or E in any single reporting period, owners must develop a corrective action plan and submit a revised SEEMP. Failure to adhere to the corrective SEEMP could invalidate the ship's SoC. Conversely, flag states may introduce incentives to ships rated A or B.

## KEY FEATURES OF EEXI

- 1.8 The EEXI is a technical measure aimed at improving the energy efficiency of ships, applying to existing ships of 400 gt and above. EEXI is a singular obligation, where ships need to certify that they meet the target existing design parameters. This had to be certified by the flag state at the first annual, intermediate or renewal survey or the initial survey, on or after 1 January 2023.
- 1.9 EEXI is a technical benchmark value derived from the ship's type and capacity (**required EEXI**). The required EEXI is compared to the ship's actual EEXI (**attained EEXI**), which is the ship's notional energy efficiency as designed.
- 1.10 Where the Attained EEXI is less energy efficient than the Required EEXI, ships must implement measures to enhance energy efficiency. The CII Regulations do not prescribe which technical measures apply. More efficient ships may comply without technical modifications and this is the case with newbuild ships which comply through meeting the energy efficiency design Index (EEDI). The older the ship, the more significant the technical modification is likely to be. In practice, technical modifications have taken the form of engine or shaft power limitation devices (EPL or SHaPoLi) as the most practical and cost-effective solution. These limit the maximum power input (and speed) of ships, although other technical modifications and energy saving devices have also been adopted. Compliant ships will receive an international energy efficiency certificate (IEEC).

## NEGOTIATING CONTRACTUAL SOLUTIONS TIME CHARTERPARTY CII CLAUSE

2. In this section, we outline the key considerations and issues for owners and charterers to look out for when negotiating CII clauses in time charterparties.
  - 2.1 The CII regulations are particularly important for time charterparties, because the operational adjustments necessary to comply with the CII regulations will inevitably cut across the traditional bargain in this contract.
  - 2.2 Under a traditional time charterparty, charterers provide employment orders – speed, route, fuel, and cargo operations. In turn, the owners follow these orders and must ensure that their ship complies with laws and regulations throughout the charterparty and meets speed and consumption warranties.
  - 2.3 In consequence, bespoke charterparty clauses should be agreed, otherwise owners may find themselves unable to make operational adjustments to comply with the CII regulations, or breach commercial employment orders if they do, and at the same time are required to meet duties as to legal fitness and seaworthiness.
  - 2.4 The BIMCO CII operations clause for time charterparties (BIMCO CII TC clause) seeks to address the commercial, operational and technical complexities of compliance with CII which is a very difficult challenge. The solution will depend on commercial bargaining power and there are various amended/bespoke solutions in the market. Provided below are some of the key considerations for both owners and charterers when negotiating bespoke CII clauses for their time charterparties.
  - 2.5 **Data Sharing**
    - 2.5.1 Any clause should provide for regular data collection and reporting on fuel consumption and emissions,

specifying the methods and timeframes for data collection/sharing. This data will be important for both parties to understand how the ship is performing and to help ensure the ship is operating in compliance with the CII regulations, as well as identifying any breach.

## 2.6 Requirements to Operate the Ship in Compliance with CII Regulations

- 2.6.1 Perhaps the critical issue for a CII clause for a time charter will be to agree how or to what extent the ship will comply with the CII Regulations. In strict terms, compliance with the CII Regulations requires the ship to attain a mid-point "C" CII Rating, which is the required CII. However, remedial measures are only imposed where the ship attains an "E" CII rating in any one reporting period or a "D" CII rating for three consecutive reporting periods. Owners and Charterers may be willing to accept CII performance within a range of acceptable CII Ratings or CII values.
- 2.6.2 For example, the BIMCO CII TC clause (sub-clause (c)) obliges charterers to:
- (a) operate the ship so that it complies with the CII regulations; and
  - (b) meet CII performance benchmarks, by ensuring the in-year and on redelivery indicative CII value do not exceed a charterparty agreed baseline (agreed CII). Under the BIMCO CII TC clause, the default CII value for the agreed CII is a mid-point "C" CII rating, although parties are free to agree on different values.
- 2.6.3 When negotiating clauses, any CII performance benchmarks should be clearly linked to a CII rating or an indicative CII value (expressed on a gCO<sub>2</sub>/dwt.nm basis). It will also be important to address whether off-hire periods should be included within the computation of any CII performance targets.
- 2.6.4 In contrast to the position taken in the BIMCO CII TC clause, some charterers have sought alternative solutions, which do not provide absolute obligations on charterers to operate the ship so that it complies with the CII regulations. Instead, a more charterer-friendly clause would ensure that charterers' commercial interests take precedence over compliance with the CII regulations.
- 2.6.5 Equally, rather than agreeing that the ship will not exceed the agreed CII during the calendar year, charterers may not agree any binding CII performance benchmarks at all or may only agree performance benchmarks on redelivery and / or the end of the final calendar year before redelivery.

## 2.7 Consequences of Non-Compliance with CII Regulations

- 2.7.1 A ship may be operated so that it does not comply with the CII regulations. A CII clause should clearly identify the remedies available to the parties if the ship does not comply with the CII regulations.
- 2.7.2 Non-compliance with contractual CII performance benchmarks should give owners a right to claim damages, but owners may want other express remedies in the clause. For example, the BIMCO CII TC clause permits owners to intervene with the commercial operation of the ship if there is non-compliance with the intended remedial CII dialogue (sub-clause (g)). Where there is a consistent deviation from agreed CII and the sub-clause (g) steps are followed, owners can refuse to follow charterers' orders and / or reduce speed without being in breach of charterparty, alternatively they may require charterers to provide requisite instructions to bring the indicative CII value in line with the agreed CII. Charterers using the BIMCO CII TC clause may want to limit owners' rights under sub-clause (g). One way to do this would be to limit interventions to circumstances of significant deviation from the agreed CII, such as when the ship will not meet the agreed CII at the end of the calendar year. This should prevent owners acting aggressively early in a reporting period.
- 2.7.3 For some charterers, the outcome provided by sub-clause (g) undermines the commercial purpose of the contract, and any such interference with commercial operations is rejected. Therefore, more charterer friendly solutions do not permit any intervention by owners during the year. Where owners have agreed more charterer-friendly solutions, which do not adopt the BIMCO CII TC clause, then owners should be aware they could be exposed to claims from charterers for non-compliance with the CII regulations. To protect their position, owners should try to exclude charterers' claims arising out of owners' breach due to non-compliance with CII regulations (we discuss this risk further in paragraph 8.3).

## 2.8 Owners' Protections and Indemnities

2.8.1 The parties may agree on other protective clauses to address either non-compliance with CII regulations, or steps taken to comply with the CII regulations. For example, the BIMCO CII TC clause includes indemnity protection for owners against claims from bill of lading holders where owners have had to intervene in the operation of the ship to ensure CII compliance (sub-clause (i)). The BIMCO CII TC clause also includes an express right to contractual damages where charterers breach their obligations in relation to CII (sub-clause (j)).

2.9 **Future Proofing** – The CII clause could include a review mechanism, anticipating future regulatory changes as envisaged by the BIMCO CII TC clause (sub-clause (d)).

2.10 **Damages** – Where the likely damages arising out of a low CII rating and/or a low indicative CII value on redelivery remain, presently, unclear, one way to mitigate this risk is to introduce a liquidated damages clause. In doing so, losses are triggered on a contractual basis (irrespective of whether there are any formal penalties or sanctions for the CII regulations) and this may also avoid the need to take steps in the mitigation of loss.

## 2.11 Competing Obligations

2.11.1 As described above, CII impacts several existing charterparty obligations. To avoid complicated disputes as to which of these existing obligations prevail, a CII clause should be designed to cover all the obligations on the parties arising out of the CII regulations. This should enable the parties to exercise rights under the CII clause without concern about breach of other clauses within the charterparty.

2.11.2 The BIMCO CII TC clause is drafted in this manner. It also expressly disapplies the speed and consumption warranties in the charterparty for purposes of CII compliance. In practice, this means owners could take the required steps to comply with CII under the clause and charterers would have a separate claim for damages for breach of the speed and consumption warranties.

## VOYAGE CHARTERPARTY CII CLAUSE

3. Given the short periods of voyage charters, the operational issues posed by the CII regulations may be less of an issue. Therefore, the contractual solutions for voyage charters are generally more straightforward. The BIMCO CII clause for voyage charterparties (BIMCO CII VC clause) grants owners the right to adjust the ship's course and reduce speed to lower CII, provided they maintain a minimum agreed speed in good weather conditions (sub-clause (a)). This right to adjust speed and course takes precedence over other provisions in the charterparty, ensuring that CII compliance is prioritised.
4. However, delays at ports may have an adverse impact on a ship's CII performance (e.g. where it would be consuming fuel yet making no distance) and the BIMCO CII VC clause does not address this. While laytime and demurrage provisions may cover traditional delays, such provisions may not adequately cover losses or adverse impact arising out of non-compliance with the CII regulations. Increased demurrage rates may be sufficient to cover risk, but tailor-made amendments to ensure additional risks are covered off would be advisable, especially where a charterparty involves long waiting times/port stays at multiple ports where ships tend to be static.
5. In any case, some voyage charterers may be unwilling to agree clauses at all. Their position may be that CII compliance is achieved across an entire reporting period – such that, charterers' rights should not be prejudiced in circumstances where owners can still ensure compliance (or redress any poor CII performance) across the balance of the reporting period.

## EEXI TRANSITION CLAUSE FOR TIME CHARTERPARTIES

6. As EEXI requires a singular technical modification, EEXI poses less challenges for time charters than CII. The BIMCO EEXI clause for time charterparties (BIMCO EEXI clause) was introduced to assist owners with the necessary modifications to

comply with EEXI. It sets out that owners may make modifications for EPL and SPL (at owners' time, risk and cost) without charterers' consent and have the right to take the ship out of service to complete these at owners' time and cost, using reasonable endeavours to avoid a loss of time to charterers, promoting cooperation and dialogue between the parties (sub-clause (c)).

7. Where the effect of the EPL or SPL is to reduce the permissible speed to below the existing speed and corresponding consumption figures under the charter, new speed and consumption figures (in line with the ship's performance curve) are to be warranted by owners (together with logical amendments to the ship's description) and accepted by charterers as from the certification date of the EPL or SPL. For other modifications beyond this, owners must obtain the charterers' prior agreement and approval, which is not to be unreasonably withheld (sub-clause (d)).

## DISPUTES CII

- 7.1 From the above analysis of time charterparties, disputes can arise for breach of contractual obligations, even though, at present, the CII regulations lack formal sanctions for non-performance. We consider below the kinds of dispute that can arise under a time charter in respect of CII and the key issues for these types of dispute.

### OWNERS' CLAIMS - BREACH / CAUSATION

- 7.2 For any contractual claim for damages, the first step is to establish that your counterparty is in breach of their obligations. Establishing breach depends on the specific contractual terms. For example, does the clause bind charterers to strict performance benchmarks and redelivery warranties? Or does it prioritise the charterers' commercial interests over regulatory compliance?
- 7.3 Clauses, such as the BIMCO CII TC clause, and other market solutions, which impose binding indicative CII values and / or CII ratings, which must be met at specified times in the calendar year, should make it easier for owners to establish breach. Where the clause provides strict performance benchmarks like an agreed CII, the risk of unforeseen events arising and affecting the CII value is likely to rest with the charterer and non-compliance with the agreed CII is likely to be a breach.
- 7.4 Even where a CII clause is agreed, factual and legal causation considerations may be complicated and will require detailed consideration. For example, under the BIMCO CII TC clause or equivalent clauses imposing binding CII performance benchmarks, where owners bring claims for failure to meet end of year or redelivery indicative CII values, owners must show that charterers' orders and their breach(es) of charterparty caused the ship to obtain the CII value. In this respect, owners' actions may have impacted the indicative CII value over a calendar year. For example, engine maintenance, hull cleaning, passage planning, weather routing/voyage optimisation, or advance notice to charterers of CII performance may impact indicative CII value. Charterers may argue that owners' action or inaction was the effective cause of the indicative CII value, and not charterers' orders. These disputes may therefore require a forensic analysis of events and the ship's performance data across the entire reporting period.

### OWNERS' LOSSES / MITIGATION

- 8.1 A further key step for claiming contractual damages is showing loss arising out of the breach of charterparty. Where there is breach of a CII clause, owners may suffer losses, such as:
  - 8.1.1 market losses due to lower hire rates/freight and/or loss of fixtures or breach of follow-on fixtures (arising out of a low CII Rating (eg "D" or "E", or an equivalent low indicative CII value) which constrains the trading or operation of the ship);

- 8.1.2 direct costs (including any operational/administrative costs) of measures imposed by a corrective action plan or indirect costs through impact on commercial operations under the underlying time charterparty or contract of affreightment;
  - 8.1.3 loss of financial incentives and concessions offered for compliance with CII. For example, Singapore Port Authority has introduced "incentives" for 'A' CII ratings, which will receive concessions on Additional Tonnage Tax;
  - 8.1.4 ship re-sale value losses arising out of a low CII rating<sup>2</sup>;
  - 8.1.5 higher insurance premiums or stricter financing terms if there is a fleet wide issue, driven by the Poseidon Principles for financial institutions and marine insurance; and
  - 8.1.6 claims from charterers considered at paragraph 8.3.
- 8.2 Even where owners can prove that they have suffered loss, they will be subject to a duty to mitigate those losses. This is closely linked to causation, showing that the loss suffered was caused by their counter-party's breach. Again, CII may throw up challenging legal issues for the claimant owners. Take for example a situation where charterers' breach is a breach of a redelivery CII obligation, owners may be expected to mitigate the redelivery breach by immediately taking steps to improve the in-year indicative CII value. In these circumstances, the measure of damages may be limited to the reasonable "cost of repair"<sup>3</sup>. For example, by sailing in ballast to improve the indicative CII value, which would mitigate consequent losses, although that will depend on whether it has any follow-on fixture in place.

## CHARTERERS' CLAIMS / LOSSES

- 8.3 It is not just owners who stand to lose out for the ship's non-compliance with the CII regulations. Charterers may also suffer losses arising out of CII regulations. For example, if the ship attains a "D"/"E" CII rating or operates with an equivalent in-year indicative CII value, charterers may suffer losses: (i) loss of hire or freight when sub-chartering or even loss of business (e.g. where a specific CII rating or equivalent CII indicative value has been agreed or is required); or (ii) breaches under sub-charterparties, such as breach of Ship Inception Report Programme (SIRE) or Rightship approvals. Where no CII clause is agreed, charterers may seek to recover these losses from owners.
- 8.4 If owners make operational adjustments to voyages, disputes may arise whether a CII clause has been agreed or not. These may manifest themselves in the form of breaches of speed and consumption warranties, employment orders where, for example, owners seek to comply with the CII regulations or a minimum CII Rating. The consequences for owners may be severe if they get this wrong/do not have clear and adequate contractual rights in place. Charterers may cancel the contract, where the commercial purpose of the charter is to perform a particular trade at a particular speed, and charterers lose substantially the whole benefit of the contract. The risks for owners are heightened where no CII clause is agreed, given owners' obligations to both comply with CII regulations and follow employment orders.

## EEXI

- 8.5 Disputes related to EEXI are less common, although they are likely to have already arisen if appropriate modifications, such as installing EPL/SPL, reduced the ship's maximum speed, yet no appropriate clause was in place (such as the BIMCO EEXI clause). This may conflict with speed and consumption warranties or charterparty service requirements. Typically, such obligations are innominate terms, meaning the primary remedy is damages, not termination. However, a reduction in speed may have significant commercial implications for a charterer, who may have sold freight on the basis of guaranteed minimum speeds. Charterers may claim damages or seek to terminate if minimum speeds were central to the commercial purpose of the contract<sup>4</sup>. [The footnote refers to The Aegean Dolphin judgment "above". However, there is no preceding reference to this judgment. HFW should be asked to clarify]. Owners may have defences to this where an EPL/SPL was the viable option to comply with such a mandatory regulation as part of their fitness obligations which trump such commercial obligations. All these issues may re-surface should the IMO decide to introduce further stringent EEXI obligations following its review – see below.

<sup>2</sup> See for example CII Explained: [How Ships are Measuring Up to New Carbon Standards](#)

<sup>3</sup> See Time Charters at Paragraph

<sup>4</sup> See *The Aegean Dolphin* above

## FUTURE CHANGES TO THE CII REGULATIONS AND CONSIDERATIONS

9. The CII regulations remain an important part of the IMO's revised GHG strategy and should not be overlooked. The CII regulations contain a revision mechanism for both EEXI and CII and that review process has already started – notably for CII<sup>5</sup>. At MEPC 83, it was agreed to split this review into Phase 1 and Phase 2. Phase 1 will be completed before 2026 and has introduced CII reduction factors through to 2030. While the scope of any further revisions is still to be decided, changes to the AER metric (including the SEEMP) are expected and will be considered at MEPCs from 2026 to 2028. It is possible that sanctions for non-compliance with CII could be introduced. The market should stay informed and proactive on the relevance and impact of the CII regulations on commercial contracts.
- 9.1 To the extent that the CII regulations remain linked to KPIs followed by financial institutions and marine insurance providers under the Poseidon Principles, additional commercial consequences may follow, and vigilance is required.

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## GLOSSARY

**Administering Authority:** This is the administering authority in each EU Member State, which is responsible for administering EU ETS, and FuelEU. Each compliance entity will be allocated an administering authority.

**Advance Compliance Surplus:** Under FuelEU, where a ship borrows from its Compliance Balance from the future Reporting Period (n+1), this borrowed Compliance Balance is the Advance Compliance Surplus and shall be added to the ship's Compliance Balance in Verification Period (n+1).

**AER Metric:** Annual Efficiency Ratio is the metric under CII for assessing the GHG intensity of a ship and is based on GHG emissions per dead weight tonne mile. A different metric is used under FuelEU.

**Attained CII:** Under the CII Regulations, this is a ship's actual annual recorded operational energy efficiency calculated according to the AER Metric and expressed on a gCO<sub>2</sub>/dwt.nm basis.

**Attained EEXI:** This is the ship's energy efficiency and is compared to the Required EEXI to determine whether improvements are required.

**BIMCO CII TC Clause:** The CII Operations Clause for Time Charterparties 2022.

**BIMCO CII VC Clause:** The BIMCO CII clause for voyage charterparties 2023.

**BIMCO EEXI Clause:** The BIMCO EEXI clause for time charterparties 2021.

**BIMCO ETS Clause:** The Emission Trading Scheme Allowances Clause for Time Charter Parties 2022 published in respect of EU ETS.

**BIMCO FuelEU Clause:** The FuelEU Maritime Clause for Time Charter Parties 2024 published in respect of FuelEU.

**BIMCO Shipman EU ETS Clause:** The ETS Shipman Emission Trading Scheme Allowances Clause for Shipman 2023 published in respect of EU ETS.

**BIMCO Shipman FuelEU Clause:** The FuelEU Maritime Clause for Shipman 2024 published in respect of FuelEU.

**BIMCO Surcharge:** The Emission Scheme Surcharge Clause for Voyage Charter Parties Clause 2023 is one of the three BIMCO-published clauses for use in voyage charterparties in respect of EU ETS. This clause provides for payment of a cash equivalent sum to the EUAs as a surcharge on top of freight.

**Cap and trade system:** A form of emissions regulation which requires participants to pay for their emissions. The number of permits for participants to emit GHG are capped and are traded between participants. This increases costs of emissions and incentives low emission solutions. The EU ETS is a cap-and-trade system.

**CII Rating:** For the CII Regulations, this is an annual carbon intensity rating from 'A' (superior) to 'E' (inferior), which is produced by assessing Attained CII against the Required CII.

**CII Regulations:** These are the IMO's Carbon Intensity Indicator (CII) and Energy Efficiency Existing Ship Index (EEXI), which were introduced through amendments to Revised MARPOL Annex VI.

**Compliance Balance:** Under FuelEU, this is the ship's performance against the GHG Intensity Limit. The ship's GHG Intensity during a calendar year is compared to the GHG Intensity Limit established by FuelEU to generate the Compliance Balance.

**EU ETS Compliance Deadline:** Under the EU ETS, this is the 30 September in the year following the Reporting Period and is the annual deadline for compliance entities to surrender EUAs to their Administering Authority.

**Compliance Entity:** The entity responsible for compliance with a given regulation. See also "shipping company" for the compliance entity for EU emissions regulations.

**Deficit:** Under FuelEU, where a ship's GHG Intensity is above the GHG Intensity Limit, the ship's Compliance Balance is negative, which is a compliance deficit.

**EEA:** The European Economic Area, covering the EU and Iceland, Liechtenstein and Norway.

**Emissions:** These are GHG emissions as regulated by an emissions regulation and may include CO<sub>2</sub>, CH<sub>4</sub> or N<sub>2</sub>O emissions depending on the emissions regulation.

**EPL:** Engine power limitation. A method of complying with EEXI.

**EUAs:** Emissions allowances under the EU ETS, which permit the holder of the EUA to emit one tonne of CO<sub>2</sub> equivalent.

**EU ETS:** The EU Emissions Trading System Directive (Directive 2003/87/EC), which is a cap-and-trade system, requiring participants to surrender EUAs meeting their verified emissions.

**EU's Fit for 55 Legislative Package:** The set of regulations, directives, and legislative proposals covering different sectors and industries introduced by the EU to align EU policies with EU climate goals.

**Flexibility Mechanism:** Under FuelEU, this is a regulatory action that can be taken by a compliance entity (one of Banking, Borrowing or Pooling) and offers flexibility so that compliance with FuelEU is not restricted to generating a Surplus in a Reporting Period.

**FuelEU:** Regulation (EU) 2023/1805, this Regulation imposes two targets: one applicable from 1 January 2025 is for ships to meet an annual GHG Intensity Limit and a second, applicable from 1 January 2030, is for certain types of ship to connect to onshore power supply.

**FuelEU Database:** The electronic system on which FuelEU data and compliance information is inputting and recorded.

**FuelEU DOC:** FuelEU document of compliance which is issued to the shipping company by 30 June in the Verification Period, where their ship has generated a Surplus or a Deficit and a FuelEU Penalty has been paid for the Deficit.

**FuelEU Penalty:** This is a penalty imposed under FuelEU on ships which have a Deficit after 1 May in the Verification Period, which may be calculated according to a formulae provided in Annex IV.

**gCO<sub>2</sub>eq/MJ:** CO<sub>2</sub> equivalent per megajoule, this is the metric for assessing GHG Intensity under FuelEU only.

**GHG:** Greenhouse gas.

**GHG Intensity:** The measurement of a ship's GHG intensity on a grams of CO<sub>2</sub> equivalent per megajoule (gCO<sub>2</sub>eq/MJ) basis for a calendar year under FuelEU.

**GHG Intensity Limit:** The limit on GHG Intensity of a vessel's emissions, as set pursuant to FuelEU.

**IIEEC:** International Energy Efficiency Certificate required under the CII Regulations.

**IMO Net-Zero Framework:** Means the latest measures approved at MEPC 83 and subject to agreement at extraordinary session in October 2025, which approved requirements for a global fuel standard where ships must monitor and reduce their GHG fuel intensity against two thresholds and a global economic measure where ships which operate with GHG fuel intensity above the threshold must acquire remedial units and ships which operate with GHG fuel intensity below the threshold may be eligible for financial rewards.

**ISM DOC Holder:** The entity which, on behalf of a ship, holds the document of compliance certifying that that company complies with the requirements of the International Safety Management Code, which can be delegated to a ship manager or bareboat charterer. This entity can be mandated as the compliance entity under EU ETS (and MRV Regulation) and is the compliance entity under FuelEU.

**Life Cycle Assessment:** A method for assessing the GHG intensity of a fuel, which accounts for GHG across the full life cycle of the fuel, i.e. from production, delivery to consumption.

**MiFID II:** Markets in Financial Instruments Directive (MiFID) II, which is a legal framework for securities markets, investment intermediaries, in addition to trading venues. Entities holding EUAs, which are a financial instrument, may be regulated by MiFID II.

**MOHA:** Maritime operator holding account, which is a type of account for holding EUAs, and can only be opened by a compliance entity. It permits that entity to surrender EUAs to their Administering Authority.

**MRV Regulation:** Regulation (EU) 2015/757, the Regulation which complements EU ETS and requires shipping companies to monitor, report and verify emissions from their ships.

**Physical Transport Contract:** This is a contract for carriage services such as a time charter or voyage charter.

**Polluter Pays Principle:** A policy principle commonly adopted in emissions regulations, which seeks to impose the costs of emissions of the ultimate polluter. For EU ETS, this is identified as the commercial operator as defined therein.

**Port of Call:** Under EU ETS and FuelEU, this is defined as a port where the ship undertakes cargo operations or disembarks passengers. The definition excludes certain stops – such as for refuelling/obtaining supplies, distress calls, and ship-to-ship transfers outside ports.

**RED II:** Directive (EU) 2018/2001, the EU Directive which promotes the use of energy from renewable sources.

**Registry Regulation:** Regulation (EU) No 389/201, this Regulation complements the EU ETS and contains the obligations and requirements in respect of opening MOHA's and trading accounts. It sets out the legal nature of EUAs and the rules in respect of transfer, surrender and ownership of EUAs.

**Reporting Period:** For CII Regulations, EU ETS and FuelEU, this is one full calendar year from 1 January to 31 December, within which compliance entities must monitor the ship's emissions and GHG intensity, as prescribed in each regulation.

**Required CII:** The specific annual operational energy efficiency that vessels must achieve under CII, which is expressed in accordance with the AER metric on a gCO<sub>2</sub>/dwt.nm basis.

**Required EEXI:** This is a benchmark value for EEXI for each ship, which is derived from the ship's type and capacity.

**Revised MARPOL Annex VI:** The amendments to Annex VI of the IMO's MARPOL Chapter 4, via MEPC Resolution 328(76), which incorporate the CII Regulations.

**RFNBO:** Renewable fuel of non-biological origin. These are sustainable, synthetic (e-)fuels, where the fuel's feedstock is derived from sustainable, renewable sources and the energy powering the production process to transform the feedstock into fuel is also derived from renewable sources. Examples include green methanol, green ammonia or green hydrogen.

**SEEMP:** Ship Energy Efficiency Management Plan, a document which is kept onboard a ship and records the steps that the ship shall take in order to comply with the CII Regulations.

**Shipping Company:** A "shipping company" or "company" is the entity responsible for compliance with EU ETS and the MRV Regulation, which may be the ISM Doc Holder (if mandated by the registered owner) or the registered owner. A "company" is also the entity responsible for compliance with FuelEU and, by default, shall be the ISM Doc Holder.

**SMF:** Sustainable maritime fuel, which is fuel that shows a GHG saving compared to liquid fossil fuel, such as types of LNG, LPG, biofuel or RFNBO.

**SoC:** The IMO Data Collection System Statement of Compliance, where the Attained CII and CII Rating are recorded in accordance with the CII Regulations.

**SPL:** Shaft power limitation. A method of complying with EEXI.

**Surplus:** Under FuelEU, where a ship's GHG Intensity is below the GHG Intensity Limit, the ship's Compliance Balance is positive, which is a compliance surplus.

**Sustainability and GHG Saving Criteria:** Criteria established by international standards, laws and regulations or even commercial agreement for the sustainability and GHG saving of a certain fuel type.

**TtW (Tank-To-Wake):** An assessment of GHG intensity of a fuel, covering the period from consumption onboard a ship, when it is in the fuel tank, to the ship's wake.

**Trading Account:** An account where EUAs can be held and from which EUAs can be transferred to other accounts. These accounts can be opened by any qualifying entity, i.e. they do not have to be compliance entities. However, functionality is reduced compared to a MOHA and EUAs cannot be surrendered to Administering Authorities from these accounts.

**Verification Period:** Under the CII Regulations, FuelEU and EU ETS, the year immediately after the Reporting Period is the verification period, during which emissions data and GHG intensity data that has been monitored and recorded by a ship for the previous Reporting Period is reported and verified by an accredited verifier under the applicable regulations and other compliance steps are taken.

**Voyage:** Voyages are movements of a ship between ports of call

**WtW (Well-to-Wake):** An assessment of GHG intensity of fuel on a full Life Cycle Assessment basis.

**WtT (Well-To-Tank):** An assessment of GHG intensity of a fuel, covering the period from production, transport to port, and delivery onboard the ship.