



Council of the
European Union

166324/EU XXVII. GP
Eingelangt am 11/12/23

Brussels, 11 December 2023
(OR. en)

16680/23

MAR 169
OMI 95
CLIMA 644
ENV 1482

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	11 December 2023
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2023) 424 final
Subject:	COMMISSION STAFF WORKING DOCUMENT Union submission to the International Maritime Organization's 16th Intersessional Working Group on GHG on advantages of a global maritime GHG pricing mechanism covering all GHG emissions as part of a basket of measures

Delegations will find attached document SWD(2023) 424 final.

Encl.: SWD(2023) 424 final

Brussels, 11.12.2023
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COMMISSION STAFF WORKING DOCUMENT

Union submission to the International Maritime Organization's 16th Intersessional Working Group on GHG on advantages of a global maritime GHG pricing mechanism covering all GHG emissions as part of a basket of measures

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PURPOSE

This Staff Working Document contains a draft Union submission to the International Maritime Organization's 16th Intersessional Working Group on GHG (ISWG-GHG 16). The IMO has indicatively scheduled ISWG-GHG 16 from 11 to 15 March 2024.

The draft submission is presenting the advantages of a global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships for international voyages, as part of a basket of measures. This can ensure meeting the climate ambitions and generate proceeds that could, among other things, contribute to a level playing field and a just and equitable transition.

EU COMPETENCE

Regulation (EU) 2015/757¹ (EU MRV Regulation) establishes the legal framework for an EU system to monitor, report and verify (MRV) GHG emissions. The regulation aims to deliver robust and verifiable GHG emissions data and energy efficiency indicators, inform policy makers and stimulate the market uptake of energy efficient technologies and behaviours. It does so by addressing market barriers such as the lack of information. It entered into force on 1 July 2015.

The EU Climate Law² sets a binding Union climate target of a reduction of net greenhouse gas emissions—emissions after deduction of removals—by at least 55% by 2030 compared to 1990. It also includes the aim of climate neutrality by 2050 and an aspirational goal for net negative emissions after this time.

Based on the Commission's proposals of the *Fit for 55* package to reduce GHG emissions, the EU legislators adopted that the following legal acts specifically targeting GHG emissions from the shipping sector:

- the revision of the EU Emission Trading System (ETS) Directive (EU) 2023/959³ to extend the EU ETS to the maritime transport sector to apply as of 1 January 2024, (together with the necessary amendments to the EU MRV Regulation,⁴ to revise monitoring and reporting rules, also through the revision of the relevant implementing and delegated acts).
- Regulation (EU) 2023/1805⁵ (FuelEU Maritime Regulation) focuses on the use of renewable and low-carbon fuels in the maritime sector and mandates the uptake thereof by ships calling at EU ports to apply as of 1 January 2025.

¹ Regulation (EU) 2015/757 of the European Parliament and of the Council of 29 April 2015 on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport, and amending Directive 2009/16/EC, OJ L 123, 19.5.2015, p. 55–76

² Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law'); OJ L 243, 9.7.2021, p. 1–17

³ Directive (EU) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system, OJ L 130, 16.5.2023, p. 134–202

⁴ Regulation (EU) 2023/957, of the European Parliament and of the Council of 10 May 2023 amending Regulation (EU) 2015/757 in order to provide for the inclusion of maritime transport activities in the EU Emissions Trading System and for the monitoring, reporting and verification of emissions of additional greenhouse gases and emissions from additional ship types, OJ L 130, 16.5.2023, p. 105–114.

⁵ Regulation (EU) 2023/1805 of the European Parliament and of the Council of 13 September 2023 on the use of renewable and low-carbon fuels in maritime transport, and amending Directive 2009/16/EC, OJ L 234, 22.9.2023, p. 48–100

Compliance with the new obligations stemming from the extension of the EU ETS to maritime transport and the FuelEU Maritime Regulation will build on the monitoring, reporting, and verification system established by the EU MRV Regulation.

Any IMO measure on GHG matters, which will require the monitoring, verification and reporting of GHG emissions from shipping, could affect the EU MRV Regulation as well as the EU ETS Directive and the FuelEU Maritime Regulation. Therefore, the EU has exclusive competence for GHG emissions in shipping.

In light of all of the above, the present draft Union submission falls under EU exclusive competence, pursuant to article 3(2) TFEU.⁶ This Staff Working Document is presented to establish an EU position on the matter and to transmit the document to the IMO prior to the required deadline of 26 January 2024.

⁶ An EU position under Article 218(9) TFEU is to be established in due time should the IMO Marine Environment Protection Committee eventually be called upon to adopt an act having legal effects as regards the subject matter of the said draft Union submission. The concept of '*acts having legal effects*' includes acts that have legal effects by virtue of the rules of international law governing the body in question. It also includes instruments that do not have a binding effect under international law, but that are '*capable of decisively influencing the content of the legislation adopted by the EU legislature*' (Case C-399/12 Germany v Council (OIV), ECLI:EU:C:2014:2258, paragraphs 61-64). The present submission, however, does not produce legal effects and thus the procedure for Article 218(9) TFEU is not applied.

Further consideration of the development of candidate mid-term measure(s) in the context of Phase III of the Work plan for the development of mid- and long-term measures

Advantages of a global maritime GHG pricing mechanism covering all GHG emissions as part of a basket of measures

Submitted by Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands (Kingdom of the), Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the European Commission, acting jointly in the interest of the European Union

SUMMARY

Executive summary: The Co-sponsors argue how a global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with energy used by ships for international voyages, as part of a basket of measures, can both ensure meeting the climate ambitions and generate proceeds that could, among other things, contribute to a level playing field and a just and equitable transition.

Strategic direction, if applicable: 3

Output: 3.2

Action to be taken: Paragraph 11

Related documents:

Introduction

1 At MEPC 80, the 2023 IMO GHG Strategy was adopted. The GHG Strategy states that “a basket of candidate measure(s), delivering on the reduction targets, should be developed and finalized comprised of both “a technical element (....) and an economic element, on the basis of a maritime GHG emissions pricing mechanism”.

2 The GHG strategy also states that “the mid-term GHG reduction measures should effectively promote the energy transition of shipping and provide the world fleet a needed incentive while contributing to a level playing field and a just and equitable transition.”

3 This submission focuses on the economic element of the basket of measures, presenting the advantages of a global maritime GHG pricing mechanism applying a cost to all GHG emissions⁷ associated with the energy used by ships for international voyages. The co-sponsors believe that including such an economic element in the basket would most effectively contribute to

⁷ The designation “covering all GHG emissions” is used to distinguish from a pricing mechanism only applied to a share of the WTW GHG emissions (e.g. emissions above a certain threshold).

the objectives listed in paragraph 2, i.e. “promote the energy transition of shipping and provide the world fleet a needed incentive while contributing to a level playing field and a just and equitable transition”.

Main benefits of a global maritime GHG pricing mechanism covering all GHG emissions associated with energy used by ships, with a predictable price

4 Fossil fuels are currently considerably cheaper than the zero and near-zero-GHG emission fuels which are needed to reach the indicative checkpoints and levels of ambitions of the 2023 GHG Strategy. Therefore, the transition to net-zero GHG emissions over the next 26 years requires strong regulation with sufficient economic incentives for ship operators to demand zero and near-zero emission fuels and for investors to make the necessary investments in the production and bunkering infrastructure of such fuels.

5 A global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships in international shipping can be administratively simple and will send predictable [] signals to fuel suppliers and traders, ship operators and investors. Long-term predictability is important as a de-risking factor for investments in ships, bunkering infrastructure and fuel production. This will result in a sustained transition with lower overall costs of transitioning. In addition, the adoption of a predictable price on GHG emissions will reduce the price gap between fossil and zero-emission fuels, and would help accelerate the uptake of the latter to meet the 2030 fuel uptake target of the 2023 GHG Strategy, while minimizing any negative economic impacts.

6 All GHG emissions contribute to climate impacts. A global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships will reduce the competitiveness of GHG-intensive technologies and help spur investments in clean technologies and behaviours. It will provide, as from the start, an incentive to improve energy efficiency through both operational measures and investments in more energy efficient ships and equipment. This will considerably reduce emissions from the early phases of the transition and thus help deliver on the checkpoints in the 2023 IMO GHG Strategy. Further, large scale uptake of energy efficiency solutions will reduce the amount of fuels and consequently zero- and near-zero-GHG emission fuels needed to achieve the levels of ambition of the Strategy. This is an important consideration, since the availability of such fuels could be a potential constraining factor in the start of the transition.

7 By incentivising from the start the use of zero and near-zero-GHG emission fuels, technologies and behaviours, the global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships will bring forward the emission reductions in a cost-effective and flexible way while promoting innovation. As a result, the cost of zero and near-zero GHG emission fuels and technologies will go down quicker than without such a GHG pricing mechanism, leading to comparatively lower operational costs for all stakeholders until the 2050 horizon. In other words, in the long term the GHG pricing mechanism covering all GHG emissions can be expected to reduce the costs of the transition and reduce the economic impacts on States. Thus, it plays an eminent role in achieving the targets set in the strategy.

8 While a goal based marine fuel GHG intensity standard will ensure the ultimate fuel transition, the global maritime GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships will provide predictable incentives for early action and improving energy efficiency. This complements the technical element, by shrinking the price gap and reducing the volumes of zero- and near-zero-GHG fuels required to meet the targets of the Strategy.

9 A global GHG pricing mechanism covering all GHG emissions, and not just the emissions which exceed a certain threshold of compliance, will, as a by-product, generate a significant revenue. A portion of this revenue should be used to take into account the needs of developing countries, in particular LDCs and SIDS. Other portions of the revenue could be used to further a just and equitable transition and mitigate potential disproportionate negative impacts, via e.g.

capacity building, technical cooperation as well as finance for climate-positive investments. Further portions could be used to strengthen the sector's climate transition through direct investments, research, development and demonstration (R&D&D) projects, and through rewards for use of zero and near-zero GHG emission fuels. Effective use of revenue generated by an economic element will contribute to lowering the impacts of the global shipping climate transition and at the same time speed it up.

Conclusion

10 The co-sponsors are of the view that the economic element of the basket of measures should be a global GHG pricing mechanism applying a cost to all GHG emissions associated with the energy used by ships on international voyages. Such a measure, in combination with a goal based marine fuel GHG intensity standard, is the most effective economic element to deliver on the 2023 IMO GHG strategy and at the same time would be the only element being able to minimize negative economic impacts.

Action requested of the Working Group

11 The Group is invited to consider the arguments presented.