

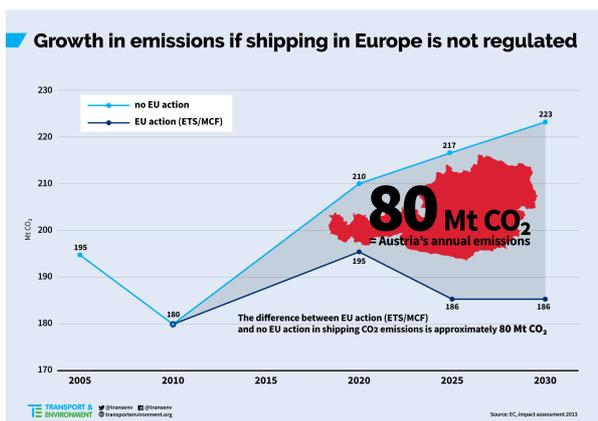
Decarbonising shipping sector in EU

ETS Maritime Climate Fund and 2030 targets

February 2017

The EP Plenary is to consider including shipping in an EU Maritime Climate Fund, to be set up under the ETS, from 2023 if the International Maritime Organisation (IMO) fails to deliver a global agreement for the sector by then. Shipping is currently the only sector not subject to a CO₂ reduction target or measure at either European or international level despite the IMO being tasked by Kyoto to do so 20 years ago. Two deadlines for IMO action set by the EU have been missed. In 2016, the IMO finally restarted a new seven-year GHG work plan, which is hardly a credible response to the urgency of action highlighted by Paris. However, with uncertainty over the new US administration's position and a lack of leadership from industry, even this already inadequate work plan offers no guarantees of progress in the next seven years. It is time for Europe to act; to exert pressure on the IMO process by ensuring that shipping contributes to the EU's 2030 climate targets.

Shipping was responsible for 13.7% of Europe's transport CO₂ emissions in 2013 (up by 48% from 1990). Emissions are expected to grow by a further 51% by 2050 if no action is taken.



Together with aviation, shipping emissions will likely undo almost half the emissions savings from EU land transport.¹ **Without action shipping will add cumulatively around 80 Mt CO₂ (= total annual emissions of Austria) to EU emissions between now and 2030.**

KEY REFORMS UNDER CONSIDERATION

Shipping was not included in the EC's legislative proposal for ETS Phase 4. But the ENVI Committee recommended to include shipping in the EU's 2030 targets by way of a Maritime Climate Fund (MCF) under the ETS from 2023 **if the IMO does not deliver a global deal by then.**

Scope: Ships will be subject to the ETS rules or, by derogation, be able to opt out and pay a contribution to the Maritime Climate Fund, to be set up under the ETS. Contributions will be based on ships' reported emissions via the EU MRV regulation and the ETS carbon price in the preceding year. Fund income will then be used to purchase EUAs on behalf of fund members.

Funding: In order to support R&D in sustainable shipping technologies, existing energy efficiency improvements, as well as differentiated port charging schemes, the ENVI proposal asks member states to revert to the fund 20% of the auction revenues from the sale of emissions allowances. With current emission levels, this would mean **€1 billion** per year of funding available for the shipping industry and ports.

RECOMMENDATION: MEPs should support the ENVI proposal to include shipping in the MCF/ETS from January 1, 2023 if IMO does not deliver a comparable global deal by then. The ENVI proposal has received the **support of all European ports**, which are, by far, the biggest employers in the European maritime sector, far ahead of shipping companies, which are the main emitters of CO₂.²

¹ <https://www.transportenvironment.org/news/planes-and-ships-hampering-road-transport%E2%80%99s-climate-efforts>

² Port of Rotterdam - <https://www.portofrotterdam.com/en/news-and-press-releases/port-authority-wants-a-more-ambitious-co2-reduction-plan-from-imo>; European Sea Ports Organisation (ESPO) - <http://www.espo.be/news/europe-should-pile-up-pressure-on-the-imo-to-deliv>

Aviation's continued role in ETS

Ensuring action in limiting aviation emissions

February 2017

Much uncertainty exists regarding ICAO's flagship climate tool, CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation). It remains unclear whether it will come into force in 2021, and even if it does, its ambition falls well short of what other industries in Europe are required to do. The retention of aviation in a reformed EU ETS for the fourth trading period will ensure the sector makes a fair contribution to Europe's climate effort, and that an effective climate measure is in place should CORSIA fail to take off. Retaining aviation in ETS could deliver **emission reductions of between 700 and 2,100MT by 2030 depending on scope**³.

Aviation contributes 4.5% of Europe's emissions (up from 1.4% in 1990). Emissions will continue to grow rapidly in the future and strong mitigation action at the European level is urgently needed

The International Civil Aviation Organisation's agreement last October on a global measure for international aviation, known as CORSIA, is a step forward in addressing aviation's substantial climate impact. However, the applause must be tempered by an understanding of the limits to the measure and the challenges ahead.

It will be several years before it is clear whether CORSIA can come into effect, given uncertainty around carbon markets and CORSIA's legal basis. Even if operational, the scheme falls well short of the ambition required by Paris and will not send a price signal to the sector to improve efficiency. One estimate suggests the price signal will be equal to €0.01 a litre of fuel, which falls well short of what is required to unlock efficiency gains⁴.

With Europe's aviation sector expected to grow considerably, it is essential that effective measures are in place to mitigate its climate impact. Aviation's inclusion in ETS, even with the scope reduced to flights within Europe, has proven to be functioning and has the potential to deliver real emission reductions provided reforms are adopted to address issues with the overall effectiveness of the system.

KEY REFORMS UNDER CONSIDERATION

Declining cap: Unlike other sectors included in the ETS, aviation is not subject to a declining cap. The ENVI report introduces a declining cap, which would ensure that the sector makes a contribution equivalent to other ETS sectors. It would also provide a much greater incentive for the sector to improve efficiencies.

Auctioning of allowances: The aviation sector is not exposed to the risk of carbon leakage, therefore leaving it unclear why it requires free allowances. The ENVI report reduces the amount of free allowances, with the recommendation that the resulting revenue raised should be directed towards climate finance.

Scope: Aviation's inclusion in ETS was reduced to flights within Europe to give ICAO time to develop a global measure. For the remainder of the third trading period (2017-20) the full scope should be restored as part of pre-2020 ambition required by the Paris Agreement goals. For the fourth trading period, (2021-2030), the scope should be decided after ICAO's 2019 Assembly when there will be greater certainty over the CORSIA.

RECOMMENDATION: MEPs should support the aviation provisions in the ENVI report to ensure that this, the most carbon-intensive mode of transport, makes a fair contribution to achieving Europe's climate goals.

³ <https://www.transportenvironment.org/publications/comparison-between-icaos-co2-offsetting-scheme-and-eu-ets-aviation>

⁴ Aviation Week, Jens Flottau, Oct 20 2016