Royal Belgian Shipowners' Association

BELGIAN SHIPOWNERS IN FAVOUR OF A FUEL-ONLY CONTRACTS FOR DIFFERENCE TO ENABLE THE ENERGY TRANSITION IN THE MARITIME INDUSTRY

In order to meet the targets set out in the Paris Climate agreement, the RBSA is of the opinion that **zero-emission fuels need to become the dominant fuel source as soon as possible**. Current challenges however regarding the deployment of the zero-emission fuels in the maritime industry are the lack of international regulations with respects to safety, the current limited production of zero-emission fuels, the uncertainty whether or not these fuels will become available to the shipping industry even in the longer term and the **significant price difference** between conventional fossil fuels and the sustainable options.

Yet, a **dedicated maritime fund** such as the Ocean Fund proposed by MEP Peter Liese could be detrimental to the green transition of the maritime sector.

Revenues from shipping going to a dedicated Ocean Fund should be channelled towards a financial incentive scheme such as **Contracts for Difference (CfD)**. A CfD has the potential to mitigate market risk by offering price certainty for investors in projects with high upfront costs by removing the price volatility and in this way encourage investment by sending a clear price signal and improve long-term certainty of demand.

CfDs encourage private investments as a means of scaling up and accelerating the production of the required zero-emission fuels.[1]

Designing a Contract for Difference requires taking into account different design parameters, amongst others the eligibility of the technologies, companies and routes:

Which technologies and costs should be eligible?

There are two primary variants for a shipping CfD: (1) a fuel-only CfD where the cost of the zero-emission fuel would be eligible or (2) a TCO[2] CfD where both building and operating the zero-emission ship would be eligible The former focusses solely on the

[1] Clark, A. et al (2020) "Leveraging Private Capital to Scale up Hydrogen"
[2] Total Cost of Ownership

additional OPEX related to sailing on a zero-emission fuel while the latter also take into account CAPEX.[3]

Even though the technology-readiness level (TRL) of the infrastructure related to the use of zero-emission fuels on board of vessels is not yet mature, several pilot projects are already ongoing under the Horizon Europe programme (amongst others) to bring these solutions to a higher level. Therefore, a fuel-only CfD would be the preferred option since fuel costs represent the lion's share of operating costs for ships and it retains a level playing field.

In addition, a TCO is more complex to benchmark and administer since incremental costs vary by ship type and size[4]. As an example, the cost of installing an ammonia engine on an existing gas tanker through retrofit versus on a new-build small container vessel is likely to be very different. It must however be understood that if investors and operators (of ships enabling the transition on world scale towards zero-emission) would be incentivized, the transition towards zero-emission fuels would be tremendously speeded up. It would stimulate the industry to choose for investments contributing to zero emissions.

Which companies and routes should be eligible?

It is important that the Ocean Fund and the linked CfDs should be accessible to everyone who is capable of supplying/applying zero-emission fuels to/within the maritime industry. In this way, the fuel can be produced in a region with excessive renewable energy (which also supports an equitable transition, SDG 10) and find its way to frontrunners, regardless of the flag they sail or which ports they call. While the EU can and should take the lead, the system allows to be rolled out later at the international level by the IMO, when an MBM is established.

Within the CfD mechanism it would be possible to target certain ship types and routes by setting different criteria within the contract, for instance to reward frontrunners and/or establish green corridors. As explained in more detailed studies such as "First movers in decarbonisation" by LR Decarbonisation Hub[5]. Considering that green corridors are likely to favour liner vessels over tramp, other criteria such as ship type should be taken into account as well in order not to exclude frontrunners of other segments such as tramp shipping.

To conclude

The optimal design of maritime-specific CfDs will be left in the hands of experts but, according to the RBSA it remains key for Belgian Shipowners to further investigate and elaborate this option for the sector. **The price signal and predictability that this mechanism induces will ensure the necessary upscaling of zero-emission fuels that are key for accelerating the green transition of the maritime sector.**

[3] The CAPEX mentioned here is CAPEX related to the vessel and not the infrastructure investment needed to produce and supply the zero-emission fuel. The CAPEX related to the fuel production and supply will be reflected in the price of the fuel. Incorporating the fuel supply CAPEX under a TCO CfD will result in double financing.

[4] Clark, A. et al (2021) "Zero-Emissions Shipping: Contracts-for-difference as incentives for the decarbonisation of international shipping" https://www.smithschool.ox.ac.uk/publications/reports/zero-emissions-shipping.pdf A list of advantages and disadvantages related to both options can be found on p.51-52

[5] A zero-emission maritime route between two or more ports.

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*The ROYAL BELGIAN SHIPOWNERS' ASSOCIATION represents the common interests of all shipowners and ship managers based in Belgium and active in international maritime transport by sea. The RBSA plays a dynamic role in promoting the sector as an attractive employer and provides its members with operational support and technical expertise on fiscal, social, environmental and maritime regulations.

As a maritime knowledge centre based in Belgium, the beating heart of a maritime Europe, the RBSA plays a pioneering role in the further expansion and long-term growth of an innovative international maritime transport sector. Through its role as a forward-looking opinion maker, the association aims to act as the interlocutor for all stakeholders at the European and the international levels.