GETTING TO ZERO COALITION

GLOBAL MARITIME FORUM

WORLD ECONOMIC FORUM

Energy Transitions Commission

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EU Fit for 55:
'Contracts for Difference' can incentivize zero-emission fuel investments and accelerate the shipping sector's decarbonization transition

Zero-emission fuels and vessels must start being deployed at scale over the next decade to achieve full decarbonisation of the shipping sector by 2050. By strategic utilization of shipping emission revenues, EU's 'Fit for 55' can trigger zero-emission shipping fuel investment and have EU lead the way towards zero-emission shipping by mid-Century.

Over the next months, the the European Union (EU) is introducing a range of policy and regulatory proposals related to the shipping industry as part of the 'Fit for 55' package. The package is aimed at achieving the decarbonization goals set out in the European Green Deal.

The newly published Getting to Zero Coalition Insight Brief - ***"How EU Contracts for Difference can support zero-emission fuels"*** – outlines how the EU could use shipping related Emissions Trading System (ETS) revenues to fund a program of targeted Contracts for Difference (CfD) to incentivize private investment into the production and use of zero-emission shipping fuels.

A **previous Insight Brief** recommends that EU policy should be designed and implemented with reference to the Getting to Zero Coalition's target of having commercially viable zero-emission vessels operating along deep-sea trade routes by 2030, with at least five per cent scalable zero-emission fuels (SZEFs) in international shipping.

However, a key barrier to achieving this aim by 2030 is the significant competitiveness gap that exists between fossil fuels and zero-emission fuels. According to the newly published Insight Brief, a portion of this cost gap will be reduced by the EU expanding its Emissions Trading System (ETS) to include shipping.

"Contracts for Difference can be a key policy instrument in scaling green shipping corridors and are likely to be amongst the most effective channels to recycle EU ETS revenues for shipping," says **Aparajit Pandey, Shipping Lead at Energy Transitions Commission.**

Yet, the inclusion of shipping into the EU Emission Trading System will only result in a small reduction of this gap. Therefore, in addition to putting a price on emissions from fossil fuels, the EU ETS should, according to the Insight Brief, be complemented by support mechanisms that will reinvest shipping related ETS revenues into projects that will support the production and use of zero-emission fuels, which will drive down their cost similar to what was done for renewable electricity such as wind and solar.

The Insight Brief finds that to refine scalable zero-emission fuels technologies and to achieve the high production volumes required to bring prices down, incentive systems must be implemented to encourage demand and stimulate private investment. The EU can provide these incentives for private investments through a program of Contracts for Differences targeted at different segments of the shipping sector and a range of SZEFs.

Specifically, a CfD program that supports at least five per cent SZEFs in EU shipping would cost an estimated 1.2 billion euro annually. This can, the brief states, comfortably be funded using shipping related ETS revenues which is estimated at 5 to 9 billion euro annually depending on the ETS price.

The insight brief concludes that a potential EU CfDs program should focus on Green Corridor shipping routes with high potential for emission reduction, combined with favourable characteristics such as cross value chain collaboration, customer demand, viable fuel pathways, and favourable policy/regulatory environments.

This will provide an effective way of leveraging EU funds to rapidly refine SZEF technologies and make it possible to achieve the goal of five per cent SZEFs in EU shipping by 2030 towards the goal of full decarbonization of the shipping sector by mid-Century.

"For full decarbonization of shipping to be possible by 2050, we should reach five percent scalable zero-emission fuels by 2030 to allow for rapid uptake in the following decades. But we won't get to five percent without incentives that kickstart investment into zero-emission fuels, so that costs come down. We've seen policy measures like Contracts for Difference work for solar and wind and they can have the same catalytic impact for zero-emission shipping fuels," says **Kasper Søgaard, Managing Director, Head of Institutional Strategy and Development at the Global Maritime Forum.**

The Insight Brief - *"How EU Contracts for Difference can support zero-emission fuels"* - can be downloaded here

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About the Getting to Zero Coalition

The Getting to Zero Coalition is an industry-led platform for collaboration that brings together leading stakeholders from across the maritime and fuels value chains with the financial sector and other committed to making commercially viable zero emission vessels a scalable reality by 2030. The Getting to Zero Coalition is a partnership between the Global Maritime Forum and the World Economic Forum.

About Global Maritime Forum

The Global Maritime Forum is an international not-for-profit organisation dedicated to shaping the future of global seaborne trade to increase sustainable long-term economic development and human wellbeing.

About World Economic Forum

The World Economic Forum is the International Organization for Public-Private Cooperation. The Forum engages the foremost political, business, cultural and other leaders of society to shape global, regional and industry agendas. It was established in 1971 as a not-for-profit foundation and is headquartered in Geneva, Switzerland. It is independent, impartial and not tied to any special interests.

About Energy Transitions Commission

The Energy Transitions Commission (ETC) is a coalition of global leaders from across the energy landscape: energy producers, energy-intensive industries, equipment providers, finance players and environmental NGOs. Our mission is to work out how to build a global economy which can both enable developing countries to attain developed world standards of living and ensure that the world limits global warming to well below 2°C and as close as possible to 1.5°C. For this objective to be reached, the world needs to achieve net-zero greenhouse gas emissions by around mid-century.

About The Mission Possible Partnership

The Mission Possible Partnership (MPP) is an ambitious effort to trigger a net-zero transformation of seven industrial sectors, leveraging the convening power, talent and expertise of world-leading organisations on climate action. MPP comprises four core partners: the Energy Transitions Commission, RMI, We Mean Business Coalition and the World Economic Forum.