

SHIP FINANCING – Guiding principles for an EU maritime taxonomy for sustainable investments

ECSA would like to contribute to the European Commission's work on maritime taxonomy for sustainable finance. The European shipping industry is dedicated to be at the heart of a sustainable future. In order to reach the goals, ECSA finds it vital that the following guiding principles are applied when the EU maritime taxonomy is developed and reviewed especially in light of international regulatory developments.

1. The shipping industry is a truly global industry, global regulations are the most effective and efficient way forward

International shipping is a global and diversified (see also guideline 8) industry that needs and is indeed governed by global regulation. Regulation on the environmental performance of shipping is determined through the United Nations' International Maritime Organization (IMO). By way of mere indication, noteworthy are:

- the initial Strategy on reduction of GHG emissions from ships, setting reduction targets and identifying short-, middle- and long-term measures for GHG emission reduction; and
- the measures for the reduction of GHG emissions adopted in 2011 including the establishment of the 'Energy Efficiency Design Index' (EEDI), the first globally binding climate measure. It is an important mandatory tool that sets compulsory efficiency improvements of newly build vessels, with reduction targets recently being strengthened.

Accordingly, building upon and supporting the work of the IMO when EU regulation is developed prevents the risk of carbon leakage, whilst at the same time ensures the global competitiveness of the EU shipping industry.

2. The taxonomy should cover the entire global fleet

It is crucial that the taxonomy is designed to ensure that the global fleet moves in the same direction. To have a real impact on shipping's GHG emissions we must succeed in transitioning the whole global fleet and avoid creating a small "green club" of EU based shipping companies or "green fleet" that trades only within the EU with exclusive access to preferential funding. It is vital that the taxonomy provides the right incentives for investors to finance sustainable projects that will also help the shipping industry to reach the UN IMO strategy's reduction targets.

This means that projects, which bring the shipping industry in the right direction, should be classified as sustainable. It is equally essential that the taxonomy provides the incentives to facilitate the transition of both new and existing vessels on a global level, taking account of their remaining service life.

3. Recognising transitional efforts encourages and supports the industry's efforts to climate neutrality

Continuous efforts to lower emissions are showing positive results. However, these efforts, will require the active contribution of all actors in the maritime value chain, especially shipyards, engine manufacturers, but also classification societies, ports, energy companies and the fuel supply chain. Furthermore, these efforts are capital intensive and require access to competitive financing. Accordingly, if these transitional efforts are recognised by the taxonomy definition, meaning that the necessary financing will remain accessible, it will encourage and support the industry's initiatives towards climate neutrality. It should be noted that the shipping industry is capital intensive: access to competitive (sustainable) financing within Europe should be a priority and the global level playing field should be ensured. This in particular to maintain and advance its competitive edge vis-à-vis its key global competitors (notably in the Far East). For the EU, there is a lot at stake in this respect, since adequate financing helps to maintain shipping companies' presence in Europe, which in turn ensures that the related added value will remain in Europe and that innovative and sustainable solutions for shipping can be developed and promoted from Europe. Having a strong ship financing community in Europe also benefits the European maritime cluster and the European economy at large.

4. Decarbonisation does not follow a linear trajectory

It may be easier to model the reduction of emissions as a linear trajectory. In practice, however, that may not be the case. With new technologies and fuels, experience has shown that initial uptake is slow as the technology is being demonstrated. After experience is gained with the new technology, the related costs and technology risks will be reduced and the new technologies will be more accessible for the bigger part of the shipping community. This in turn will lead to an increase in uptake and investment (a reinforcing cycle). Therefore, an exponential curve instead of a linear trajectory should be expected.

On the one hand, the trajectory of emissions towards full decarbonisation hinges on the introduction and market uptake of economically viable and safe zero emission fuels and technologies. On the other hand, implementing the new technologies requires sufficient time and a joint effort from all stakeholders in the maritime value chain.

5. The maritime industry is dependent on and/or interlinked with the environmental performance of other sectors

As previously mentioned under principle 4, in lowering emissions and improving on other environmental objectives, the maritime industry is dependent on other stakeholders (e.g. shipbuilders, engine manufacturers, the fuel supply chain, port infrastructure and port operations).

It is clear that if there is no available new technology for engines, shipbuilders mainly located in Asia and dependent on engine manufacturers, are also constrained in what can be achieved in terms of greening a vessel. As a further example, if a vessel enters a port where no infrastructure or supply of alternative fuel is available (e.g. in less developed countries outside Europe), the vessel has no other option than running on the traditional fuel at least temporarily. Another indicative example of the reliance of shipping on other stakeholders is the considerable impact that port call optimisation can have on ship CO₂ emissions. Recent trials show that substantial CO₂ reductions can be achieved by optimising the access of ships to ports in a planned schedule.

6. The taxonomy definitions should be technology and future fuel neutral

The future taxonomy should be technology and future fuel neutral and allow for investment in innovation, infrastructure and solutions that help achieve the EU goals cost-effectively. In this regard, ECSA strongly believes that the taxonomy should also acknowledge also activities which contribute to the transition to climate neutrality, even though not yet currently operating at that level.

7. The taxonomy definitions should provide the right incentives for the transition of already existing vessels as well as for new vessels

Today, the fuels or propulsion methods that will make international shipping climate neutral in the future have yet to be developed. Several competing technologies are in development (with some already proven to work in practice

and reducing emissions) and the industry continues to deliver cleaner vessels every year. Investing on the one hand in new technologies for building new vessels and on the other hand investing in equipment, retrofitting and optimisation of the existing fleet to gradually lower emissions is capital intensive and requires access to competitive financing, taking account of their remaining service life. The taxonomy must consider what is currently possible, both technologically and commercially, building on a life-cycle approach, and recognize that transitional measures – both technical and operational – are essential to reach the ambitions for the taxonomy.

8. One size does not fit all: the taxonomy has to take into account the considerable diversity of the shipping industry

The shipping industry is characterised by a diversity of ship types, sizes, range of operations, modi operandi and business models, more specifically:

- Ship types: The industry is composed of a wide variety of ship types, including containerships, bulk carriers, tankers, RoRo, Ropax, passenger ferries, cruise vessels, LNG and LPG carriers, car carriers, chemical carriers, (offshore) service vessels, etc.
- Ship sizes: There are significant differences in terms of ships sizes depending on the purpose and the trades for which the vessels they are used.
- Deep sea - Short Sea: Deep sea shipping involves the transportation of goods across longer distances, usually across oceans and between continents. Short sea shipping, or coastal shipping, involves the transportation of goods and passengers across short distances and takes place in or between certain areas such as the Baltic Sea, the Mediterranean, the English Channel, the Black Sea or the Irish Sea. As both market segments face international competition a level playing field for EU shipowners is a key condition for the continuity of their operations. In addition, short sea shipping will on specific routes compete with other, land-based, modes of transport.
- Tramp shipping – liner shipping: Ships engaged in tramp shipping trade on the spot market and are itinerant: they do not have a fixed schedule or published ports of call. Tramp shipping usually relates to the transportation of dry and wet bulk cargoes. Ships engaged in liner shipping operate on the basis of a schedule, published ports of call as well as regular and fixed

port rotations. It usually relates to the transportation of cargo in containers (containerships) and passengers (ferries, RoRo & RoPax services).

This implies that a one-size-fits-all approach in shipping is extremely challenging and could potentially prove to be counterproductive if it fails to take into account the significant differences described above. Therefore, the diversity of the shipping industry warrants a flexible approach that is tailored to the needs of each segment.

9. Life-time of the vessels are long

In shipping, asset life-time is long, hence facilitating the development of future technologies without downgrading the ones assessed as transition technologies today is essential. Besides, due to the life-time of the vessels, the taxonomy will only provide the right incentives, if it distinguishes between new buildings and investments in existing vessels (retrofit) when assessing their sustainability according to their remaining service life. It should be noted that the life cycle approach is twofold covering the life cycle of the asset and the life cycle of the fuel or energy carrier used, hence taking into account the contribution to the circular economy and the environmental impact of new fuels.