POSITION PAPER *3 November 2021*

Key considerations on the FuelEU Maritime proposal

Independent fuel suppliers bring expertise, sound consumer knowledge and an established, comprehensive infrastructure which already delivers low carbon, energy efficient products in an affordable and competitive manner. They have a strong track record in contributing to the EU target for renewables, being the first to supply biofuels to Europe's energy market as early as 1992, showing their commitment to and flexibility in embracing new policies and delivering new solutions. Independent fuel suppliers are not producers and therefore have the freedom to diversify the products that they supply. However, they need regulatory predictability and consumer demand as a guarantee for investments in renewable and low carbon fuels.

UPEI members are committed to the EU climate objectives and have developed their own 2050 vision which outlines short and long-term recommendations for a carbon neutral society and highlights their own contribution. In a context of peaking energy prices, it is crucial to follow the path of the energy transition while mitigating adverse effects on consumers and businesses alike.

General comments on the proposal for a Regulation on the use of renewable and low-carbon fuels in maritime transport

UPEI supports the objective of cutting GHG emissions from the maritime transport sector, therefore contributing to EU climate neutrality objective. We also welcome the focus on limiting the greenhouse gas (GHG) intensity of energy used on-board by ships, considered from a well-to-wake perspective, in line with the principle of technology neutrality.

Regarding the regulated entities, UPEI strongly believes that the obligation shall apply to shipping companies, as proposed by the European Commission. This is crucial to create a demand for renewable and low carbon fuels in the maritime transport sector, building on existing regulatory requirements such as the Monitoring, Reporting and Verification Regulation, while ensuring a level playing field for European bunker suppliers and preventing carbon leakage. Please find further elements on these important points in continuation. This is fully evidenced in the European Commission impact assessment[1], which also recognises that existing requirements on fuel suppliers under the Renewable Energy Directive (RED) and the Alternative Fuels Infrastructure Directive (AFID) have not managed to trigger the deployment of renewable and low carbon fuels in maritime transport.

Eventually, it is essential that the obligations arising from this Regulation and their impact on industry and consumers be examined not in isolation but together with other 'Fit for 55' proposals, including proposals for the RED review and the AFID. Negotiations should be conducted with a view at the entire package to avoid regulatory inconsistencies, maximise synergies and guarantee the most cost-effective achievement of the objectives.

UPEI and its members, representing nearly 2,000 European importers and wholesale/retail distributors of energy for the transport and heating sectors, look forward to constructively working with the EU institutions to make Europe's climate policy a success.

[1] See in particular sections 2.2.5 and 6.3.3, annex 3 section 7

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Factual elements regarding the risks of carbon leakage and relocation of bunkering activities outside the EU

Facts about ships

- Gross tonnage of ships keeps raising, but fuel consumption is not directly proportional to growth tonnage. In addition, fuel efficiency improvements are going in parallel with technology developments.
- Bulk carriers can sail more than 30,000 nautical miles (nm) on average on fuel tanks, containerships up to 50,000 nm, and tankers between 10,000 and 30,000 nm on average.
- The largest containerships (over 15,000 TEU) have fuel tanks of 17 million litres on average, while common container ships (5,000-10,000 TEU) would carry 8 million litres. For the latter category, a full tank would allow the ship to travel over five weeks without needing to refuel.

Bunkering is a fluid market

Bunkering decisions are very sensitive to prices. A 1% difference in the price per tonne can lead to a 30,000 EUR difference on the bill for a complete refueling for a typical container ship. Global ports compete against each other, and ships have considerable flexibility in where they lift bunkers as long as the port is en-route. Shippers check price evolution constantly and change suppliers every time it is relevant to do so. It is easy for them to switch as bunkering is often based on short-term contracts.

Concrete examples of flexibility in the bunkering sector

In 1991, California raised the bunker-fuel tax for all the ship-liners coming to its ports. As a result, these ships changed bunkering plans and decided to fuel in neighbouring ports (in Washington, Oregon, Mexico and Panama). In 1992, the Los Angeles Marine Exchange calculated nearly 100 ships a month bypassed Los Angeles and Long Beach rather than pay the 8.25 percent tax on bunker fuels. For July 1992, the volume of bunker fuel delivered to both ports dropped 68 percent from July 1991, and California tax revenues equally dropped. In September 1992, the Legislature passed a law suspending the tax increase. Since then, the bunker-tax exemption periodically has been extended. However, the bunker fuel industry never recovered. It is likely that the revocation of the exemption resulted in a reduction in industry employment on the order of 100 to 200 jobs annually.

More recently, bunker sales have flipped to Zhoushan from Hong Kong due to COVID restrictions. Indeed, the Hong Kong government introduced in July 2020 restrictions on crew changes to curb the spread of COVID-19. Ships calling there for bunkers only would be required to be quarantined for 14 days before receiving fuel. According to industry sources, this has resulted in Hong Kong's bunker sales decline by some 30%-40% year on year in 2020. Bunker-only-calls from ships relocated to Zhoushan, China. While the move in sales in this case is not due to price, it highlights how easy it is for business to move to another port extremely quickly.

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UPEI represents nearly 2,000 European importers and wholesale/retail distributors of energy for the transport and heating sectors, supplying Europe's customers independently of the major energy producers. They are the interface between producers and consumers, using their own infrastructure and flexibility to supply existing demand for conventional and renewable liquid fuels, as well as non-liquid alternatives as part of the energy transition. They cover more than a third of Europe's current demand. The organisation brings together national associations and suppliers across Europe.

Independent fuel suppliers bring competition to Europe's energy market and are able to respond rapidly to changes affecting supply, contributing to security on a local, national and regional level. They have developed and maintain a comprehensive infrastructure for the sourcing, storage and distribution of transport and heating fuels, with a commitment to delivering a high-quality service to all consumers, including those in remote areas.

Since 1962 UPEI has been advocating for a level playing field and fair competition to ensure an affordable, sustainable, and secure energy supply for Europe's consumers. Today, in the context of the transition to a low carbon economy, UPEI and its members are also addressing the challenges of adapting the product range and meeting consumer demand through market-oriented solutions.

With its strong track record in pioneering the supply of renewable fuels in the EU, UPEI's members remain committed to delivering and embracing new, cost effective solutions which further promote energy efficiency and reduce pollutants and emissions.

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