

To: The Netherlands Ministry of Infrastructure and Water Management

From: A.P. Møller Maersk A/S

#### **Date:** 06/12/2024

A.P. Møller Maersk A/S ("Maersk" in the following) hereby forwards its answer to the public internet consultation by the Netherlands Ministry of Infrastructure and Water Management ("MIWM" in the following) regarding proposed obligation of emissions reduction on the marine fuel supplier, and the two sub-targets, to achieve minimum supply of advanced biofuels (Annex IXa) and Renewable fuels from non-biological origin (RFNBO).

# Summary of Maersk's key points to the public consultation

Maersk's key points, which are laid out in detail in the following, are:

- The Netherlands has been a frontrunner in implementing national measures aimed at reducing CO2 emissions from shipping through the HBE system. The ERE system could, from 2026 on, continue this path if certain changes are made to the legislation in consultation. If not amended, it could instead lead to displacement of bunker trade to outside NL/EU with resulting loss of jobs and income.
- There seems to be a disconnect between the stated intention of • the Netherlands of contributing to decarbonizing shipping and the measures in the proposed legislation. One the one hand, it's stated that the Netherlands wants greener fuel/biofuel delivered to the market. On the other hand, many of the proposed measures restrict such developments. This negative development has already taken place as a decline in HBE support, coupled with limitations on feedstock and a lower multiplier, has led to a reduction in biobunker delivered in Netherlands. Data from the Port of Rotterdam indicates that deliveries of biobunker decreased by 50% compared to the peak levels recorded in 2022. In the last quarter, Singapore surpassed Rotterdam as the largest hub of biobunker in the world<sup>1</sup>. A continued increase of the restrictions for compliance will lead to a lowering of such savings and thus conflict with the intentions of this proposal.

<sup>1</sup> Maritime & Port Authority of Singapore (MPA). https://www.mpa.gov.sg/whowe-are/newsroom-resources/research -and-statistics/port-statistics



- Maersk acknowledges and supports the intention of the Government of the Netherlands to overall increase the annual obligation by switching to a GHG mandate, sector-specific within the RED-III transposition in 2026, on the promotion of the use of energy from renewable non-fossil sources. However, an unfair advantage arises by the free-space in the road sector due to its capacity to generate EREs at a lower price and allowing to sell these to all the other sectors without limitations.
- The system aligns with international and regional goals for decarbonization. Goals that the Netherlands have supported, worked for, and called for to be raised, for example at the IMO.
- Biofuels for maritime use have been demonstrated to be a safe, clean and effective way to achieve decarbonization. They are suitable for all types of ships. Ensuring the continued development and uptake of biofuels for marine application requires further support which the ERE system.
- The mandated supply for shipping of advanced biofuels (Annex IXa) and Renewable Fuels of Non-Biological Origin (RFNBOs), while excluding Annex IXb (UCOME), together with the lack of multipliers, despite RED-III allows for Annex IXb and multipliers, will not help the industry prepare for the implementation of the RED-III in 2026, but could instead accelerate the displacement of the bunkering operations to Asia, thus potentially reducing the effect of the adopted measures. Also, it should be noted that this restriction in feed-stock does not align with what is applicable in the FuelEU regulation

# Input to the public consultation on RED-III transposition

Maersk has, as an industry frontrunner, put forward a dedicated target of becoming net-zero by 2040 which we will achieve through significant investments in new ships and production of new fuels.

The transition of the entire industry to using entirely new fuels (e.g. methanol) will be costly and long wherefore a transitional low-carbon fuel, such as biofuel, is needed to begin mitigating the adverse effects of climate change which are already heavily affecting our world today. Also, to meet the targets set out by the IMO in its GHG Strategy, and the EU's Green Deal. Biofuels have been a catalyst in starting the green transition, putting the maritime industry on the right trajectory towards decarbonization.

Shipping is considered a "*hard-to-abate*" sector due to the abovedescribed processes of developing new fuels, while the road sector is not considered hard-to-abate, as this sector is eligible and ready for electrification. A development which is already well underway for cars, buses and trucks throughout Europe.



# Impact of the ERE system on maritime decarbonization

The ERE system is an enormously important driver to ensure that the international maritime industry, which accounts for approximately 3 % of all global GHG emission, achieves <u>immediate</u> and <u>immense</u> GHG reductions.

Such immediate reductions are pressingly needed, especially considering the conclusions of the IPCC's reports stating that current trajectories show that it is becoming more and more challenging to meet the required climate reduction targets.<sup>2</sup> *Costs related to development of advanced biofuels* 

Biofuels for marine use are currently produced exclusively with waste & residues feedstocks, in which collections, pre-treatment and production technologies are under development. HBE system offered economic incentives for continuity of expansion of waste & residues feedstocks volumes and development of new processing technologies that benefit not only the shipping industry but all transport sectors. Nonetheless, advanced biofuels from waste & residues feedstocks are very costly to develop and produce in sufficient scales and therefore requires further support through the ERE system. It should be noted that premiums on RFNBO's and Annex IX part A biofuels can reach 5x the price of fossil fuels. (While other green fuels, for example biofuels covered by part B of Annex IX can reach 2-3x times the cost of fossil fuels). In order to stimulate investments, incentives such as credit multipliers need to be provided.

If the Annex IXb is not included it will slow, and perhaps halt, this development, by broadening the gap between the costly development of biofuels and regular fossil fuels, thus encouraging an increase in uptake of the latter. Currently, the availability of Annex IXa feedstocks is more limited than Annex IXb, the compliance with the full maritime sector mandate, and the sub-mandate for the remaining sectors, is economically unsustainable at the proposed levels.

Coping with the outlined changes will likely strain the current resources and capabilities of the maritime fuel industry, primarily because of the stringent biofuels accepted, only advanced biofuel and RFNBO to comply with mandates. This change would demand a substantial recalibration of resource allocation and may hinder accessibility in supply. The industry's ability to adapt will depend heavily on whether supportive measures, such as financial incentives or compliance flexibility, are introduced.

Without these, compliance by the proposed deadlines would be challenging, particularly as we await more clarity on ETS-related stipulations released by NEa.

<sup>&</sup>lt;sup>2</sup> https://unfccc.int/news/climate-plans-remain-insufficient-more-ambitious-actionneeded-now



# Displacement of trade

The proposed legislative measure could risk impairing the Netherlands position as a clear frontrunner for decarbonization of the maritime sector. Furthermore, the measures proposed for shipping in 2026 will interfere with the maritime industry's compliance with the RED-III in 2026 as stated by the MIWM, in comparison with the rest of the sectors. Such a change could instead displace bunker-operations to Asia for 2026, thus when the RED III enters into force, ships will be taking bunker outside EU, not allowing the potential of the EU Fit For 55 package (incl. RED amendments) to take full effect. It would also discourage industry belief in the effectiveness and longevity of the ERE system which could jeopardize NL's (Rotterdam's) position as a key bunkering hub. In fact, displacement has already begun, also considering that biofuels are cheaper in that region, e.g. in Singapore, due to the higher availability of feedstocks and lower energy. This could also jeopardize the international maritime commitment to using Rotterdam as a trading hub thus impacting income for Netherlands and jeopardizing jobs in the port and fuel bunker industry.

# Conclusion

 Maersk supports the proposal by the MIWM to change the rules, and that fuel suppliers to four modal sectors are required to reduce their GHG chain emissions every year by supplying renewable energy or by purchasing certificates from suppliers of renewable energy.

However, Maersk:

- Cannot support the unequal treatment of the maritime sector compared to other sectors, which permit greater flexibility in biofuel use. Unlike other sectors, maritime transport is obliged to comply using less competitive biofuels, those listed under Annex IXa and RFNBO, while being excluded from utilizing Annex IXb biofuels, which are accepted across all other sectors.
- Cannot support the unequal advantage of the road transport to be able to sell ERE generated in their sector to all other sectors, with a lower cost of compliance, the setup disadvantages the maritime sector to sell overcompliance and creates uneven competitive playing field.
  Finally, using the ERE system for decarbonization of shipping through immediate use of biofuel (also on account of road use of biofuel) will, irrespective of national reduction targets, yield a bottom line significantly higher reduction of GHG emissions on a global scale.