**Position paper: reducing greenhouse gas emissions in maritime transport**

*Introduction*

1. Greek-owned shipping represents 58% of EU and about 20% of the global merchant fleet. Greece maintains excellent relations within the International Maritime Organisation (IMO) and all its members, including the United States and China. As such, Greece can play a prominent role in coordinating global efforts to reduce greenhouse gas (GHG) emissions from maritime transport. Conversely, policies designed without the active engagement of Greece and its shipping sector are likely to prove less effective.

2. Maritime transport must contribute its fair share in the reduction of GHG emissions. However, compared to other industries, the European Commission’s “Fit for 55” proposal on maritime transport is uneven: the long-term changes needed to deliver the bulk of the reduction in GHG between in 2030-2050 are still largely indeterminate – comprising alternative fuels and related technologies that have not been developed and tested yet, let alone matured for commercial use. In the absence of available alternative marine fuels and related mature technology, the proposed extension of the EU Emissions Trading System (ETS) to maritime transport – starting in 2023 – will not deliver sustainable reductions in GHG while increasing costs to EU consumers and businesses alike.

*Α. Research and development (R&D) and EU Research Centre for Alternative Marine Fuels and Technologies*

3. Today there is an array of candidate alternative fuels and technologies to decarbonise the maritime transport sector. However, none of these alternatives is mature and available at scale, and this will persist in the near future. Major questions linger regarding the commercial and operational viability for each of these options.

4. This uncertainty around the technological path of decarbonisation, and its concomitant risk of stranded assets and lock-in effects, in turn limits investment in transition technologies in general. At the same time, the development of alternative fuels and technologies requires the coordination of a wide range of out-of-sector stakeholders (fuel producers and suppliers, shipyards, marine engine manufacturers), further aggravating the problem.

5. In view of the targets set by the “Fit for 55” legislative package and the goal to make the EU climate neutral by 2050, as well as the long lag required for new technology penetration in the shipping sector, the need to strengthen research, development and deployment (R&D&D) of alternative marine fuels and technologies is immediate and imperative.

6. Therefore, **Greece proposes the establishment of an EU Research Centre for Alternative Marine Fuels and Technologies**. This agency will address coordination failures among stakeholders and, help de-risk investments in alternative marine fuels and technologies, funded by proceeds from the extension of the EU ETS to maritime transport.

7. Such investments could include public-private partnerships in R&D, demonstration projects in mature technologies, and co-investments in the appropriate infrastructure. The agency would also be responsible for delivering guidelines on alternative fuels and technologies, including on the infrastructure needs, and roadmaps and timelines for the transition.

*Β. Allocation of auction rights under the EU ETS for maritime transport*

8. Due to its relative size, the Greek-owned commercial fleet will be responsible for a very large share of the cost from the extension of the EU ETS in maritime transport. This is confirmed by the shipping MRV data.

9. However, the European Commission’s proposal seems to allocate auction rights for emissions in the maritime sector to Member States in proportion to their historical GHG emissions in stationary installations contrary to the approach followed for aviation. Taking into consideration that shipping companies are liable to surrender allowances, such a different approach is not justified and results in a disproportionate transfer that needs to be re-balanced.

10. Therefore, we propose to follow the paradigm of aviation and apply, mutatis mutandis, the aviation methodology of allocation of auction rights to Member States**,** i.e. “**the number of allowances to be auctioned in each period by each Member State to be proportionate** to its share of the total attributed maritime emissions for all Member States, acting as administrations under the EU directive”, or any other equivalent methodology.

*C. Regulated entities and level playing field within maritime transport*

11. As alluded to, the proposal of the European Commission for the extension of the EU ETS to maritime transport would make owners of ships legally liable for surrendering EU ETS allowances. However, in a large segment of shipping the owner of the ship and its commercial operator – making decisions about the fuel used and other decisions that affect CO2 emissions and their cost (e.g. the vessel’s cargo, speed, fuel consumption, itinerary, routeing) – are different entities.

12. This is mainly the case for the tramp shipping model, a segment of shipping operating under perfect competition and populated to a large extent by EU-owned SMEs. As opposed to the liner (incl. Ro-pax) shipping model with its fixed schedules and rates, tramp shipping provides charterers (i.e. the entity that purchases a ship’s transportation services) with flexible itineraries and terms, allowing for efficient cross-continental trade.

13. Making the shipowner (or an entity controlled by the owner), rather than the commercial operator of the ship, the regulated entity under the EU ETS, thus, creates a number of problems in this respect:

* It is not aligned with the “polluter pays” principle, as the operation, itinerary and speed of the ship are choices made by the commercial operator.
* The time inconsistency between contract terms (agreed ex-ante) and operation (only available ex-post), gives rise to uncertainty regarding the quantity of EU ETS allowances, limiting the ability of the owner to pass on the cost to the commercial operator (the polluter).
* SMEs face an inherent disadvantage relative to large corporations in optimizing and financing the costs arising from the EU ETS, given the volatility of the price of allowances.

14. For these reasons, Greece proposes that **the regulated entity under the EU ETS is, as a general rule, the ship commercial operator of the ship**. When the commercial operator in not known or identifiable, the ship owner or any other entity that has agreed to take over all duties and responsibilities imposed by the International Safety Management (ISM) Code shall be responsible. Obviously, this will result in some adjustments as to the allocation of allowances to be auctioned by each Member State. This change would align the EU ETS in maritime transport with the “polluter pays” principle, while maintaining a level playing field among and within different modes of shipping. At the same time it would go a long way in limiting disruptions and inefficiencies – shortages and higher transport costs – in international trade. This approach has to be complemented with rules that **ensure tight enforcement**, a prerequisite for maintaining a level playing field, including, especially for the tramp shipping, the obligation for the commercial operator to surrender the allowances attributed to each voyage before the departure of the ship from the EU port.

*D. Level playing field across jurisdictions and between modes of transport*

15. As shipping is a global industry, a globally agreed framework is key. The risk of regulatory fragmentation by means of regional measures with extraterritorial application, in terms of the disruption they would cause in supply chains, is too high.

16. Similarly, an EU-only measure would impose a higher cost structure for shipping in the EU compared to other jurisdictions, potentially reducing supply and pushing prices higher.

17. Further, an EU-only measure would prove ineffective, not fully protecting against evasion and modal shift – e.g. shipping to countries neighbouring the EU and then shipping, or transporting by other means, cargo into the EU – which over time can adversely affect the ports and logistics chains of EU Member States, particularly in the EU periphery and lead to carbon leakage.

18. Greece, together with the European Commission and all EU Member States, work closely at the IMO and with the international community in ongoing discussions to bring forward globally-coordinated policies, including on a global market-based measure which is best suited for this international business.

19. For the reasons outlined above, the EU should strive to ensure a level-playing field in shipping. Therefore, we propose to speed up the foreseen for 2028 review clause **and reassess the inclusion of the maritime sector in the EU ETS by 2025**, taking into account the discussion on a global Market-Based Mechanism (MBM), as part of the IMO’s GHG Strategy mid-term measures in order to fully align timely with a possible IMO MBM scheme.