PUBLIC CONSULTATION ON THE REVISED "CLIMATE, ENERGY AND ENVIRONMENTAL AID GUIDELINES (CEEAG)"

SEA Europe Response

16 July 2021

EXECUTIVE SUMMARY

- **SEA Europe, representing the European shipyards and maritime equipment manufacturers ("European maritime technology sector"), welcomes the opportunity to comment on the proposed revision of the Guidelines on State aid for environmental protection and energy. If well designed, such Guidelines can play a crucial role in the green transition of waterborne activities stimulating innovation and supporting Europe's maritime technology sector as a strategic solution provider and global leader in complex maritime products.**

- **To this end, it is essential that the Commission firmly supports technological neutrality and a goal-based approach. This is key to avoid a curtailing of (innovative) clean technologies and stimulate a rapid development of alternative fuels for waterborne transport. SEA Europe equally urges the Commission to refrain from any "one-size-fits-all approach" which would be extremely challenging in a waterborne transport environment.**

- **In this regard, SEA Europe strongly opposes the "*Zero direct CO2 (tailpipe) emissions*" criterion as embedded in the proposed definition of "clean" vessel in the draft guidelines. The approach to assess ships emission exclusively at the funnel ("tailpipe") and to disregard the overall climate neutrality of the propulsion concept including upstream emissions is utterly wrong, does not contribute to mitigate the climate crisis and will severely damage the innovation capabilities and competitiveness of the European maritime industry.**

- **SEA Europe, furthermore, urges the Commission and Member States to ensure that any state aid for the acquisition of new vessels and retrofitting will benefit the entire European maritime value chain, including Europe's maritime technology sector (as opposed to benefitting overseas (Asian) shipbuilding competitors). This will only be possible with strong conditionality requirements. For SEA Europe this means that the clean vessels and the highly specialized marine equipment and technologies installed onboard of these vessels should be built in Europe. Retrofitting of these vessels should also be carried out at European yards.**

- **SEA Europe welcomes the clarification that the exclusion of direct aid for the manufacturing of green products from the scope of the Guidelines does not prejudge the possibility for Member States to grant state aid to manufacturers "*to enhance the level of environmental protection of their manufacturing activities*". In SEA Europe's views it is key that European shipyards and maritime equipment suppliers investing in greener production processes as well as in low-carbon and sustainable manufacturing solutions can benefit from state aids.**

PUBLIC CONSULTATION ON THE REVISED "CLIMATE, ENERGY AND ENVIRONMENTAL AID GUIDELINES (CEEAG)"

SEA Europe Response

Introduction

SEA Europe, representing the European shipyards and maritime equipment manufacturers ("European maritime technology sector"), welcomes the opportunity to comment on the proposed revision of the Guidelines on State aid for environmental protection and energy ("the Guidelines").

By enabling Member States to support projects for environmental protection (including climate protection and green energy generation), the Guidelines are a key instrument to help Member States meet EU energy and climate targets without undue distortions of competition in the Single Market. Although the maritime technology sector is not a direct beneficiary of many state aid categories in the scope of the Guidelines, if properly designed the Guidelines can play a crucial role in the green transition of waterborne activities by stimulating innovation and supporting Europe's maritime technology sector as a strategic solution provider and global leader in complex maritime products.

European maritime technology manufacturers offer innovative technology solutions with enormous potential to help the global shipping industry becoming greener and climate neutral, in line with the European Green Deal ambitions. As recognized in the *New Industrial Strategy for Europe*[1], European shipbuilding with its maritime supply chain "has the responsibility and the potential to drive" the green transition. Yet, to transform waterborne transport into a zero-emission mode of transport, the sector needs massive investments to scale up existing technologies into mature ones and to deploy and integrate them onboard ships in accordance with the ship's specific operational profile and the customer's needs and purposes (in addition to RDI investments). This requires ambitious goals, instruments appropriate for shipping, as well as investment aid for fleet renewal and retrofitting open to all technological and alternative fuels options.

Therefore, SEA Europe wishes to provide the following comments on the draft Guidelines:

a) Climate neutral shipping requires a technology neutral and open approach towards all alternative fuels

SEA Europe welcomes the European Commission's effort in shaping new state aid rules to help bridge the huge investment gaps and market failures that currently exist to achieve a "clean mobility system". However, to foster the climate transition and ensure global leadership and innovation, SEA Europe calls upon the Commission to firmly and consistently support **technological neutrality and a goal-based approach**. This is essential to avoid a curtailing of (innovative) clean technologies and to stimulate a rapid development of alternative fuels for waterborne transport. SEA Europe equally urges the Commission to refrain from any "one-size-fits-all approach" which would be extremely challenging in a waterborne transport environment.

In this regard, **SEA Europe strongly opposes the very narrow approach based on the *"Zero direct CO2 (tailpipe) emissions*" criterion as embedded in the proposed definition of "clean vessel"** (pages 12-13 of the Guidelines, an excerpt of which is also included as an Annex to this paper for ease of reference). The approach to assess ships emission exclusively at the funnel ("tailpipe") and to disregard the overall climate neutrality of the propulsion system including upstream emissions is

[1] COM/2020/102 final

inadequate, does not contribute to mitigate the climate crisis and will severely damage the innovation capabilities and competitiveness of the European maritime industry.

Such approach is totally inadequate for the sector because :

- The climate transition of the waterborne sector requires **a holistic strategy**, which is based on consistent technical criteria for design, production, state support, certification and operation of seagoing ships and inland waterway vessels. Climate protection is a global and holistic task, which requires not only the assessment of direct GHG emissions, but need to be take into account the **total upstream emission of the production and distribution processes,** including evaluation of emissions linked to construction, maintenance and dismantling of the vessels.
- The "*zero direct CO2 emission tailpipe approach*" fall shorts in recognizing the specificities of the waterborne transport sector compared to other transport modes (e.g. diversity of ship types/sizes/range of operations/ modi operandi), notably the **need for a broad fuel portfolio offering a sufficient energy density necessary at least for long distance ship-types**.
- Earmarking green subsidies only for zero emission vessels as from 2026, according to a "tailpipe" approach, will exclude technologies that can have a lower impact on the basis of a life cycle approach. It will indeed strongly penalize the scale-up of several sustainable and promising solutions in maritime transport such as use of renewable and low carbon fuels (e.g. biofuels and climate neutral e-fuels, such as synthetic methanol) which will provide a drastic decrease of GHG emissions during the transition. Such fuel systems have already been developed to high technology readiness levels with massive R&D investments of the industry and significant state aid.
- It could lead to perverse incentives because zero tailpipe emission fuels, such as blue (fossil) hydrogen, would satisfy this criterion, whereas climate neutral synthetic fuels (e.g. e-methanol) would be excluded;

The application of the "*Zero direct CO2 (tailpipe) emissions*" criterion <u>*as the only criterion*</u> applicable from 1 January 2026 (already) is unrealistic for several reasons: besides the limited availability of (e.g. green hydrogen and ammonia) fuel infrastructures and safety regulations, long project development intervals of ships and the incremental innovation process for the design of commercially utilized prototypes do not allow for revolutionary changes in ship propulsion technology in less than five years.

In order to progress towards climate protection **a life cycle assessment (LCA) approach would be clearly more appropriate for maritime applications (*i.e. well-to-wake approach instead of tank-to-wake only*)**. By contrast, a narrow "*tailpipe approach*" would be detrimental to the viability of the maritime manufacturing and transport operators as well as the climate neutral transition. **For this reasons, SEA Europe urges the European Commission to reconsider its approach and favor, across <u>all policy/regulatory initiatives</u> for the waterborne transport sector, an LCA approach**. This would be in line with the approach of the ***Fuel EU Maritime Regulation*** which implements a technological flexible assessment of life cycle emissions with a stepwise reduction of the GHG intensity of ship fuels.

b) State aid support for the acquisition of clean vessels and retrofitting must foster a return of investment in the EU/EEA and its Member States.

SEA Europe urges the European Commission and Member States to ensure that any state aid for the acquisition of new vessels and retrofitting will benefit the entire European maritime value chain, including Europe's maritime technology sector (as opposed to benefitting overseas (Asian) shipbuilding competitors). This will only be possible with strong conditionality requirements, based on robust EU/EEA's added value and socio-economic impact criteria, e.g. in terms of job creation across regional maritime ecosystems. For SEA Europe this means that the clean vessels and the highly

specialized marine equipment and technologies installed onboard of these vessels should be built in Europe. Retrofitting of these vessels should also be carried out at European yards.

SEA Europe does not object the Commission's stance that "*environmental aid is generally less distortive and more effective if it is granted to the consumer/user of environmentally friendly products instead of the producer/manufacturer of the environmentally friendly product".* We recognize the fundamental role that a well-functioning state aid control discipline plays in the internal market, both in terms of limiting intra-EU distortions amongst producers and ensuring more efficiency and innovation. This approach is necessary and based on a solid theory fundament. However, theory alone is not able to reflect the complexity of society and industry. In a fast-changing world, and at a time when Europe is embarking on its major climate transition, the EU should ensure that its **state aid rules remain fit for today's world,** taking into account international realities, geopolitical shifts, and global competition**.** It is, therefore, vital that clear rules are complemented by clear goals. In the end, EU policy should support European prosperity. In this regard, it is fundamental that there is a **close link between EU state aid, trade, industrial and environmental policies** enabling the European industry, including Europe's maritime technology industry, to lead the green transition and to foster EU's manufacturing excellence, global leadership, strategic autonomy and technological sovereignty.

There is particular concern that the European Commission is not taking global competition sufficiently into consideration and this is of particular concern for the maritime technology sector. Government interventions in certain non-EU countries are frequently witnessed in the global maritime technology industry. However, global trade rules are difficult to apply in shipbuilding while it is a fact that there is an enormous difference as to the scrutiny related to state aid in the EU/EEA countries compared to other (foreign) jurisdictions. Despite severe unfair competition, mainly from Asian shipyards, the Commission did not achieve a global solution for the shipbuilding sector, but instead decided to tighten the state aid rules for EU shipyards in 1998, with no other foreign shipbuilding nation following the EU approach. As a result, Europe has lost nearly its entire merchant shipbuilding and part of its offshore shipbuilding to Asia. Europe's market share declined from 45% in the 80ies to 5% today. To date, Asia, having understood the strategic importance of the sector, is aggressively expanding into Europe's remaining complex shipbuilding industry.

SEA Europe wishes to underline that it does not advocate any tolerance concerning distortions within the internal market. In SEA Europe's view, **a reconciliation of policies is however needed, to look at the entire European maritime sector as a highly strategic asset for Europe which needs to be safeguarded.** This means that any form of environmental state aid support for shipping fleet renewal and retrofitting projects must be designed on the basis of strong conditionality criteria with the aim of: (a) promoting a European decarbonized maritime sector (in line with the European, Green Deal) (b) preserving the EU's strategic maritime technological sovereignty and capabilities and c) fostering innovation, regional growth and employment, throughout the entire maritime value chain in Europe.

Such approach would be consistent with the following recent EU initiatives:

- **EU "Smart and Sustainable Mobility Strategy[2]"** recommendation for fleet renewal support to "*preserve a thriving manufacturing ecosystem in areas where Europe has a strategic technological advantage such as the vessel manufacturing industries (…) increase the prospects of adequate production capacities and supply value chains being built up within the European manufacturing industry in line with the New Industrial Strategy for Europe, and of preserving the technological leadership of the EU's manufacturing base";*

[2] COM/2020/789 final

- **EU Strategy on "Blue Economy"[3],** notably the European Commission's commitment to supporting the "*renovation of the EU's maritime fleet*" and "*developing EU's highly-advanced manufacturing and technological capabilities"*;
- **European Parliament's** call for an "*EU fleet renewal and retrofit strategy to promote its green and digital transition and foster the competitiveness of the European maritime technology sector"*[4].

c) Conditions for clean mobility aid need to be clarified and simplified.

SEA Europe calls upon the Commission to clarify the aid intensity thresholds for clean mobility projects for which there is a competitive bidding process confirming if, in such cases, aid intensity can be up to 100% as clearly outlined in the table included in the existing guidelines.

SEA Europe also believes that the conditions for Member States to grand environmental aid must be simplified where possible while keeping in place strong safeguards to minimize risks of intra-EU competition distortions. In this regard, SEA Europe calls upon the Commission to further assess the practical feasibility of the "*counterfactual scenario*" requirement with regard to aid for the acquisition or the leasing of clean vessels, as set out in Paragraphs 143-147 of Section 4.3, in close discussions with the Member State authorities.

d) Support for investment into greener production process

SEA Europe welcomes the clarification in the proposed new guidelines (Footnote 9), that the exclusion of direct aid for the manufacturing of green products from the scope does not prejudge the possibility for Member States to grant environmental aid to manufacturers "*to enhance the level of environmental protection of their manufacturing activities*". In SEA Europe's views it is fundamental that European shipyards and maritime equipment suppliers investing in greener production processes as well as in low-carbon and sustainable manufacturing solutions can benefit from state aids, in addition to the aid permitted under the EU RDI State Aid Guidelines tool.

*****

SEA Europe trusts that all the above comments will be taken duly into account and remains available to provide any further clarification that may be required.

SEA Europe represents close to 100% of the maritime technology industry in 16 nations, including EU Member States, Norway and Turkey. The maritime technology sector encompasses the building, maintenance, repair, retrofitting 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, technologies and services.

Contact information

SEA Europe asbl
Rue de la Loi 67 (4th floor) 1000 Brussels - Belgium
tel. +32 2 230 27 91
info@seaeurope.eu

[3] "A new approach for a sustainable blue economy in the EU - Transforming the EU's Blue Economy for a Sustainable Future" COM/2021/240 final

[4] "More efficient and cleaner maritime transport" European Parliament resolution of 27 April 2021 on technical and operational measures for more efficient and cleaner maritime transport (2019/2193(INI))

ANNEX – DEFINITION OF "CLEAN VESSEL" (Pages 12-13, Draft Guidelines on State aid for climate, environmental protection and energy 2022)

(…)

(20) 'clean transport vehicle' means:

(….)

(d) an inland vessel for passenger or freight transport that has zero direct (tailpipe) CO2 emissions; or until 31 December 2025,

> *(i) an inland vessel for freight transport that has direct (tailpipe) emissions of CO2 per tonne kilometre (gCO2/tkm), calculated (or estimated in case of new vessels) using the Energy Efficiency Operational Indicator[5], 50% lower than the average reference value for emissions of CO2 defined for heavy duty vehicles (vehicle subgroup 5- LH) in accordance with Article 11 of Regulation 2019/1242;*
>
> *(ii) an inland vessel for passenger transport that has a hybrid or dual fuel engine deriving at least 50% of its energy from zero direct (tailpipe) CO2 emission fuels or plug-in power for its normal operation;*

(e) a sea and coastal vessel for passenger or freight transport, a vessel for port operations or for auxiliary activities that has zero direct (tailpipe) CO2 emissions; or until 31 December 2025:

> *(i) has a hybrid or dual fuel engine deriving at least 25% of its energy from zero direct (tailpipe) CO2 emission fuels or plug-in power for its normal operation at sea and in ports;*
>
> *(ii) has an attained Energy Efficiency Design Index (EEDI)[6] value 10% below the EEDI requirements applicable on 1 April 2022 and the vessel is able to run on zero direct (tailpipe) CO2 emission fuels or on fuels from renewable sources.*

(f) a sea and coastal vessel for freight transport that is used exclusively for operating coastal and short sea services designed to enable modal shift of freight currently transported by land to sea and it has direct (tailpipe) CO2 emissions, calculated using the International Maritime Organization (IMO) Energy Efficiency Design Index (EEDI)[7], 50% lower than the average reference CO2 emissions value defined for heavy duty vehicles (vehicle sub group 5-LH) in accordance with Article 11 of Regulation 2019/1242;

---

[5] The Energy Efficiency Operational Indicator is defined as the ratio of mass of CO2 emitted per unit of transport work. It is a representative value of the energy efficiency of the ship operation over a consistent period which represents the overall trading pattern of the vessel. Guidance on how to calculate this indicator is provided in the document MEPC.1/Circ. 684 from IMO.

[6] EEDI requirements as agreed by the Marine Environment Protection Committee of the International Maritime Organization on its seventy-fifth session. Vessels that fall into the ship types set out in MARPOL Annex VI Regulation 2, but are not considered as new ship under that regulation may provide attained EEDI value calculated on a voluntary basis in line with MARPOL Annex VI Chapter 4 and have those calculations verified in line with MARPOL Annex VI, Chapter 2.

[7] Energy Efficiency Design Index: http://www.imo.org/fr/MediaCentre/HotTopics/GHG/Pages/EEDI.aspx).