

FIT FOR 55 CLIMATE LEGISLATIVE PACKAGE

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)

Inclusion of shipping in EU ETS – Use of revenues

SEA Europe position paper (Final Rev 01.03.2022)

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. Reinvest EU ETS revenues in sustainable waterborne transport in Europe

As regards the extension of 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 all the auction revenues collected under EU ETS through the inclusion of shipping, as well as the penalties for non-compliance under FuelEU Maritime, are directed towards investments in the shipping sector, including the European maritime technology sector.**

Investments necessary to transform the entire waterborne (transport) sector into a zero-emission mode of transport or into a zero-emission sector will be significant, in particular investments 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 of today. At the same time, SEA Europe acknowledges that the maturity of sustainable alternative fuels as well as of the most energy-efficient technologies will take time.

In addition, the use of alternative fuels, sustainable technologies and energy-efficient technologies will increase the operational costs of shipping and make ‘sustainable’ ships more expensive than ‘traditional’ ships. Hence, the revenues from the inclusion of shipping into EU ETS should be used to bridge the additional costs from operating sustainable ships. To assess these costs, it is essential to consider the entire life cycle of the ship, from the design and building phase to the ship’s operation and maintenance as well as safe and environmentally sound dismantling.

Besides, the auction revenues from the inclusion of shipping into EU ETS as well as the penalties from FuelEU Maritime should aim at:

- **Scaling up and onboard deployment** (retrofitting) of implementable energy saving technologies and zero-emission solutions as well as the deployment of infrastructure for alternative marine fuels;
- Stimulating financially **first movers**;
- Stimulating **fleet renewal across Europe** to speed up sustainable shipping as well as to preserve and improve the EU's strategic maritime technological sovereignty and industrial capabilities.

Hence, the EU should avoid by all means the use or promotion of a single fuel option as the only available sustainable option by 2030, as such approach would definitely hamper the development of energy-efficient technologies.

3. Does the EU want to achieve the EUGD in Europe or in Asia? The need for a sectoral approach

The maritime technology sector is a **strategic sector for Europe** in many aspects, not least for realizing the twin green/digital transition. **However, competition in the sector, including in shipbuilding, is global, fierce and unfair.** The EU's main competitors in Asia all consider their local shipyards and maritime equipment manufacturers as strategic and therefore all apply sectoral measures that stimulate their industry in many ways, including massive state aid. For climate change, they all have specific ambitious targets aiming at winning the green competition in shipping. For China, there is also the additional aim to take over Europe's global leadership in high-tech complex shipbuilding and in advanced maritime equipment manufacturing.

If the EU wants to secure that the implementation of its EUGD and FF55 takes place in Europe instead of Asia, it should **take urgently sectoral measures** that reflect the following characteristics of the maritime (technology) sector:

- The European maritime sector has a **strategic value chain**, based on a majority of SMEs, in particular shipowners, of which the individual impact on climate is small compared to other sectors covered by EU ETS.
- There is **no 'one-size-fits-all' solution** but rather a large variety of pathways to decarbonise the waterborne (transport) sector.

Like for other strategic sectors, the EU should adopt urgently a **sectoral approach** for the waterborne (transport) sector. This approach should focus on the **implementation of existing and innovative technologies on board ships** and supply infrastructure that will **trigger an immediate emission reduction**. Such an implementation must build on the results from e.g. the co-Programmed Partnership on Zero-Emission Waterborne Transport – adopted in the framework of Horizon Europe – in which 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. Establishment of a dedicated Maritime Fund as the most efficient option

To earmark the auction revenues resulting from the inclusion of shipping into EU ETS and from the penalties for non-compliance under FuelEU Maritime, **a dedicated Maritime Fund – separate from or under the umbrella of EU ETS – seems to be the most efficient option.** Such dedicated Maritime Fund seems a better alternative than the original Commission's proposal to direct the revenues from EU ETS and FuelEU Maritime to the Innovation Fund and to national budgets.

Whilst the added value of the Innovation Fund is not questioned, e.g. to support projects from first movers, the transition of the waterborne (transport) sector towards a zero-emission mode of transport or sector will require massive investments that surpass a project-based approach.

A dedicated Maritime Fund will enable the entire shipping industry, including the maritime technology sector¹, to enhance its investments in sustainable solutions and alternative fuels. For **shipbuilding and retrofitting operations, it is essential that to use the revenues in Europe.**

The financial support available under the Maritime Fund should be allocated to ships falling within as well as outside the scope of the MRV regulation, thus also apply to ships below 5.000 Gross Tons. Equally, the Legislators should consider extending the EU ETS scope to ships above 400 Gross Tons.

5. LCA approach: EU ETS vs Fuel EU Maritime

As highlighted in a recent [CE DELFT study](#), commissioned by Danish Shipping, SEA Europe is concerned about the incompatibility between the technical incentives mentioned in the proposals on the inclusion of shipping in EU ETS and on FuelEU Maritime. The concern relates to the fact that FuelEU Maritime encompasses all greenhouse gases and the entire Life Cycle Assessment, whilst the EU ETS proposal only addresses the greenhouse gas CO₂ and exclusively covers emissions during actual combustion onboard ships (i.e. the ‘Tank to Propeller’ emission or ‘direct tailpipe CO₂ emissions’).

In SEA Europe’s view, a **lifecycle assessment (LCA)** approach must be considered as a prerequisite - in a goal-based approach - to define the most suitable fuels and technology options for waterborne transport. Since the CO₂/GHG released during the production of fuels/energy carriers can differ significantly – regardless of whether they are fossil, bio, synthetic or non-carbon – the lifecycle assessment of carbon neutral fuels needs to be appropriately performed to correctly reflect the holistic GHG emission reduction potential.

A consistent Lifecycle Approach between EU ETS and FuelEU Maritime is essential to ensure that revenues are directed to appropriately incentivised the GHG emission reductions.

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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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¹ Including the maritime technology sector in EEA, EFTA and EU Candidate countries.