

FuelEU Maritime Regulation – the WSC Perspective

EXECUTIVE SUMMARY

Together for the Decarbonisation of Shipping

The World Shipping Council is committed to working with 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 RED and 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 (CO₂, CH₄ and N₂O). 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 AIFR 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 decarbonization¹. 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).

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, therefore aiding EU priorities for IMO agreements and measures to reduce GHGs in shipping.

¹ 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. 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 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 CO₂e 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.

