

**FIT FOR 55 CLIMATE LEGISLATIVE PACKAGE**

**Inclusion of shipping in EU ETS**

Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757 COM(2021) 551 final - 2021/0211 (COD)

**SEA Europe position paper**  
(Final)

Brussels, 02 December 2021

**1. Introduction – A strategy for climate change as well as for economic growth**

**SEA Europe fully supports the ambition of the “European Green Deal” (EUGD) as translated in the ‘Fit for 55’ legislative package. SEA Europe firmly believes that the EUGD will offer stimulating opportunities for Europe’s maritime technology sector, including the potential to regain certain lost markets.** In doing so, the EUGD will not only be a strategy to combat climate change but also a strategy for economic growth for European shipyards and maritime equipment manufacturers (the so-called ‘Maritime Technology Sector’) which are represented by SEA Europe.

**2. The need for a holistic approach considering all aspects of climate change reduction**

All legislative proposals under the Fit for 55 legislative package need to be carefully assessed, not only by themselves but also in relation to each other. Specific attention should thereby be paid to consistency amongst all legislative proposals, especially those with a ‘Shipping component’. Moreover, all legislative proposals should be looked at in the light of their potential in creating opportunities and growth for the ‘Maritime Technology Sector’.

**3. No one-size-fits all approach due to the variety of shipping**

Due to the large variety of ship types and ship trades, there is **no “one-size-fits-all” solution for the transformation of waterborne transport towards a zero-emission mode of transport.** The optimal pathways towards rapid emission reduction, zero-emission ships and climate neutrality are by no means straightforward. Therefore, all options for clean technologies, alternative fuels and their optimal integration onboard vessels need to be researched, developed, financially supported, and legally ascertained. Consequently, any legislation and policy actions on zero-emission waterborne transport should be technology and fuel neutral (thus stimulate flexibility amongst technologies and fuels) as well as goal-based (thus refraining from imposing or prescribing specific technological solutions or alternative fuels).

Furthermore, any legislation and policy action should carefully consider the need for research and development of innovative technologies and fuels and ensure consistency with the **co-programmed Partnership on Zero Emissions Waterborne Transport in the framework of Horizon Europe**, coordinated by the Waterborne Technology Platform. In the context of this partnership, the European maritime industry has committed to provide and demonstrate zero-emission solutions for all main ship types and services before 2030, which will enable zero-emission waterborne transport before 2050.

#### **4. Reinvest EU ETS revenues in sustainable waterborne transport in Europe**

As regards the EU's plans to extend the EU Emission Trading Scheme (ETS) to shipping, SEA Europe fully supports the concept that the reduction of greenhouse gas emissions should be incentivised by internalising the external cost of these emissions. In line with this concept, **SEA Europe urges EU policymakers to make sure that the auction revenues collected under EU ETS through the inclusion of shipping, as well as the penalties for non-compliance under FuelEU Maritime, are entirely reinvested in the European shipping sector, incl. the maritime technology sector.** The rationale being that the investments necessary to transform the entire waterborne (transport) sector into a zero-emission mode of transport and zero-emission sector will be very significant.

First of all, significant investments will be necessary in sustainable technologies as well as in alternative fuels. In this respect, there is a compelling need to accelerate the development and implementation of the widest range of (synthetic) fuels and technologies well in advance of 2030 and preferably as from today, whilst acknowledging that it takes time for sustainable alternative fuels and for the most energy-efficient technologies to get matured. With this objective, **it should be avoided that any energy efficient technology developments are hampered by the EU promoting the use of a single fuel option in the next decade as the only available sustainable option by 2030.**

Secondly, the waterborne transport sector is also fully aware that cross-cutting cooperation and innovation will be key to cope with the many technical challenges of climate change, in particular on the introduction of climate neutral fuels. Therefore, the use of the revenues should be designed with sufficient inducement to bridge the additional costs of ships using sustainable fuels and state of the art energy efficient technologies. This includes the entire life cycle from the design and building stage of ships, their operation and maintenance, and ultimately their safe and environmentally sound dismantling.

#### **5. Stimulate the technological development and first movers across entire waterborne transport**

The technological development of certain technologies (such as fuel cells), the use of electricity or onboard carbon capture technology necessarily must be primarily demonstrated on small ships before they can be scaled up to more mature and energy efficient technologies also applicable for larger ships. For this reason, **the available financial support under the EU ETS should be equally allocated to ships outside the scope of the EU ETS Directive and the FuelEU Maritime Regulation, i.e. to ships not included in MRV regulation (incl. below 5000 Gross Tons).**

Whilst continued financial support for RD&I is needed to achieve zero emission waterborne transport, SEA Europe would like to underline that the revenues from EU ETS should primarily aim at supporting the **onboard deployment of implementable energy saving technologies and zero-emission solutions as well as the deployment of green infrastructure, and also at financially stimulating first movers.** Therefore, the scope of the use of the revenues from the EU ETS should be primarily directed to achieve the EUGD 55% reduction goals by 2030 and ultimately to reach climate neutrality by 2050.

In this respect, SEA Europe fully supports the introduction of the **Carbon Contracts for Differences (CCfDs)** which can bridge the gap in costs (linked to the GHG abatement cost of the technology) between conventional and low carbon alternative technologies in a technology neutral way to speed up the development of innovative technologies.

## 6. European Maritime Technology Sector competitiveness

The money from the EU ETS should also be used to **stimulate fleet renewal across Europe**, based on common objectives and principles, aiming at preserving the EU's strategic maritime technological sovereignty and industrial capabilities. Equally, this money should be used to **stimulate investments from shipping companies in new innovative green technologies**, in line with the European Green Deal.

On the new **Carbon Border Adjustment Mechanism (CBAM)**, SEA Europe notes that the allocation of ETS free allowances will gradually disappear. However, while supporting the objective of preventing carbon leakage and a level playing field, the phase out of free allowances in Europe – combined with the proposed introduction of a CBAM on imports of raw materials (such as steel) – has the potential of severely worsening the already unfair competitive situation faced by the European Maritime Technology Sector due to likely cost increases for EU producers and thus to outsource work to non-EU countries as unintended consequence. It is therefore essential that the EU considers the following measures:

- **Maintaining the free allowances' system under the EU ETS well beyond 2026** to safeguard the competitiveness of the affected European raw materials' producers (upstream) as well as the users of these raw materials (downstream), e.g., European shipbuilders and equipment manufacturers. In this respect, SEA Europe refers to a [legal study](#) commissioned by AEGIS Europe, which concluded that an EU ETS, incorporating both free allowances and a CBAM, is WTO compatible<sup>1</sup>.
- **Reinvesting CBAM revenues into the affected European downstream sectors relying importantly on uses of steel or aluminium, including Europe's maritime technology sector**, proportionately to the "financial adjustment" amounts eventually paid. The legislation should dedicate CBAM revenues to support (e.g., via dedicated funds) sectoral decarbonization projects, the deployment of low-carbon technologies and the environmental enhancement of production processes.
- **Finished products such as ships should be included in the CBAM soonest** to avoid a competitive disadvantage for the EU (maritime technology) industry, both on the export market and in the internal market. The shipbuilding sector's specificities will need to be considered to address the fact that, contrary to most other industrial goods, ships are normally not imported in the sense of "released for free circulation" in the EU's customs territory.
- **Export adjustments – in the form of reimbursements or rebates - should be granted to EU producers affected by CBAM selling their (carbon-limited) products to export markets, taking due account of sectoral specificities.**
- **CBAM administrative burden for importers should be finally kept to a minimum.**

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<sup>1</sup> AEGIS Europe legal study "*Consistency of an EU carbon border adjustment mechanism ("CBAM") with World Trade Organization ("WTO") rules*" accessible [here](#). AEGIS Europe considers that even if an EU ETS – incorporating both free allowances and a CBAM – would be considered by a Panel as WTO inconsistent, such a system can still be justified under GATT Article XX since it would fall under the GATT general exceptions relating to the conservation of exhaustible natural resources (GATT Article XX(g)) or to the necessity to protect human, animal or plant life or health (GATT Article XX(b)). Moreover, it would not arbitrarily or unjustifiably discriminate between countries where the same conditions prevail or represent a disguised restriction on international trade.

In addition, SEA Europe is wondering how the EU intends to enforce a proper enforcement of the Fit-for-55 requirements and EUGD goals as regards ships that are built outside the EU but operating (solely) in EU waters.

Consistently with the EUGD ambition, the objective of the Fit-for-55, including the inclusion of shipping into EU ETS, should not only aim at combatting climate change but equally at **supporting a strategy for growth for the EU economy**. Therefore, SEA Europe stresses the need that the money that would flow from EU ETS should also be used to stimulate the growth of the whole European maritime sector, including the maritime technology sector.

Finally, SEA Europe believes that any EU initiatives should not prevent from setting up **world-wide market-based measures** (MBM) by the International Maritime Organization (IMO) which is indispensable to incentivize climate-friendly energy converters/fuels and to discourage the use of carbon intense energy options.

#### **Background Note:**

SEA Europe represents close to 100% of the European shipbuilding industry in 16 nations, encompassing the production, maintenance, repair and conversion of all types of ships and floating structures, commercial as well as naval, including the full supply chain with the various producers of maritime systems, equipment material, and services.

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