EU EMISSIONS TRADING SYSTEM FOR MARITIME, AVIATION AND STATIONARY INSTALLATIONS, AND MARKET STABILITY RESERVE – REVIEW

CALL FOR EVIDENCE FOR AN EVALUATION AND AN IMPACT ASSESSMENT

AND

INNOVATION FUND – EVALUATION OF ITS OPERATION

CALL FOR EVIDENCE FOR AN EVALUATION

(Final_14.07.2025)

The Shipyards & Maritime Equipment Association of Europe (SEA Europe) represents the European maritime manufacturing industry in 17 countries, encompassing the production, maintenance, repair, retrofit and conversion of all types of ships and floating structures – commercial as well as military – including the full supply chain with the various producers of maritime systems, equipment material, and services.

This document represents SEA Europe's response to *(i)* the Call for Evidence for the evaluation and the impact assessment of the **inclusion of shipping into EU ETS Directive** and to *(ii)* the Call for Evidence for the evaluation of the operation of the **Innovation Fund**. Recognizing the significant link between the EU ETS and the Innovation Fund in enhancing the competitiveness of the European maritime manufacturing industry, SEA Europe is responding to both calls for evidence in a single, consolidated document.

SEA Europe's contribution aligns with our broader recommendations for the upcoming Industrial Maritime Strategy, which seeks to enhance the competitiveness, sustainability, and resilience of Europe's maritime manufacturing sector.

SUMMARY OF RECOMMENDATIONS

A. **Evaluate maintaining EU ETS for a competitive, sustainable and efficient European waterborne transport and ensure coherence between the IMO Net Zero Framework and the FuelEU Maritime Regulation.**

B. **Extend EU ETS to cover emissions from smaller ships (i.e. between 400 GT and 5.000 GT).**

C. **Enhance Innovation Fund accessibility by introducing deployment flexibility for the projects concerning investments on ships.**

D. **Differentiate maritime projects involving building/retrofitting of ships and projects involving alternative fuel production and (port) infrastructure within Innovation Fund.**

E. **Flow back the revenues from the inclusion of shipping into EU ETS to the maritime sector.**

A. Evaluate maintaining EU ETS for a competitive, sustainable and efficient European waterborne transport and ensure coherence between the IMO Net Zero Framework and the FuelEU Maritime Regulation

The views expressed by SEA Europe in this recommendation reflect a preliminary assessment and may be subject to revision in light of the final adoption of the IMO Net-Zero Framework and the development of related IMO guidelines.

Markets like shortsea shipping, cabotage, regional and local passenger transport, and inland navigation can significantly enhance the sustainability and efficiency of domestic transport in Europe. These sectors also offer the potential to boost the competitiveness of the maritime manufacturing industry by generating predictable, large quantities of small, complex cargo and passenger ships—including for energy transport—integrated with advanced technologies, clean propulsion techniques, and digital systems. With a view at enhancing the protection of Europe's critical maritime and underwater infrastructure, Europe needs to boost capacity and maintain competitiveness in strategic capability areas including strategic vessels (e.g., cable-laying, maintenance and repairing ships) and special purpose vessels for the maintenance of offshore infrastructures.

In support of the above-mentioned markets and critical infrastructure, the EU should consider how optimise the use of EU ETS revenues[1] in support of decarbonisation investment and the potential for increased synergies between other European support instruments.

SEA Europe supports a coherent and efficient regulatory environment for maritime decarbonization. In this context, the IMO Net Zero Framework is, by its very nature, more closely aligned with the EU's FuelEU Maritime Regulation than with the EU ETS. Both the IMO and FuelEU Maritime frameworks are built on a shared foundation: a life cycle approach to greenhouse gas emissions, ship-level compliance mechanisms, and fuel sustainability certification. These commonalities offer a unique opportunity for regulatory convergence, reducing administrative burdens and fostering innovation through harmonized standards.

SEA Europe therefore advocates for the EU Commission to assess a **structured alignment and implementation between the IMO Net Zero Framework and FuelEU Maritime**, enabling mutual recognition of sustainable renewable or low-carbon fuels, coordinated compliance tools, and joint support for the uptake of near-zero and zero-emission technologies.

At the same time, SEA Europe suggest to recognize that EU ETS applies to greenhouse gas emissions resulting from **activities that are territorially anchored within the European Union**. Its scope encompasses industrial, energy, aviation, and maritime sectors insofar as their emissions are generated within EU borders or through operations directly linked to the EU internal market.

[1] As per FAQ – Maritime transport in EU Emissions Trading System (ETS) – use of revenues: *The revised EU ETS provides dedicated support to accelerate the decarbonisation of the maritime sector through the Innovation Fund. According to the Commission, 20 million allowances (i.e., about €1.6 billion with a price of €80 per allowance) should be deployed up to 2030 via the Innovation Fund to support the decarbonisation of the maritime sector, notably through dedicated topics in future calls for proposals. The Innovation Fund could support a wide diversity of projects and innovative solutions in the maritime sector, across the whole sector and at scale, including in relation to the production and uptake of renewable and low-carbon fuels. Besides the Innovation Fund, all auction revenues attributed to EU Member States must be used for climate-related purposes. The list of these purposes has been expanded to explicitly cover measures to decarbonise the maritime sector, including ports. The list also includes the financing of climate action in vulnerable third countries, including adaptation to the impacts of climate change.*

In the maritime sector specifically, the EU ETS covers emissions from voyages between EU ports and a proportion of emissions from international voyages involving an EU port, thereby aligning its territorial logic with that of other regulated sectors. This reflects the system's overarching objective: **to address emissions associated with economic activities that are intrinsically connected to the European Union's territory and climate responsibilities.**

This dual-track approach should ensure, while following a level-playing field approach, that maritime decarbonization is both globally coherent and regionally effective, supporting the competitiveness of the European maritime manufacturing industry while advancing climate goals.

Such an approach represents also the opportunity to urgently assess and amend EU regulations that inadvertently hinder technology development and scale-up in Europe, including those under the FuelEU Maritime Regulation. Regulatory obstacles or inconsistent technical requirements are hindering research and development, deterring investment in the technology, and jeopardizing the competitiveness of European manufacturers. Furthermore, it excludes technological solutions that offer similar or even superior overall performance in terms of greenhouse gas and pollutant emissions compared to other technological alternatives. Delays in scaling up innovation risk the loss of strategic markets and critical technologies to global competitors. A swift regulatory review and correction process is essential to ensure Europe remains a global leader in clean and advanced technologies, including near-zero and zero emission technologies.

B. Extend EU ETS to cover emissions from smaller ships (i.e. between 400 GT and 5.000 GT)

SEA Europe believes that extending the scope of the EU ETS to include ships between 400 and 5.000 gross tonnage is both logical and necessary, given the **significant role these vessels play in supporting the EU internal market**[2]. These ships are frequently engaged in short-sea shipping, regional logistics, and essential supply chains that are deeply embedded in the Union's economic security and strategic autonomy. SEA Europe however recommends to keep the fishing vessels out of the EU ETS scope the complexity and cost of monitoring emissions across a highly diverse fleet make implementation impractical.

Moreover, by pricing smaller vessel's emissions in proportion to their operational footprint within EU waters, these vessels would not only contribute fairly to the system but also become eligible beneficiaries of EU ETS revenues—particularly through mechanisms such as the Innovation Fund. This would create a **virtuous cycle, where their inclusion supports both climate objectives and the competitiveness of smaller maritime operators through targeted reinvestment.**

C. Enhance Innovation Fund accessibility by introducing deployment flexibility for the projects concerning investments on ships.

SEA Europe supports the eligibility criteria established under the last EU Innovation Fund call, particularly that projects must be located in the **European Economic Area (EEA)**[2]. These requirements are essential to ensuring that public funding delivers tangible decarbonization benefits and strengthens European industrial leadership. **SEA Europe strongly recommends enshrining this criterion in the text of the Innovation Fund Regulation requirements.**

[2] *European shipyards also build a considerable number of ships below 400 GT such as, but not limited to, fast ferries, tugs, pilot boats, multi-cats, shoalbusters, harbour work boats or patrol boats. These ships also contribute to a competitive, sustainable, and efficient European waterborne transport. Therefore, the 400 GT limit should not be the final step in the revision process.*

However, SEA Europe notes that one **specific geographical condition**: *When the projects concern investments on ships, those ships must carry a flag of an EU Member States or an EEA country and call ports under the jurisdiction of an EU Member State or EEA country on a regular basis (at least 15% of their calls on ports over two years); or must call ports under the jurisdiction of an EU Member State or EEA country on a regular basis (at least 30% of their calls on ports over two years); or perform service or support activities in ports under the jurisdiction of an EU Member State or EEA country.*

This requirement poses a challenge for European shipyards. While the intention is to ensure that the climate and industrial benefits of the funded vessels are realized within the EU internal market, this geographic constraint can deter shipowners from committing to innovative shipbuilding/retrofitting projects in Europe.

In practice, many shipowners operate globally and **require flexibility in fleet deployment**. The obligation to maintain operations within EU waters for an extended period reduces this flexibility, making such projects less attractive. As a result, shipowners may opt for conventional vessels built outside the EU, undermining the competitiveness of European shipyards.

Moreover, this operational restriction increases the **perceived financial risk for banks and investors, who may view the limited deployment scope as a constraint on asset value and resale potential.** This can lead to higher financing costs or reduced access to capital for projects that would otherwise contribute meaningfully to maritime decarbonization.

SEA Europe therefore recommends introducing greater flexibility in the regular port call or activities in EU/EEA ports requirement, while maintaining the requirement on EU/EEA-based[3] construction or retrofit. This would safeguard the integrity of the Innovation Fund while fully leveraging its potential to support European shipbuilding and accelerate the green transition in maritime transport, all within a technology- and fuel-neutral approach.

D. Differentiate maritime projects involving building/retrofitting of ships and projects involving alternative fuel production and infrastructure within Innovation Fund.

In the context of Innovation Fund calls, SEA Europe advocates for a clear differentiation between maritime projects focused on the **building or retrofitting of vessels** and those maritime-related but centred on **alternative fuel production and related (port) infrastructure**. This distinction is essential to ensure that shipbuilding and retrofitting projects are evaluated on a level playing field. Grouping these project types under the same assessment criteria creates structural imbalances, given their fundamentally different cost profiles, risk exposure, and contribution pathways to greenhouse gas (GHG) avoidance.

By establishing a separate evaluation stream for ship-related investments, these projects could be assessed on their own merits—particularly in terms of **GHG emission reduction potential and cost-effectiveness per tonne of CO_2 avoided**. This would enable a fairer, more transparent, and more targeted use of Innovation Fund resources while preserving the integrity of project evaluation methodologies.

[3] *Production and installation of new or retrofitted innovative technology (e.g. energy system, engine or equipment) into a ship is eligible for funding provided that the manufacturing and/or installation is done in EU/EEA.*

Such an approach would also encourage broader participation from maritime equipment manufacturers and shipyards, including small and medium-sized enterprises, helping accelerate the decarbonization of the EU maritime fleet and bolster the competitiveness of the European maritime sector.

E. Flow back the revenues from the inclusion of shipping into EU ETS to the maritime sector

SEA Europe urges the European Commission and Member States to ensure that the maritime sector's transition to climate neutrality is supported by targeted reinvestment and incentive mechanisms.

Specifically, Member States should be required to reinvest a fair share of maritime revenues generated through the EU ETS into European shipyards and maritime equipment manufacturers. These funds should be **directed toward projects that contribute directly to maritime decarbonization**, including research, development and deployment of innovative clean technologies and sustainable shipbuilding practices.

SEA Europe also supports an amendment to the EU ETS Directive that would **allow shipowners to deduct from their emissions allowances the verified costs incurred in reducing their vessels' emissions or in constructing new ships with significantly lower emissions.** This mechanism should be conditional on compliance with European preference conditions, ensuring that such investments benefit the European maritime manufacturing industrial base.

--