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**From:** [REDACTED]  
**Sent:** Tuesday, October 26, 2021 10:30 AM  
**To:** LESOVICI Roxana (CAB-VALEAN) [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** FuelEU Maritime and EU ETS : Sharing World Shipping Council review offering strengths and improvements for the proposal

Dear [REDACTED]

I hope this email finds you well. It seems a very long time since we last met.

As you know WSC members are redoubling their efforts to eliminate their harmful emissions and they will continue doing so until that goal is achieved. As an organisation we are now intensifying our engagement and cooperation with the EU Institutions on the Fit for 55 Package, which will significantly shape our members decarbonisation programmes. It is our hope that we can contribute to the current legislative process so that we achieve the Green Deal's goals through good policy that will support industry GHG reduction targets and move as fast as possible to zero GHG emissions.

Consequently, we would like to provide you with our members' views – via the attached WSC Position Paper - on the FuelEU Maritime proposal that we strongly support. The paper also highlights the areas where we believe targeted amendments could optimise the legislation. I also attach a copy of the WSC Position on the Commission EU ETS proposal where you will see consistent and reinforcing perspectives.

I also wanted with this email to introduce you to [REDACTED] who is reading this email in copy. [REDACTED] at [REDACTED] a leading expert on vessel air emissions and transportation environmental policy.

We would both be very keen to meet with you on the near future if that was convenient to discuss together the issues specific to these proposals and the Fit for 55 package more generally. I look forward to being in touch again soon.

Many thanks and best regards,

[REDACTED]

[REDACTED]

World Shipping Council

[REDACTED]

Website: [www.worldshipping.org](http://www.worldshipping.org)

# EU ETS

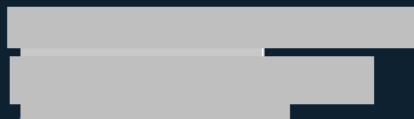
## – the WSC Perspective

### EXECUTIVE SUMMARY

#### Together for the Decarbonization 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 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 UNFCCC and providing a stronger basis for the EU to lead on adoption of global MBMs for shipping.



## Together for the Decarbonization 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 amendments to 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 decarbonization 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 GHG pricing applied in this way 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. Specifically, 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<sup>1</sup>. 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.



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<sup>1</sup> 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.



# FuelEU Maritime Regulation – 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 GHG reduction targets and move as fast as possible to zero GHG emissions. EU Policy, including the Fuel EU Maritime Regulation has a unique opportunity to strengthen, motivate and complement global policy for reducing GHGs in international shipping.

#### WSC strongly supports the proposed:

- Well-to-wake or lifecycle approach to GHG intensity, a globally accepted scientific approach providing the most comprehensive basis for measuring progress towards GHG targets.
- Pooling of compliance amongst ships as a practical way to achieve GHG intensity reductions among diverse vessel types and company sizes, incentivizing companies to invest in ever more efficient vessels due to the fleet wide effect.
- Definition of "company" which recognises that both shipowners and ship operators have shared agency in eliminating harmful emissions, supporting implementation and stability for compliance.

#### Certain amendments would strengthen the proposal further:

- An intra-EU geographic scope would better match the means provided in the Renewable Energy Directive (RED) and Alternative Fuels Infrastructure Regulation (AFIR) for renewable fuel supply. It would avoid the pitfalls of overlapping of regional and global policy reported in the EU Impact Assessment thus strengthening the EU leadership in global climate change efforts.
- A 2019 reference year for carbon intensity reductions would be consistent with regional and global methodologies, making for a more effective FuelEU Maritime Regulation and reducing the administrative burden of compliance on companies.
- Fuel use obligations should be made contingent on the availability of suitable fuels delivered through the implementation of RED and AFIR.



## 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. Introducing GHG reducing market-based measures 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 FuelEU Maritime Regulation has a unique opportunity to strengthen, motivate and complement global policy for reducing GHGs in international shipping rather than impede it.

WSC strongly supports the EC's proposed 'well-to-wake' lifecycle approach for GHG intensity, its provisions for compliance pooling amongst ships and its determination of the responsible entity. However, amendments to FuelEU Maritime's geographic scope would contribute to regional success for the Union and continued international progress with European collective leadership. WSC would also urge amendments to FuelEU Maritime that would better align it with the EU ETS' technological neutrality. Finally, fuel use requirements set out in the Regulation would be more effective if they remain within the reach of proposed renewable energy targets in RED and match AFIR's capacity to ensure a port-ready energy infrastructure.

### FuelEU Maritime – an overview

The Commission's draft FuelEU Maritime Regulation mandates demand requirements for fuels with a decreasing GHG intensity content, for all ships above 5 000 gross tons calling EU Member State ports. FuelEU Maritime will require GHG performance monitoring and third party verified company reporting, assessed on a fuel lifecycle, i.e. a well-to-wake basis that includes IPCC GHG emissions (CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O). The lifecycle methodology for calculation applies default values. Operating fuels used onboard ships will need to meet GHG intensity reductions counted against a reference year, with reductions at five-year milestones from 2025 through 2050. Separately, FuelEU Maritime sets onshore power supply (OPS) requirements for a subset of the regulated fleet, namely containerships and passenger ships, by 2030 with limited exemptions expiring in 2035.

To supply ship operators with fuels compliant with these GHG intensity performance mandates, FuelEU Maritime relies on other EU proposals (e.g. Renewable Energy Directive (RED) and Alternative Fuels Infrastructure Regulation (AFIR)), and on international fuel providers not subject to EU renewable fuels and alternative energy requirements. Moreover, the OPS obligations requiring electrification at berth or zero at-berth GHG emissions also rely importantly upon renewable electricity improvements by reference to RED and AFIR proposals.

### The Strengths of the FuelEU Maritime Regulation

Primary strengths in FuelEU Maritime include:

#### Lifecycle Methods align with science

The EC's proposed lifecycle approach, defined in Article 3(p) as 'well-to-wake' approach, for GHG intensity appears to conform to the UNFCCC scope and guidance, and is consistent with annual EU Member State GHG reporting to UNFCCC. Maintaining clarity that FuelEU Maritime lifecycle methods conform with the UNFCCC will remain important as the regulation is implemented.

Reporting lifecycle GHGs and GHG intensity, e.g., upstream (well-to-tank) and downstream (tank-to-propeller), on the same basis as EU Member States report to UNFCCC will help inform priorities for national infrastructure and renewable energy investments. Transparent and accurate methods and internationally representative default inputs are vital. Lifecycle analysis has proven to be an accepted, science-based approach for policy decision support regarding energy infrastructure investment, renewable energy development, and energy consumption reporting. Lifecycle accounting for GHGs provides the most comprehensive basis for measuring, reporting, and comparing progress toward GHG targets within the maritime sector, across the supply chain, and among sectors of the economy.

### **Pooling of compliance maximizes impact**

FuelEU Maritime proposes principles and procedures for possible pooling of compliance balances (Article 18) within fleets and between companies. This regulatory feature is compatible with Market Based Measures (EU ETS and emerging IMO MBMs) where efficient pooling can leverage and accelerate adoption of GHG reductions leading to deep decarbonization<sup>1</sup>. Pooling facilitates transparency and sharing of best practices for reducing GHG intensity among pooled fleets and can reduce costs of compliance thereby increasing net benefits of the policy action. Pooling of compliance may also accelerate regional reduction in GHG emissions where Member States and ports realize the benefits of technical cooperation among regional fleets.

This is a practical way to achieve GHG intensity reductions among diverse vessel types and company sizes. Shared information through pooling the reporting of compliance is consistent with the ambitions of regulators and with industry ambitions for regional and international research aimed to support global fleet decarbonization.

### **Company definition supports implementation**

FuelEU Maritime recognizes accurately that diverse vessel owner/vessel operator arrangements can significantly influence the uptake of shipping decarbonization 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).

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<sup>1</sup> Deep decarbonization refers to greater than 60% decarbonization consistent with goals in the IMO GHG Strategy and EU Green Deal.



## Proposed Amendments to FuelEU Maritime Regulation

There is room to further increase the effectiveness of FuelEU Maritime through certain amendments:

### Optimize geographic scope

FuelEU Maritime would better serve the success of the Fit-for-55 Package with an intra-EU geographic scope of application. Current proposals in RED and AFIR cannot guarantee production and distribution of low-GHG marine fuels called for in FuelEU Maritime. And FuelEU Maritime is accurate in admitting that “RED II would not be able to address the high risk of fuel bunkering outside the EU for the shipping sector.” FuelEU Maritime rules to reduce GHG intensity of energy used aboard ships within an intra-EU geographic scope would better match the ambitions and capacities articulated in RED and AFIR for renewable fuel supply. Moreover, ports in Member States will remain more competitive internationally with FuelEU Maritime amendments defining an intra-EU domain.

A geographic scope that applies to extra-EU shipping also presents substantial risks of failure to influence international shipping as intended. An intra-EU scope in regional policy can improve the influence of the EU to achieve global policy through IMO. Amending FuelEU Maritime Article 2 to apply to voyages within ports of call under the jurisdiction of a Member State (Article 2.1) would avoid the many consequences of overlapping of regional and global policy that were reported in analyses cited in the EU Impact Assessment.

### Use 2019 as GHG-intensity reference year

In Article 4(2) of the draft Regulation, the FuelEU Maritime GHG intensity reduction schedule is tied to a reference value that is currently in brackets but is based on 2020 monitored and reported data. Instead, selecting 2019 as the year by which lifecycle GHG intensity reference value(s) is based would offer the EU several advantages. First, by harmonizing the reference year with IMO, the EU and IMO will mutually access shared expertise with opportunities for harmonizing methodologies. Second, reductions from a 2019 base reference year will ensure that FuelEU Maritime harmonizes with reference value(s) based on 2019 data in the IMO Carbon Intensity Indicator reporting. Applying consistent methodologies to international marine fuels across regional and global policies will make for a more effective FuelEU Maritime Regulation and reduce the administrative burden of compliance.

### Link fuel demand goals to low-GHG energy supply and distribution

FuelEU Maritime demand mandates risk failing if they do not have technical review requirements that adjust fleet obligations to the availability of renewable and low-GHG fuels, based on supply capabilities and the implementation of RED and AFIR. The requirements in FuelEU Maritime to phase in lower-GHG fuel use, and the claim that OPS phase in will provide meaningful GHG reductions at berth, depend entirely upon RED.

However, it is possible that RED provisions for making renewable energy available will not provide the energy necessary to meet FuelEU goals beyond 2030 when higher shares of renewable energy are mandated. Recognizing that regional compliance goals are tied to renewable fuel supply and infrastructure, FuelEU Maritime would increase its chances of success if Article 4 was amended so that obligations are linked to changes to RED and/or the availability of fuel.

## Coordinated Implementation Opportunities for FuelEU Maritime

To help the EU meet Green Deal goals in the maritime and port sectors, FuelEU Maritime needs to better clarify lifecycle methodologies and data reporting. The below areas would benefit from further expert contribution and coordination:

### **Adapt MRV methodologies to inform lifecycle GHG intensity**

FuelEU Maritime depends upon MRV provisions from Regulation (EU) 2015/757, which under the current EU ETS proposal will be incorporated and regulated under EU ETS Directive (Article 6.5, Article 14(d), etc.). Better coordination and clarification is needed to explain how MRV methodologies and data can sufficiently inform lifecycle GHG intensity and be harmonized with IMO Carbon Intensity Indicator methods. Legislation should require coordination with experts to ensure appropriate application of lifecycle methods and inputs (e.g., including expertise from ESSF Subgroup on Sustainable Alternative Power for Shipping and from the IMO Working Group on Reduction of GHG Emissions from Ships).

### **Align FuelEU Maritime Regulation quantitative methodologies with IMO**

IMO will be adopting a quantitative and transparent methodology for lifecycle GHG and CO<sub>2</sub>e emission factors for all relevant maritime fuels needed in existing and future possible IMO requirements. By aligning FuelEU Maritime with internationally accepted methodologies, the European Commission can assure Member States that the regional approach will harmonize with international policy. More practically, fleet reporting to IMO DCS and to EU MRV will be treated consistently in terms of GHG emissions and GHG intensity. These improvements would raise potential for regional regulation to stimulate international demand for renewable and low-carbon fuels, while at the same time reducing the administrative burden of compliance for ships, companies, and verifiers.

### **Provide flexible at-berth alternatives to achieving GHG-intensity reductions**

Flexibility to reduce GHG intensity at-berth either through OPS or cleaner onboard vessel technology will improve compatibility between FuelEU Maritime and EU ETS proposals, and facilitate future extension of at berth requirements beyond just containerships and passenger ships. WSC members are committed to being ready to plug into at berth OPS where available and compatible with international connectivity. However, the sustainability of OPS depends entirely on the sustainability of electricity production in a given Member State. Moreover, purchasing allocations through EU ETS (based on GHG auction pricing history) would reduce more than three tonnes of GHGs for the same costs as reducing one tonne of GHGs through OPS mandates, according to data reported in the FuelEU Impact Assessment economic analysis.

Article 5 of the FuelEU Maritime Regulation should therefore explicitly provide flexibility to meet or exceed GHG performance offered by Member States' renewable electricity portfolios and infrastructure investment. A legal obligation for vessels to be OPS ready would improve Article 5 beyond simply mandating OPS use in all circumstances even when it is inferior to the performance of onboard vessel technology. Flexibility to reduce GHGs at berth better supports broad goals for RED and AFIR to help electrify and decarbonise port-connected maritime and freight transportation.

