

Scene setter

You will meet Maersk's representatives to discuss the general market conditions and their decarbonisation strategy.

You will present the Fit for 55 package and discuss the current developments in the IMO.

Maersk has ambitious decarbonisation targets and plans to introduce carbon-neutral routes in 2024 using eight large container ships. For these, it will use recently ordered 16,000 TEU vessels operated using e-methanol or sustainable bio-methanol. Overall, Maersk aims to reach net zero emissions by 2050.

Maersk has found partners to produce green fuel for its first vessel to operate on carbon neutral methanol (e-methanol). Maersk has decided to invest in California-based WasteFuel, a start-up focused on turning waste into sustainable aviation fuel, green bio-methanol, and renewable natural gas.

They are likely to raise the issue of applying the life-cycle (well-to-wake) approach in the Taxonomy instead of the direct emissions approach that has been chosen by the experts. We support this view, and have taken a life-cycle approach in our FuelEU Maritime proposal. Maersk is in general supportive of the Taxonomy.

The discussion on reviewing the Initial IMO GHG Strategy and on the mid- and long-term measures to reduce emissions has begun and will continue until spring 2022. Towards Maersk, stressing recent Union submissions to IMO to underscore efforts at IMO in addition to those within the EU will show that both work in tandem. Overall, Maersk has ambitious targets for decarbonisation, but often favours international action over EU and regional measures.

Objective(s)

- Discuss the general market conditions and outlook for the sector and congestion.
- Present the Fit for 55 package and encourage Maersk's methanol investments, which align with our proposals' objectives.
- Underscore the economic importance of the innovative EU maritime cluster and welcome that Maersk is taking concrete steps to decarbonise some routes.
- Ask Maersk for their views on mid- and long-term measures at IMO, including which options they favour.

Key Messages

General market conditions and outlook for the sector and congestion

- We recognise that the container shipping sector, including all participants in the container shipping supply chain, experienced exceptional pressure since the start of the pandemic.
- The congestion problems are not yet solved and prevent full exploitation of all vessels and containers placed in the market. However, it seems that the situation is slowly normalising. Is this your assessment too?
- I would also like to compliment Maersk Line for being globally the most reliable carrier during the second and third quarter of 2021. However the reliability of operations in the sector is quite low. How could reliability as well as resilience to future crisis improve? There seem to be very little margin for adjustment in operations and this is an enormous risk.

FuelEU Maritime

- The **Commission proposed the FuelEU Maritime initiative to initiate a gradual transition to the use of clean fuels and onshore power supply (OPS) in ports.**
- We are proposing a goal-based and technology-neutral approach, as we understand the **need for flexibility in the sector.**
- We noticed that **Maersk is investing in methanol, which, as a hydrogen based fuel, represents a promising avenue for the decarbonisation of the maritime sector.** Although largely produced from fossil fuels, it can also be made from sustainable, renewable-based energy sources.
- We firmly **support Maersk's investments in producing green fuel for its first vessel to operate on carbon neutral methanol (e-methanol).** This will be definitely a milestone in the maritime sector going towards using 100% renewable energy and it **fully aligns with the objectives of our legislative proposal.**

- We also **encourage your investments in WasteFuel** with the aim of developing bio-refineries that convert unrecoverable waste to bio-methanol. It is **of great significance that your evaluations are based on the lifecycle analysis of each feedstock**. This is also in accordance with the **well-to-wake approach** that we propose in **FuelEU Maritime**.

Taxonomy

Climate criteria (mitigation and adaptation) - Taxonomy Climate delegated act

- The **EU Taxonomy Climate Delegated Act** was adopted in April 2021, but is still **under the scrutiny of the legislators** (until December)
- **Waterborne operations are classified as transitional activities**, which means that **the criteria have to be revised in every 3 years**. Currently they are set for maritime until end-2025.
- DG MOVE sees important **room for developments and improvement for this post-2025 update**:
 - to **take on board the recent policy developments**, in particular FuelEU Maritime proposal **putting forward a well to wake, rather than tank to wake approach** for cleaner fuels;
 - to **define ‘assets dedicated to fossil fuels’**, so that waterborne vessels that can carry both fossil or renewable fuels (or other cargo) would have incentives to develop cleaner solutions.
- The Platform on Sustainable Finance has not yet started to work on the update of the climate mitigation criteria, but we are in contact with DG FISMA to ensure that this would happen as soon as possible, to give assurance to the sector

Environmental criteria (pollution, water protection, circular economy and biodiversity) – Taxonomy second delegated act

- The Platform on Sustainable Finance published its draft proposal for the criteria under the **pollution prevention and control in the summer**. We remain **concerned that the criteria for maritime transport**, combining a range of design, asset and cargo based requirements, are very ambitious, as well as **extremely complex to apply and verify**. This can lead to a very

limited uptake and low value in terms of creating right incentives for redirecting finance.

- I would **assume that industry may have had similar concerns and hope that you have replied**. The consultation closed on 24/9 and the Platform has informed us that they will now assess the results. The Transport Team promised to consider also open sessions with industry experts on most contentious issues. We hope that this process will allow to resolve major issues before the Platform publishes its final report in November.
- *[if this topic will be raised: We are equally concerned about exclusion of the cruise vessels, which is a strategic EU industry with significant innovation capability.]*
- On this basis DG FISMA will start preparations for the Taxonomy second delegated act. Where the Commission decides not to follow the Platform advice, it has to provide sound justification for that. Adoption of the DA is planned for mid-2022

Discussions in the IMO

- **We must dedicate the same effort to deploying renewable and low-carbon fuels worldwide as within the EU.** This is what we are doing at IMO. **In the past three months, we have sent four submissions on mid-term measures to IMO.** This is essential for keeping momentum in the discussion at IMO and moving forward.
- We **support the review of the Initial IMO GHG Strategy** aiming at more ambitious targets in line with EU Climate Law and overall climate goals. Here, we warmly **welcome your recent announcement of starting the first carbon neutral services within the next five years.**
- The Commission supports discussion and swift agreement at the IMO on ambitious mid- and long-term measures. A **combination of a fuel standard and a market-based measures**, so a **‘basket of measures’ is a good option to explore.**
- We are **looking into which market-based measure the EU should advocate** at the IMO—cap-and-trade scheme, fuel levy or possibly a combination of both. What are your views on this matter?

Defensive Points (on IMO)

Will the Commission remain committed to IMO or prioritise regional GHG measures?

- We cannot wait any longer if we want to meet our climate targets. We have proposed action at EU level. But to fight climate change we of course need a global response.
- We aim to advance on mid-term measures at IMO —setting a standard for fuels or energy used on board and putting a price on carbon emissions. This is a clear priority in our Sustainable and Smart Mobility Strategy. Our four submissions and our support for papers from allies sent to IMO show this.
- For success, we must ensure a fair transition not only in Europe, but also globally. We need to address disproportionately negative impacts on developing countries, while also strengthening our innovative European maritime cluster for which Maersk is a prime example.
- Both ETS and FuelEU maritime have review clauses, this way we can ensure compatibility with future IMO measures.

Background

General market conditions

The pandemic led to containers being left in the wrong places, and still today the slow-down in ports and intermodal connections makes a container spend about 20% longer in the system.

In spite of record-high production and record-low factory stock levels, the dry container shortage persists. Dry container factories are fully booked and lead times from order to production are 4-6 months. In principle, there would be enough containers to handle global trading volumes, but the availability in several parts of the world has become incredibly tight because of the slower turn-over.

Globally, schedule reliability has been pretty poor during 2021 as several ports and regions have been severely impacted by port congestion..

Shipping Alliances and new smaller players are increasingly deploying more capacity into key trades. But the deployment of more capacity will create a surge of cargo at the destination, with the potential of making the congestion eventually even worse.

An escalation of port congestion in some critical ports is taking place. A continuation of blank or missed sailings is likely in the coming weeks, since the vessels currently

listed in the deployment plans will physically not be able to make the journey as planned.

The aforementioned equipment shortages and waiting ships are the immediate cause of the current high freight rates.

Another issue of great importance is the restrictions on crew changes. In several parts of the world, seafarers do not enjoy fair working and living conditions. This accordingly affects the shipping operations and prevents trade flowing.

The situation is expected to improve in 2022, but it also depends on the future COVID measures around the world, efforts to eliminate port congestion and allowing crew changes.

Eventually, the system will return to normal operations. However, we should keep in mind the lessons learnt in order to be able to better respond to future crisis. We need to see the whole picture and address a wider range of services in the entire supply chain, from ports to logistics and landside operations.

FuelEU Maritime

The proposal of the European Commission for a Regulation on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC was published on 14/07/2021 as part of the Fit for 55 package.

It is an initiative that comes to complement existing rules on renewable energy supply and alternative fuels infrastructure. The aim is to build a common EU regulatory framework that addresses all relevant aspects (demand, supply and distribution), to increase the use of cleaner energy and at the same time maintain the competitiveness of the maritime sector.

The proposal determines the greenhouse-gas intensity of fuels taking into account all the main greenhouse gases (CO₂, methane and nitrous oxide) emitted well-to-wake. This means that the whole life cycle of the fuels used by the ships will be considered and comparison between the merits of different fuels will be fair.

FuelEU Maritime strives for increasing the demand of renewable and low-carbon fuels (RLF) in the maritime transport sector. These include liquid biofuels, e-liquids, decarbonised gas (including bio-LNG and e-gas), decarbonised hydrogen, decarbonised hydrogen-derived fuels (including methanol, and ammonia) and electricity.

The FuelEU Maritime initiative was presented to the Shipping Working Party on 01/09/2021. Two meetings have followed this initial presentation, on 13/09 and on 17/09, where general aspects of the proposal, the Impact Assessment and the first two Articles of the proposal have been discussed and analysed. Overall, the delegations welcomed the initiative and agreed with its aim and importance in order

to meet the EU climate ambitions. However, national experts are still examining the most technical aspects of the proposal.

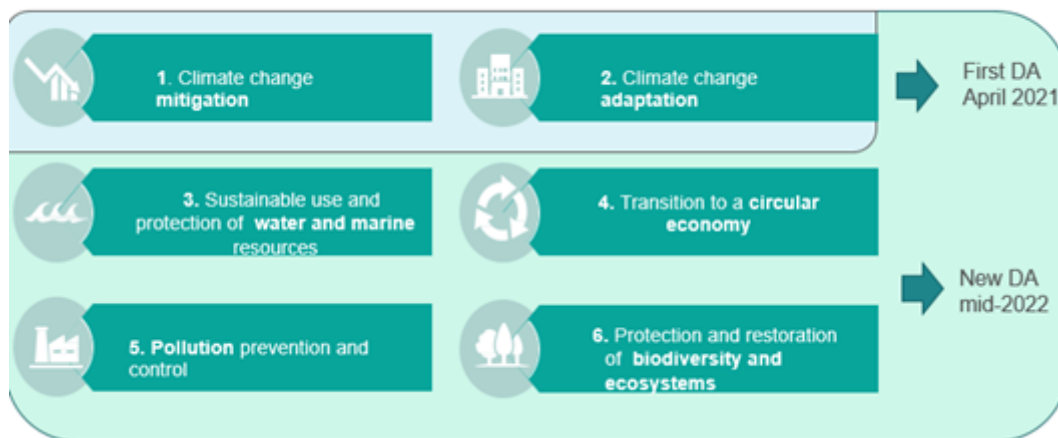
The FuelEU Maritime proposal was presented also to the European Parliament's Committee on Transport and Tourism (TRAN) on 27/09/2021 in the context of the Fit for 55 package. Additionally, the TRAN Committee has asked DG MOVE to give a technical presentation on 30/09/2021.

Taxonomy

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. The core idea is to have agreed definitions on which basis companies, investors and policymakers can decide whether economic activity can be considered environmentally sustainable. It should prevent market fragmentation and greenwashing and eventually help to shift investments to activities needed for implementation of the EU Green Deal.

Taxonomy is a very complex file under the leadership of DG FISMA (Financial Stability, Services and Capital Markets). It covers a range of climate and environmental objectives and economic sectors, including transport and maritime.

The six environmental objectives



Maritime is classified as a transitional activity in the climate taxonomy. This means that zero emission solutions are not yet available and that the criteria will be based on 'best in class' performance. These will be refined/tightened over time. The criteria for maritime shipping (manufacturing, purchase, operation, renting) in the climate DA cover the period until end-2025. Aiming to cater the diversity of the sector, the criteria include:

- Zero tailpipe emission vessels – by default for all modes, applies indefinitely (beyond 2025)
- Hybrid vessels deriving at least 50% of their energy from zero tailpipe emission fuels or plug in power – for SSS and ferries

- c. Coastal/short sea operations designed to enable modal shift if the vessels emit less than HDVs - Horizontal approach proposed by the TEG until 2025 to incentives modal shift away from the relatively more polluting modes
- d. Vessels having an attained IMO Energy Efficiency Design Index value 10% below the required maximum – mainly for deep sea vessels
- e. Retrofitting of vessels with technologies reducing their fuel consumption at least 10% - to clean the existing fleet

For ports, the Taxonomy includes the infrastructure for operation of zero emission vessels, provision of shore-side power and zero emission port operations.

Vessels and infrastructure should not be dedicated to the transport of fossil fuels.

IMO

In 2018, IMO adopted its Initial strategy on the reduction of greenhouse gas emissions from ships. It aims to reduce the total annual GHG emissions by at least 50% by 2050 compared to 2008.

At the same time, the IMO is initiating a discussion on mid- and long-term measures: Either a market-based measure (MBM), i.e. a fuel levy or cap and trade emission scheme; a fuel standard or a combination are among the measures proposed so far.

The cap and trade scheme mirrors the EU Maritime ETS. So far only Norway has tabled a proposal for a cap-and-trade scheme to IMO. [REDACTED]

To progress on mid-term measures, IMO will hold two Intersessional Working Groups on Reducing GHG emissions (ISWG-GHG) in autumn. ISWG-GHG 9 in mid-September focused on alternative fuels. ISWG-GHG 10 will concentrate directly on mid-term measures (18-22 October). The Marine Environment Protection Committee (MEPC 77) can approve the measures and will take place from 22 to 26 November.

Based on further consultations with Member States over the summer, COM proposed and the EU sent the following submissions to IMO on mid-term measures to the Council:

1. Development of the life-cycle fuels assessment guidelines, for discussion at ISWG-GHG 9
2. Proposal for a Low-GHG fuel standard, for discussion at ISWG-GHG 10
3. Proposal for principles of a market-based measure, for MEPC 77
4. Proposal for an update of the IMO Data Collection System, for MEPC 77
5. Commenting paper supporting submissions to IMO by US et al and Kiribati et al (to be sent to the Council on 20 September), currently under discussion in the Shipping Working Party

To pave the way for the fuel standard at IMO, the EU also proposed a fuel life cycle methodology [REDACTED]

Negotiations will continue after ISWG-GHG 9 that took place in mid-September 2021.

The principles of a global market-based measure will be followed by a proposal for a concrete measure, as set out in the *Sustainable and Smart Mobility Strategy* for 2022.

The US proposal aims to start a revision of the IMO GHG Strategy to increase the level of ambition. The commenting paper to support this submission, as well as one by Kiribati and others to make shipping climate neutral is currently under discussion in the Shipping Working Party.

For all of this, successful outreach to third countries will remain essential to garner support for EU proposals—and satisfactory progress at global level.

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