

Japan's feedback to the Inception Impact Assessment on updating the EU emissions trading system (ETS)

Government of Japan, as a country threatened by climate change and at the same time heavily dependent on international shipping, provides its feedback to the Inception Impact Assessment on updating the EU-ETS in particular on possible extension to maritime transport. Although our comments at this stage are rather general ones, once the public consultation is opened along with detailed policy options and impact assessments, we could come back with more specific comments and inputs.

In the following sections, Japan has expressed its views on the necessity for greenhouse gas (GHG) emissions reduction actions by international shipping sector in a globally consistent manner and the willingness to cooperate with the international communities, including EU member states and the European Commission (EC), at International Maritime Organization (IMO).

1 Need for GHG emissions reduction from international shipping

International shipping accounts for approximately 2.1% of global CO₂ emissions¹, which is expected to further increase unless no further actions are taken. Therefore, as a nation committed to the Paris Agreement temperature goal as well as the development of sustainable international shipping, it is Japan's utmost importance to immediately reduce greenhouse gas emissions from international shipping and further facilitate its transition into low- and zero-carbon shipping through uptake of alternative fuels and innovative propulsion technologies along with appropriate policy measures. We believe that EC, EU member states and Japan could take further collaborative actions in this regard.

Japan also acknowledges that international shipping is indispensable for the sustainable development of global economy, as the most energy-efficient and environmentally friendly transport mode emitting minimized GHGs in relation to the transport volume. Therefore, in designing policy measures to cut emissions from international shipping, it is crucial to carefully avoid worsen the structure of the international transport currently dependent on shipping, in particular via carbon leakage caused by shifts to other shipping routes and/or to more carbon intense transport modes such as automobiles.

2 Policy approach on emissions reduction from international shipping

¹ CO₂ Emissions From Fuel Combustion Highlights 2019 (International Energy Agency, 2020)

Why global approach, not regional approach, is essential?

Any policy measures on international shipping needs to be established in a globally consistent and uniform manner, as ships are operated globally, can easily transfer their flags to any states around the world and have their owners and/or operators being changed. In particular, due to such a specific nature of international shipping, GHG emissions from a ship cannot be allocated to any country in a fair and transparent manner, and consequently no policy measure other than global one can effectively capture and control such emissions.

Therefore, in addressing the emissions from international shipping, it is crucial to take a global approach without any discrimination based on flags nor routes. Such a fundamental principle has already been established since the adoption of the Kyoto Protocol in 1997, which states that the GHG emissions reduction from international shipping shall be pursued through the IMO, a UN specialized agency dealing with global policy measures on ships.

There is a fact that IMO has been delivering tangible outcomes to effectively reduce emissions from international shipping in a globally consistent manner. The mandatory efficiency standards to be applied regardless of countries (EEDI), initially adopted in 2011, has been continuously strengthened, which resulted in design efficiency improvements in shipbuilding sector. The mandatory Data Collection System (DCS), adopted in 2016, provides the “worldwide” real emissions database. The initial IMO Strategy, adopted in 2018, established the global emissions reduction targets (not by national nor regional level), committing to phasing out of GHGs. The recently agreed short-term measure (EEXI+SEEMP+CII) mandates existing ships to improve efficiency performance both from design and operational perspective, utilizing combination of pre-certification and post-verification. Notably, all these measures under the IMO are agreed upon global commitments, not by regional nor national initiative. Such fact should be duly noted and respected.

Japan, recognizing that all these IMO measures are still not sufficient to achieve full-decarbonization of international shipping, and at the same time respecting these global commitments rather than regional actions, is willing to take further actions at the IMO to deliver more ambitious and effective GHG reduction measures in a global manner.

Drawbacks in regional and unilateral approach; EU-ETS in international shipping

In contrary, unilaterally designed regional policy measures, namely application of EU-ETS to international shipping, whether the scope is limited to intra-EU shipping routes only or not, will not effectively work in the context of international shipping. Such a measure will rather raise a risk of negative consequences both in terms of environmental integrity and sustainability of global maritime transport and trades involving the third countries, such as those between EU member states and

Japan. Those potential negative consequences can be identified as follows:

- .1 **De minimis (or even negative) effect on GHG emissions reduction.** As previously discussed, due to specific nature of international shipping, no policy measure other than global one can effectively capture and control emissions in this sector. Rather, application of EU-ETS is likely to result in the increase of GHG emissions (carbon leakage) by shifts to other shipping routes and/or to more carbon intense transport modes to avoid directly calling at EU ports. It should be noted that such route deviation is very likely to happen as a usual operational practice in the international shipping sector.
- .2 **Less incentive for in-sector de-carbonization.** In case where EU-ETS applied to international shipping builds upon carbon-offsetting by means of purchase of emission credits, shipping industries are likely to be encouraged more to purchase emission credits from other sectors. However, purchase of emission credits will not necessarily deliver absolute emissions reduction in the sector². Instead, there will be less incentive for the industry to invest in in-sector de-carbonization (e.g. R&D, pilot projects, commercial uptake, etc.). Such situation would deteriorate the industry's ability to achieve full de-carbonization in the sector.
- .3 **Market distortion due to additional costs in EU-related shipping.** EU-ETS in international shipping will increase transport costs for European commodities exported from the EU region, which would deteriorate cost-competitiveness, and also raise prices for imported goods to the region, ultimately imposing burdens on European consumers. Besides, such additional costs will also be transferred to worldwide consumers who are depending on international trade. It would also make negative impacts on EU ports, which suffer from negative competitive advantage due to the evasions of import/export cargos from the EU area. Additionally, such additional costs will cause shifts to other more carbon intense transport modes.
- .4 **Administrative burdens and complexity.** Although the Inception Impact Assessment states that administrative burdens associated with EU-ETS in international shipping would be limited because of existing EU-MRV framework, it should be noted that application of EU-ETS is fundamentally different and complex compared with that of EU-MRV. Unlike many other sectors, the international shipping sector consists of far more than 30,000 ships (for 5,000GT and above),

² Absolute CO₂ emissions from intra-EU flights covered by the EU-ETS have risen by 26% since 2012, while other sectors have fallen. (ICS and ECSA, 2020)

under which each ship may call on EU ports and may have different owner(s) and operator which may be changed frequently. In such unique sector, there is no concrete idea on how to minimize administrative burdens and complexity in terms of allocation of emission allowances and other associated administrative issues.

.5 **Potential incompatibility with UN Convention on the Law of the Sea (UNCLOS).** According to the UNCLOS, a Coastal State may, in respect of its EEZ, adopt laws and regulations for reduction of pollution from vessels conforming to international rules and standards established through the competent international organization (Article 211.5). It also states that a Port State may institute proceedings in respect to discharge from vessels outside its territorial sea or EEZ only for violation from applicable international rules and standards established through the competent international organization, when the vessel is voluntarily within a port (Article 218.1). Therefore, application of EU-ETS to emissions from non-EU flagged ships in waters outside the territorial seas of EU member states may deviate from these provisions if not in conforming with IMO regulations.

.6 **Potential delay in IMO's ongoing global process to cut shipping emissions.** Unilaterally developed regional measures impose double-standards to the global maritime transport and trades with *de minimis* or even negative reduction effect in the international shipping sector. Even today, the double-standards caused by EU-MRV, which is applied additionally to the global IMO-DCS, creates confusion and complexity in the global shipping industry. As the process for revision of EU-MRV shows, a unilateral regional measure is quite unlikely to be revised to be aligned with the global measure once it was adopted. Thus, adding further complex double-standards to be caused by EU-ETS will discourage a number of third countries and the global shipping industries to adopt more ambitious and effective emissions reduction measures at the IMO.

3 Conclusion and way forward – cooperative approach by EU and Japan in global policy making

For the reasons raised above, Japan believes that extension of EU-ETS to international shipping is not the suggested way forward, whether the scope is limited to intra-EU shipping only or not. EU-ETS in international shipping will not deliver ambitious emission reduction effects, while leaving the risk of carbon-leakage and significant distortion in global maritime transport and trades involving non-EU third countries including Japan. It would further raise a risk of undermining the global efforts to deliver ambitious and effective measures to be applied in a global manner.

Japan is fully cognizant of significant contribution by EU member states at the IMO to develop ambitious and effective global mechanisms on emissions from international shipping. Those contributions include adoption of the initial IMO Strategy, strengthening of the efficiency standards on new ships (EEDI), introduction of DCS and finalization of the new short-term measures on emissions from existing ships which Japan and several EU member states co-sponsored.

Policy-making process at the IMO involves more than 100 member states from worldwide, which is fundamentally different from regional policy-making process. In light of that, we, including both EU members and Japan, have been continuously and patiently making efforts to provide concrete proposals for the IMO with sufficient logic and rationale aiming at delivering tangible new outcomes together with mutual trust and respect among various member states. We should not disrupt such ongoing efforts by rushing into regional unilateral measures. Rather, Japan is keen to keep this cooperative approach with EC and EU member states in taking further actions at the IMO.

In particular, in order to realize full de-carbonization of international shipping, Japan believes that further measures at the IMO, particularly global market-based measures (MBM) will be necessary to facilitate the uptake of low-/zero-carbon alternative fuels and innovative technologies at a global level. Given that the IMO has just finalized the development of short-term measures on existing ships, we are now in a stage of initiating development of a new measure, which includes global MBM with a view of finalization as soon as possible.

Therefore, instead of further assessing the possibility of EU-ETS which will create non-effective double-standards in international shipping, Japan would like to urge EC and EU member states to focus on the global actions in particular for global MBM to be established under the IMO together with international communities for the de-carbonization of international shipping.