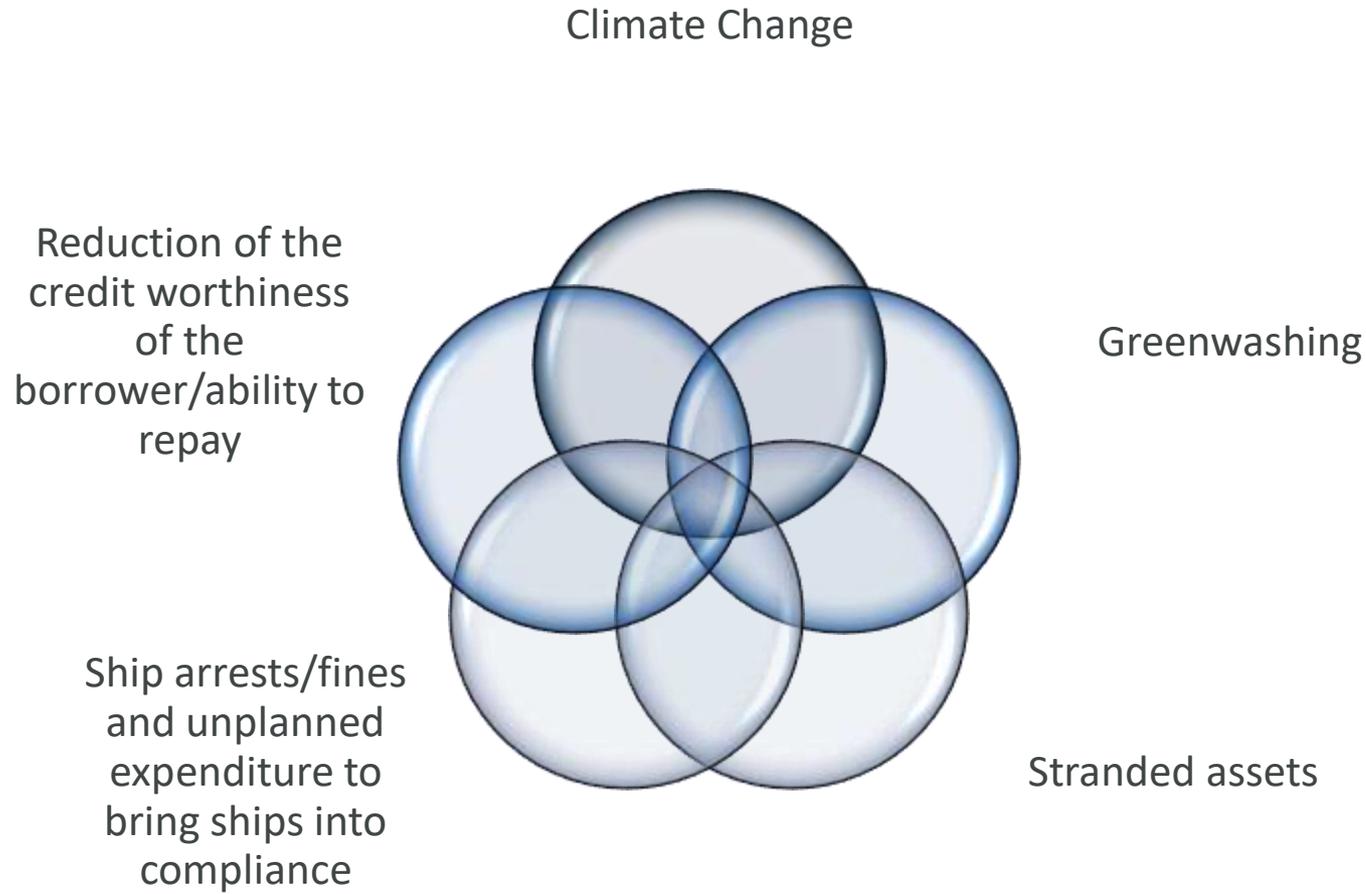


DECARBONISATION OF SHIPPING – DIRECTION OF TRAVEL

Valentina Keys, Istanbul IBIA, 22.06.22



Key environmental risks facing maritime: More robust standards and regulation - big picture snapshot



LEGAL AND COMMERCIAL TARGETS

- Paris Agreement
- COP26/Clydebank Declaration
- IMO GHG Target by 2050
- EU Green Deal and Fit for 55 Package
- Net zero country targets
- Net zero corporate pledges
- COZEV 2040
- ***MEPC79 and MEPC80– global carbon levy? IMO net zero target?***



CARBON

Sulphur Fuel Requirements

- Use and carriage of HSFO banned from 1 January 2020
- 3 fuel choices are compliant:
 - Maximum sulphur content of 0.5% (IMO 2020)
 - Approved scrubber system OR evidence ship unable to source a low sulphur marine fuel (LSFO) when refuelling. (FONAR needs to be presented – Fuel Oil Non Availability Report)
 - Use LNG or methanol.
- Bespoke environmental contractual protection mechanisms should be secured to apportion and allocate Sulphur 2020 enforcement risk ("***Sulphur Content Requirements***")

CARBON

EU MRV

- ≥5,000 gross tonnage commercial ships to/from EU ports
- Report CO2 emissions; weight of cargo and/or passengers and energy efficiency
- Key compliance deadlines:
 - 30 April
 - 30 June
- Document of Compliance must be kept on board
- Monitoring Plan must be regularly updated
- Key risks: fines/ship arrest/master arrest + publication
- Bespoke environmental contractual protection mechanisms should be secured provide for EU MRV and to demarcate reporting responsibilities ("**Carbon Reporting Requirements**")
- 2018 and 2019 MRV data adjusted from 2021 to be used in ETS reporting from 2023 or 2024
- **MRV Regulation to include 400 - 5000GT**

CARBON

GLOBAL FUEL OIL DATA COLLECTION SYSTEM

- MARPOL Annex VI, Regulation 22A, on the fuel oil data collection of ships came into force on 1st March 2018
- Applies from 1 January 2019
- Ships $\geq 5,000$ GT must collect global fuel consumption data
- DCP and SEEMP must be submitted for review to the Flag administration or a duly authorized organization
- IMO DCS and EU MRV to be aligned – proposals tabled February 2019
- Bespoke environmental contractual protection mechanisms should be secured provide for IMO DCS and to demarcate reporting responsibilities ("**Carbon Reporting Requirements**")
- Stepping stone towards a global emissions trading scheme

Fit for 55% reduction by 2030 and net zero by 2050

FuelEU Maritime	EU ETS	Energy Taxation Directive (ETD)	Alternative fuels infrastructure (AFI)
Aims to incentivise uptake of renewable and low-carbon fuel (RLF) by setting increasingly strict limits on the GHG intensity of fuels used from 2025 onwards.	Ships of 5,000 GT and above to be included in the EU ETS from 2023. Applicable to all intra-EEA voyages and 50% of voyages to/from countries outside the EEA.	Remove tax exemption on bunker fuels sold within and for use within the EEA from 2023. Low rate compared to other sectors to prevent carbon leakage.	Sets requirements for adequate LNG bunkering infrastructure by 2025, and for minimum electric shoreside power supply by 2030.

MARITIME ETS PROPOSAL: PROPOSED AMENDMENTS

Original Proposal by the European Commission	Proposed Amendment by EU Parliament
100% EU and 50% non EU allowances for ships above 5000 GT	100% EU and non EU allowances (2028) ships above 5000 GT
20% in 2023 to, 45% in 2024, 70% in 2025 and 100% in 2026	33.3% of verified emissions for 2023; 66.6% for 2024 and 100 % for 2025
“Shipping company” responsible	“Commercial Operator” responsible?
Compliance on company wide basis	Compliance on company wide basis
No money collection or allocation mechanisms	ETS clause: recommendation or a requirement?
Trading? Allowances only allocated for maritime?	Trading? Allowances only allocated for maritime?
€100 excess emissions penalty + naming and shaming + company wide ship arrest + cancellation of licence to sail	€100 excess emissions penalty + naming and shaming + company wide ship arrest cancellation of licence to sail

MARITIME ETS PROPOSAL: COMPROMISE AMENDMENTS (1)

Proposed amendments as adopted by EP ENVI committee on 17.05.2022

Compromise amendment 14	The inclusion of methane and nitrous oxides in addition to CO2 emissions : by the end of 2024, the Commission will have to consider the extension to other GHG.
	From 2024, ships between 400 and 5000 GT will have to report their emissions in the MRV. From 2027, they will have to surrender allowances. In addition, ships performing service activities for offshore installations will be covered from 2024.
Compromise amendment 15	Until the end of 2029, special conditions are introduced for ice-class vessels and navigation in ice conditions , as well as voyages from/to an outermost region and its Member State.
Compromise amendment 16	The introduction of a clause in the contract to pass on the costs of the EU ETS to the commercial operator . This is the amendment tabled by the rapporteur (Peter Liese).
Compromise amendment 17	The creation of the Ocean Fund : 75% of the ETS revenues and the penalties from the FuelEU Maritime should be allocated to the Fund. Shipping companies may pay an annual membership contribution to the Ocean Fund, which will be managed centrally by an EU body. 15% of the revenues shall be used to contribute to the protection, restoration and better management of marine ecosystems.

MARITIME ETS PROPOSAL: COMPROMISE AMENDMENTS (2)

Proposed amendments as adopted by EP ENVI committee on 17.05.2022

Compromise amendment 18	The phase-in period is deleted: from 2024, 100% of the verified emissions reported will have to be surrendered.
	The geographical scope is extended progressively: from 2024, 100% of the emissions of intra-EU voyages, as well as 50% of extra-EU voyages, will be covered. From 2028, 100% of extra-EU voyages will be covered. In case a third country has its own ETS system, has signed an agreement with the EU to establish a carbon pricing mechanism equivalent to the EU ETS or is a Least Developed Country or a Small Island Developed State which includes shipping in its nationally determined contributions under the Paris Agreement, only 50% of the emissions will be covered by the EU ETS.
	A carbon leakage protection system will be set up where 100% of the voyage from/to port outside the jurisdiction of a Member State less than <i>[number to be defined by the Commission]</i> nautical miles from the EU will be covered.
	As soon as the IMO adopts an equivalent measure and no later than 2028, the Commission will present a report to the Parliament and the Council. The reporting obligations of the Commission towards the co-legislators are increased.

What happened on 8 June 2022?

- The MEPs voted on 8 June against the report on the EU ETS as amended by the Plenary (340 against, 265 in favour & 34 abstentions) and decided to refer the report back to the ENVI committee for reconsideration (495 in favour, 120 against & 16 abstentions).
- The Greens, the Left, the S&D, the ECR and the ID groups voted against the report, while the EPP and Renew voted in favour.
- ETS Proposal not adopted by the EP due to lack of ambition
- Next step – compromise agreement talks in the Committee and Plenary Vote 22.06.22

22 June 2022 Plenary Vote in the EU Parliament

- On the 22nd of June, the plenary will vote again on the ETS revision, along with the Carbon Border Adjustment Mechanism and the Social Climate Fund.
- Free allowances will start in 2027 and end in 2032. The climate ambition is set at 63%
- The political groups are keeping the compromise on shipping adopted by the ENVI committee
- At the Council level, Austria, Germany, Denmark, Spain, Finland, Ireland, Luxembourg, the Netherlands, Sweden and Slovenia co-signed a call for high climate ambition in the Fit For 55 negotiations.



MEPC 78 outcomes for carbon regulation

- The final guidelines for technical (EEXI) and operational (CII) fleet requirements passed, and the requirements for operational logs (SEEMP) on ships were revised.
- The requirements will enter force 1 January 2023.
- The revision of the IMO's long-term strategy (the 2050 strategy) must be complete and passed by July 2023.
- There was insufficient support for a research fund with capital of USD 5bn, which has otherwise been on the table for years.
- During the meeting, delegates agreed on an emissions control area (ECA) for the Mediterranean, which will mean stricter controls on the emissions of sulphur and/or nitrous oxides (SOx and NOx).
- Med ECA likely to start in 2025

Thank you!

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