

FIT FOR 55: CLIMATE AND SHIPPING

Proposal COM(2021) 551 of 14 July 2021 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading (EU ETS), Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve (MSR) for the EU ETS and Regulation (EU) 2015/757

Proposal COM(2021) 562 of 14 July 2021 for a Regulation on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC

cepPolicyBrief No. 17/2022

SHORT VERSION [[Go to German Long Version](#)]

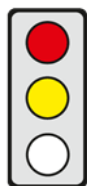
Context | Objective | Interested Parties

Context: The EU wants to reduce its emissions of greenhouse gases (GHG) to net zero by 2050 (“climate neutrality”) and by 55% by 2030, as compared with 1990 levels (EU 2030 climate target). To this end, the Commission will extend EU climate and energy legislation to include international maritime transport (“shipping”) (“Fit for 55” climate package).

Aim: EU-related shipping will be included in the EU Emissions Trading Scheme (EU ETS I); the GHG intensity of fuels will be reduced and minimum energy taxes on those fuels will be introduced.

Affected parties: Shipowners, charterers, seaports and the freight shipping industry.

Brief Assessment



Pro

- ▶ The multiplier for advanced biofuels and renewable fuels of non-biological origin (RFNBOs), used to calculate the blending target for renewable energies in transport, provides an incentive for their development and use.
- ▶ The fact that two or more ships can be grouped together to meet their GHG intensity limits (“pooling”) promotes efficiency as it means that, to use alternative fuels, which will only become available gradually, not all ships will immediately require an expensive engine conversion.

Contra

- ▶ The EU’s unilateral introduction of emissions trading for shipping will torpedo efforts by the International Maritime Organisation (IMO) for a global market-based system of carbon reduction, and will give rise to evasive reactions and carbon leakage.
- ▶ The “ship manager” must not be made responsible for compliance in place of the owner or bareboat charterer, in order to ensure that other owners who have engaged the same manager do not become jointly and severally liable for a non-compliant ship managed by that manager.

Inclusion in the EU ETS I: Scope [Long Version A.2.1]

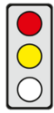
Commission proposal: 50% of the carbon emissions from ships with a gross tonnage (GT) above 5,000 on EU-related voyages between an EU port and a port outside the EU (“extra-EU voyages”) and 100% on voyages between two EU ports or at berth in an EU port (“intra-EU voyages”) require allowances.



cep-Assessment: The EU’s unilateral introduction of emissions trading for EU-related shipping will torpedo the IMO’s efforts for a global market-based system of carbon reduction for shipping, and trigger evasive reactions and carbon leakage. In addition, imported and exported goods will become relatively more expensive, putting EU industry at a competitive disadvantage.

Inclusion in the EU ETS I: Responsible undertakings [Long Version A.2.2]

Commission proposal: The “shipping company” responsible to surrender allowances is defined as the shipowner or any other organisation or person – such as the ship manager or bareboat charterer – that bears responsibility for the operation of the ship. While the Council wants to give the shipping company a right to reimbursement of the allowance costs by the ship operator, the EU Parliament (EP) wants to make ship operators responsible to surrender allowances.



cep-Assessment: For reasons of enforcement, it is correct to place responsibility for compliance on the shipping company and to grant it a (possibly only partial) claim for reimbursement against the ship operator in accordance with the polluter pays principle. However, the manager must not be made responsible for compliance in place of the owner or bareboat charterer, in order to ensure that other owners who have engaged the same manager do not become jointly and severally liable for a non-compliant ship managed by that manager.

Inclusion in the EU ETS I: Phase-in of allowance requirement [Long Version A.2.2]

Commission proposal: Shipping companies are obliged to surrender allowances in accordance with the “verified aggregated emissions data at company level” as follows: 20% of verified emissions reported for 2023, 45% reported for 2024, 70% reported for 2025, and 100% reported for 2026 and each subsequent year. In contrast to this phase-in, the EP proposes the immediate introduction of the 100% surrender obligation as from 2024.



cep-Assessment: Gradually increasing the proportion of annual carbon emissions requiring the surrender of allowances is appropriate because shipping companies will thus be able to adapt gradually to the new cost structure. The postponed 100% surrender obligation will nevertheless give them strong incentive to take allowance costs into account from the outset, when making medium and long-term investment and chartering decisions. A later phase-in would give the IMO more time to create a global market-based system.

Inclusion in the EU ETS I: Use of revenues [Long Version A.2.3., A.2.4.]

Commission proposal: ETS revenues from shipping are not earmarked for specific purposes. They will be divided between the EU budget, the Modernisation and Innovation Fund and the budgets of the Member States. Instead of this, the EP proposes that 70% of ETS revenues from shipping be returned to the sector by way of an Ocean Fund to provide financial support for decarbonisation.



cep-Assessment: In order to ensure the swift decarbonisation of shipping and to reduce competitive disadvantages, a large proportion of ETS revenues from shipping should be returned to the sector. A fund along the lines of the Ocean Fund proposed by the EP could serve this purpose. Shipping companies from third countries that have to surrender allowances should also receive funding as this could reduce international opposition.

Scope [Long Version A.3]

Commission proposal: From 2023, intra-EU shipping will be subject to EU-wide minimum tax rates on fuel – but only for scheduled shipping services and cargo shipping. Member States can impose higher tax rates.



cep-Assessment: Until now, fuel for maritime transport has always been tax-free in order to avoid distortions of competition and fuel tourism. If this is to be ensured by maritime energy taxation, at least for intra-EU shipping, a uniform tax rate would be required for which the EU has no competence. Minimum tax rates, however, should be rejected as they may result in harmful non-uniform tax rates.

Renewable fuels [Long Version A.4]

Commission proposal: The multiplier for advanced biofuels and renewable fuels of non-biological origin (RFNBOs) in air transport and shipping, which is used to calculate the blending target for renewables in transport, is 1.2; the other multipliers no longer apply.



cep-Assessment: The multiplier provides an incentive to develop and prioritise the use of these fuels in sectors that are difficult to decarbonise. It will increase the willingness to pay of fuel distributors, especially for RFNBOs, and this surge in demand will give rise to economic competition among suppliers; subsidies, by contrast, often only trigger competition for grants. The multiplier, however, is too low.

FuelEU Maritime [Long Version A.6]

Commission proposal: GHG intensity limits will be established for 100% of the life-cycle emissions from energy consumed on board ships above 5,000 GT, on intra-EU voyages, and 50% on extra-EU voyages. Two or more ships can be combined to meet their GHG intensity limits (“pooling”).



cep-Assessment: Measuring and calculating the GHG intensity of the fuel mix should be made easier for ship operators by way of corresponding mandatory information from the bunkers about the fuels they offer. Pooling in the calculation of GHG intensity promotes efficiency because engines must be converted to use alternative fuels so only ships that are capable to do so will use these fuels.