



Annex I: The Danish Government's position on the revision of the Emissions Trading System in relation to maritime transport

Minimise carbon leakage and maintain a global level playing field

One critical aspect to minimise carbon leakage and ensure a global level playing field and safeguard the competitiveness of the European maritime industry is applying flag neutrality as a fundamental design choice of the ETS, meaning all ships are treated equally irrespective of their country of origin, as is the case for the Regulation on Monitoring, Reporting and Verification (MRV). If only ships carrying the flag of an EU Member State are included in the EU regional measure there is a considerable risk that ships will change to a non-EU flag or that non-EU ships will take over routes.

Furthermore, the question of efficient enforcement (more on administration and enforcement below) and sanctioning of non-compliance from non-EU flags should be addressed, especially for ships leaving EU ports. Therefore, efficient sanctions for non-compliance need to be evaluated, alongside the adequate enforcement required to ensure equal treatment of ships in the entire EU.

Today, all ships operating in the EU are covered by the MRV regulation on equal terms, and thus using the current MRV deadweight minimum of 5,000 GT for ships covered should also be considered when designing an EU ETS for shipping in order to ensure a level playing field. The latest MRV report from the Commission (2019) concluded that with the aforementioned minimum deadweight, 90% of emissions will be covered even though only 55% of ships are 5,000 GT or more.

Support global level measures within the IMO and avoid double regulation

We encourage the Commission to explore how a phased approach, where only intra-EU/EEA journeys are included from the start, could ease shipping's inclusion into the system in order to support the process towards a global measure at the IMO. This would entail a first phase where only intra-EU shipping is included in an ETS in order to send a signal to the IMO, that if the IMO does not take swift ambitious action by implementing Market-Based Measures (MBMs), the EU ETS for shipping could, in its second phase, be expanded to also include international shipping to and from EU.

We urge the Commission to take into account the work in the IMO and important principles in the Initial Strategy on the Reduction of Greenhouse Gas Emissions from Ships when designing an EU ETS. In our view, the choice of whether the system is closed (shipping's emissions are only traded in-sector) or open (allowance trading across all sectors in the EU ETS) could impact the IMO process negatively.

An ETS for intra-EU navigation could be open, since IMO compatibility would still be possible due to the separation of journeys within the EU and journeys to/from the EU. If journeys to/from the EU are also included in the ETS, the ETS for shipping could be established as a closed system (only trading of allowances within the



sector), which would ensure in-sector decarbonisation and at the same time uphold the principle of the Initial IMO GHG Strategy that shipping can and has to decarbonise in-sector. EU Member States and the Commission fought hard to include this principle in the Initial IMO GHG Strategy, and jeopardising the ambition of the Initial Strategy will undermine the EU's global green leadership.

Moreover, we encourage the Commission to consider introducing a conditioned sunset clause in its proposal for an ETS for shipping in order to avoid double regulation at the EU and the IMO. The sunset clause could stipulate that if the IMO adopts an ambitious MBM, the EU ETS for shipping should be able to function as an integral part of such a global system or – if that is not possible – either be limited to intra-EU journeys or be phased out.

Incentivise innovation and first-movers and ensure an accurate baseline

The Danish Government finds that an ETS model should help foster incentives for the deployment of new technology and alternative fuels and that it must be ensured that first-movers, who have invested heavily in green solutions, are not penalised with the introduction of an ETS for shipping. Ensuring the necessary innovation in the decarbonisation of the maritime sector requires holistic EU action. The Danish Government welcomes the Commission's initiative on FuelEU Maritime, which needs to be taken into account in shipping's decarbonisation pathway. Moreover, ensuring investments and funds for maritime R&D projects will need to be prioritised.

The choice of an accurate base year or the calculation of benchmarks that take into account the most CO₂ efficient ships could have a positive impact on first-movers. Consequently, different methods for calculating an appropriate baseline should be explored. This can be ensured by taking into account the most CO₂ efficient ships and account for the characteristics of different types of ships. The right starting point could increase shipping companies' incentive to be first-movers. Moreover, it could be considered that any potential allocation of free allowances should not be based on historical data since this would also be credited to ships that have not undertaken any decarbonisation efforts. Additional incentives for ships that have acted early on should be examined, e.g. whether ships that use zero emission fuels should be first in line at berth.

Taking the international nature of shipping and the low predictability into account

Ships operate in a global economy and in a global market, where changing route and destination many times while underway is possible. Shipping voyages, although they seem similar, can actually fluctuate up to 30% due to external factors such as wind and currents. These fluctuations influence the shipping sector's view on long-term investments. An EU measure, like ETS, should take into account the risk of price volatility in order to ensure the needed investments in green technologies and zero-emission ships. Therefore, some kind of price stability mechanism ensuring green investments should be considered.



Minimising the administrative burden and ensuring transparent regulation

The Danish Government finds that a strong regulatory regime is needed in order for an ETS for shipping to have the intended effect. This is due to the fact that ships operating in the EU are not always registered in an EU country and they often undertake very diverse trips. We find that ships could be regulated by the member state in which the ship is registered (if registered in an EU country) or by the country in which the ship has most port calls. Companies (ship owners or operators) could report to a specific member state, if the majority of port calls during the next year takes place in the state. Likewise, the use of IMO standards, e.g. the ISM standards, should be used to determine the responsible party for surrendering allowances.

The administration should support the general digitalisation of the industry and potential overlaps between the ETS and MRV should be combined for easing the burden on the ship owner. Enforcement could be carried out by the administrative entity by issuing a certificate that can be presented at port state control as proof of compliance. This way a ship could be detained if it does not have enough allowances to cover its emissions. The control and the certificate could be combined with the MRV enforcement.

Addressing the risk for circumvention

The Danish Government encourages the Commission to take into account the risk of circumvention of the ETS/risk of ships 'artificially' reducing the amount of allowances needed by introducing extra port calls or dock or unload in a non-EU/EEA port. This could potentially lead to inefficiency in the system or limited emission reductions. The risk will most likely depend on whether the price of introducing extra stops etc. would exceed the prices of ETS allowances.

Consider shipping within the context of an energy efficient European transport system

If waterborne transport becomes more expensive, it could lead to shifting goods from ship to truck, especially in short-sea and inland waterways shipping. In the process of evaluating shipping's inclusion into the ETS, it is thus important to keep in mind the likelihood of modal shifts to other forms of transportation, as they might not benefit the overall reduction of emissions, since maritime transport is one of the most energy efficient freight modes.