World Shipping Council

EU ETS – the WSC Perspective

EXECUTIVE SUMMARY

Together for the Decarbonisation of Shipping

The World Shipping Council is committed to working with the EU Institutions to achieve the Green Deal's goals through good policy that will support industry greenhouse gas (GHG) reduction targets and move as fast as possible to zero GHG emissions. EU Policy, including the revision to the EU ETS Directive has a unique opportunity to strengthen, motivate and complement global policy for reducing GHGs in international shipping.

- **WSC supports inclusion of maritime sector in the EU ETS,** and targeted amendments to the EC proposal can optimize its impact both within the EU and on the global stage.
- **Including shipping in an open, multi-sectoral EU ETS** can reduce regional shipping GHGs by about 42% and accelerate GHG reductions among non-maritime sectors.
- **The EC's proposed definition of "company"** supports implementation and stability for compliance reporting, by recognising that both shipowners and ship operators have shared agency in eliminating harmful emissions, through ship design and operations.
- **An intra-EU geographic scope of application** to shipping would better serve the success of the Fit-for-55 Package by reducing carbon leakage and market distortions, providing a better fit with the regional reach of RED and AFIR, being more compatible with Member State reporting to UNFCC and providing a stronger basis for the EU to lead on adoption of global MBMs for shipping.

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Together for the Decarbonisation of Shipping

World Shipping Council member companies represent over 90% of global liner shipping industry container and roll-on roll-off carriers. The sector is committed to working with the EU Institutions to achieve the Green Deal's goals through good policy that will help achieve industry GHG reduction targets and move as fast as possible to zero or near-zero GHG emissions. Advancing fuel-technology pathways in global shipping and related sectors requires the shared commitment and cooperation of industry, governments and international regulators. The EU can lead global climate action but it can't succeed alone. EU Policy, including the EU ETS has a unique opportunity to strengthen, motivate and complement global policy for reducing GHGs in international shipping rather than impede it.

WSC supports inclusion of the maritime sector in the EC's proposed regional market-based approach using multi-sector open cap-and-trade system and its determination of the responsible entity. However, amendments to the EU ETS' geographic scope would better support regional success for the Union and continued international progress with strong European leadership. WSC believes an intra-EU scope for the EU ETS would strengthen economic incentives for climate action and avoid and minimize potential for carbon leakage that undermine EU Green Deal goals for a climate neutral and competitive economy, while enhancing Member State competitiveness globally.

EU ETS – an overview

The Commission's proposed revision of the EU ETS Directive extends the emissions cap-and-trade system to the maritime sector, for all ships above 5 000 gross tons calling EU Member State ports. The EU ETS will adjust upward the market cap upon the inclusion of the maritime sector and proposes a four-year phase-in period after which allowances must be purchased by all maritime sector participants. Each shipping company will be assigned to one Member State authority for reporting purposes, through a published list updated every two years and following harmonized reporting rules.

When the maritime sector is introduced, the ETS emission cap will be increased by an amount of allowances corresponding to the maritime transport emissions based on data for the years 2018 and 2019. The rate of reduction of the market cap will use an adjusted linear reduction rate aligned with the EU-wide ambition for GHG reductions.

The Strengths of the EU ETS Directive

Primary strengths in EU ETS proposal include:

Including shipping in EU ETS advances regional multi-sectoral GHG reductions

Introducing the maritime sector into the EU's open emissions cap-and-trade system strengthens the ETS, and the allowance phase-in period for shipping ensures a smooth transition. The EU ETS Impact Assessment Report (Section 6.2.1.1, and Table 13) suggests that including the maritime sector in an open, multi-sectoral EU ETS can reduce regional shipping GHGs by about 42% and that shipping purchase of open allowances will accelerate GHG reductions among non-maritime sectors. Specifically, the Impact Assessment estimates that maritime purchases of emission allowances from other sectors will account for 44% to 70% of GHG reductions attributed to maritime inclusion in the market; in other words, maritime sector will be purchasing allowances from other EU sectors to abate some 1.3 to 2.3 tons GHGs for every ton GHGs directly abated in shipping.

The Impact Assessment expects that maritime sector GHG reductions will primarily come from increased use of alternative fuels promoted through the FuelEU Maritime Regulation and from greater than 40% improvements in fleet carbon intensity.

Company definition supports effective implementation

The EU ETS recognizes accurately that diverse vessel owner/vessel operator arrangements and relationships can significantly influence the uptake of shipping decarbonisation measures. GHG intensity reduction goals can best be achieved by adopting the definition that the responsible entity is a company that "means the shipowner or any other organisation or person, such as the manager or the bareboat charterer, which has assumed the responsibility for the operation of the ship from the shipowner" (Article 3(d) of MRV Regulation EU 2015/757). Also, that "Any company with responsibility for an entire reporting period over a ship performing shipping activities should be considered responsible for all monitoring and reporting obligations arising in relation to that reporting period, including the submission of a satisfactorily verified emissions report" (MRV Regulation EU 2015/757).

The EC's proposed definition of "company" supports implementation and stability for compliance reporting because it recognises that both shipowners and ship operators have shared agency in these matters. Where some maritime sectors may want to separate agency for action, we would highlight the hazards of diluting effective actions that require synergies between vessel technology, design and operation. The value of using the current company definition is amplified over a vessel's lifetime, as it passes to second- and third-hand control. The EC's proposal is consistent with the international nature of fleet operation, ownership, and control, aiding EU priorities for IMO agreements and measures to reduce GHGs in shipping.

Proposed Amendments to the EU ETS

There is room to further increase the effectiveness of the EU ETS through certain amendments:

Optimize geographic scope

The EU ETS would better serve the success of the Fit-for-55 Package with an intra-EU geographic scope of application for four primary reasons. First, attempting to apply the EU ETS outside of the EU internal market risks that the GHG pricing applied would incentivize market behaviour that weakens climate action through carbon leakage and market distortion. For example, the EU ETS Impact Assessment Report (Section 6.2.2.4) reports that impacts on Member State trade flows including a loss of competitiveness on the global market are "more likely" under an extra-EU scope. Second, the EU ETS proposal should also maintain coherence with the FuelEU Maritime Regulation, where regional demand and regional supply for renewable and low carbon fuels are complementary. An intra-EU geographic scope better matches the necessary production and distribution of low-GHG marine fuels called for in FuelEU Maritime with current proposals in RED and AFIR. Amending the EU ETS' geographic scope therefore maintains this coherence.

Third, EU reporting to UNFCCC includes only intra-EU shipping emissions and does not report shipping emissions related to voyages originating or terminating outside Member State ports. Basing linear reduction factors on MRV reporting for emissions from extra-EU shipping increases the challenge of reducing EU emissions from the maritime sector by including emissions outside of Member State commitments under UNFCCC agreement. Fourth, EU leadership is needed to pursue global market-based measures through IMO that apply to all shipping outside the EU internal market. Instead of risking carbon leakage and trade distortions through an extra-EU geographic scope, an intra-EU geographic scope strengthens EU's position to foster global action for international shipping.

The EU ETS, its impact analyses, and many cited independent studies identify and acknowledge that regional market-based measures can incentivize both the uptake of low-GHG technologies as well as undesirable responses to carbon pricing that result in so-called carbon leakage. Proposed EU ETS changes are crafted to reduce or avoid internal market carbon leakage across many sectors. However, the risks of carbon leakage for maritime are in fact amplified by the proposed geographic scope. In particular, the proposed extension of the EU ETS beyond the EU internal market by covering some voyages between EU Member States and third countries undermines Specific Objective No.2[1]. The proposed extraterritorial application of EU emissions trading introduces undue distortions for EU ports and international shipping competition. This concern applies not only at the EU level (which the proposed EU ETS models as a single trading bloc); extending EU ETS beyond the internal market through an extra-EU geographic scope could affect international trade with individual Member States through the loss of competitiveness on the global market.

A geographic scope that applies to extra-EU shipping presents substantial risks of failure to influence international shipping as intended. An intra-EU scope on the other hand can improve the influence of the EU to achieve global policy through IMO. Delineating an intra-EU domain avoids the many consequences of overlapping of regional and global policy that were reported in the EU Impact Assessment. Amending EU ETS Article 3g to apply to voyages within and between ports of call under the jurisdiction of an EU Member State would avoid this.

Coordinated Implementation Opportunities for EU ETS with other Fit-for-55 proposals

The EU ETS' implementation would benefit from further expert contribution and coordination with other Fit-for-55 proposals:

Facilitate common monitoring, and reporting across Directives and Regulations

The allowance verification process in the EU ETS and the verification process for the FuelEU Maritime certificate of compliance may share common data elements to be monitored and reported. This provides an opportunity to reduce overall administrative burden on Member States and to control administrative costs of verification.

[1] *Specific Objective No. 2 (of six specific EU ETS objectives): Ensuring continued effective protection for the sectors exposed to a significant risk of carbon leakage while incentivising the uptake of low-carbon technologies.*