European Community Shipowners' Associations

EU Recovery Package: ECSA's initial input & priorities

2020

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Foreword

ECSA welcomes the ambitious recovery plan as adopted by the Council on 21 July 2020. In order to ensure a sustainable recovery of the European shipping industry, safeguarding its strategic importance to Europe, ECSA finds it essential that a well-balanced package becomes available, consisting of short-term measures aimed at the continuity of hard hit segments of the EU shipping industry and medium- and long-term measures supporting the decarbonisation and greening of the EU shipping industry.

Introduction

Based on the EC's analysis[1] waterborne transport is expected to be one of the hard hit sectors by the COVID-19 pandemic, foreseeing that in a baseline scenario at least 30% of firms will have a liquidity shortfall by the end of 2020, and in a stress scenario this will be the case for at least 40% of the firms.

Indeed, this is also what the shipping sector has experienced. The shipping industry was faced with massive negative demand shocks, supply chain disruptions, a steep decrease in foreign and domestic trade, and overall reduced mobility. The effects will not only be short-term but also longer term.

It also should be noted that some impact will be only experienced with a time lag. This may be a relevant concern in the light of the lagged impact on the banking sector, which latter is expected to channel finance for the recovery[2]. The WTO forecasts that global trade will further decline this year and perhaps still after 2020, and in line with this seaborne trade is expected to also decline. ECSA's second survey reflects these forecasts. Across all segments, some 40% of the companies see a pick-up in turnover compared to 2020. The remaining 60% expect a stabilisation or a further decline of turnover.

The European shipping sector is a strategic asset for the EU. It enables the EU to safeguard its geopolitical independence and increase its economic and industrial resilience as well as sovereignty. To be able to continue and step up that role, despite the above mentioned heavy impact of the COVID-19 crisis, the industry is closely looking at the EU Recovery Package and herewith expresses some of its main expectations, concerns and opportunities. We appreciate that the European institutions recognise the pivotal role of European shipping[3] during this crisis in keeping trade and the flow of basic services and supplies running as smoothly as possible. It is important that all policymakers understand this paramount role and the strategic interests of shipping for the EU, which this crisis has clearly put under the spotlight, and which should never be compromised.

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[1] Identifying Europe's recovery needs, Page 11, Chart 4
[2] EBA Preliminary impact assessment
[3] Council Conclusions, 5 June 2020 & EC's transport/maritime specific guidelines and relief measures packages

Recovery and sustainability

The industry sees a clear need to separate between measures addressing short-term goals on the one hand and measures addressing medium- and long-term goals on the other hand. Also measures aiming at medium- and long-term goals, such as decarbonisation, have to be implemented quickly to support the industry to reach the defined ambitious climate targets.

For the short-term support is needed to ensure continuity of those shipping companies hit very hard by the crisis, regardless of the segment they operate in and conditionally to be linked to covid-19 impact and proportional thereto. The industry also stresses that significant impacts are expected to come with a delay and these will also endanger long term resilience. Hence, short term liquidity measures need to be in place at least until the end of this year.

The medium- and long-term support is needed to ensure the maritime industry secures resilience for the European economy in the long term, e.g. ensuring connectivity within Europe, connectivity with strategic international trade partners, securing the flow of goods in the most efficient way, etc.. The medium- and long-term recovery instruments should recognise the merit the maritime industry brings in the future through greener and more efficient solutions. Instruments that stimulate (the process of) a more sustainable and smarter fleet as well as operations, will allow the industry to contribute fully to reaching the EU's objectives under the EU Green Deal and Digitalisation agenda.

Recovery and level playing field

The recovery instruments will need to safeguard that competition is not distorted under the COVID – 19 exceptional circumstances. There is a concern that flexibility given to Member States to temporarily adjust the COVID-19 damages is giving birth to stringent distortions of competition in some Member States and at the level of the internal market. In this regard, it is recognised that in certain cases an emergency support is needed. However, regular control and stringent scrutiny on the justification for these instruments are vital.

Additionally, instruments should focus on a market driven economic recovery, i.e. instruments to be limited to those companies that had a healthy position and/or positive forecast before COVID-19 emerged. Creating additional tonnage not based on demands from the market should be prevented.

Concrete support measures

ECSA shares the view that besides providing financial aid, the recovery plan is also about restoring markets. In this regard, we find it important **to pay attention to trade policy**, and in particular to prevent the creation of new trade barriers post COVID-19.

Looking at the instruments foreseen and while understanding a lot of work in refining these is still ongoing, the shipping industry sees some concrete measures that – if calibrated well - will help with its recovery and thus its resilience for the future challenges, such as:

- The EU to develop **guidance for EU Member States and banks**, recognising its competence and respecting applicable national public and private legal frameworks and conditions, on solvency and liquidity related measures (could be linked to Pillar 2) to overcome short term issues, with possible topics such as:

    - a granting of a deferral on amortization and suspension of payment of scheduled instalments, under the respective Loan Agreements made by- and between banking institutions transacting within EU and their (traditionally) creditworthy shipping clients for a determinable time frame (e.g. a 12-month period), should be triggered.
    - a full waiver of covenant compliance, relating to the function of the various event of default clauses, should be granted during the same period of time in order to eliminate inter alia the risk of technical defaults (linked to asset cover (Loan-to-Value clauses for instance). This should be granted to all performing loans of shipping companies, the management of whom is conducted from the EU or managing EU flag vessels.
    - the non-inclusion / non-classification of the relevant Loan Agreements to the category of non-performing Loans (NPLs).

The essence of the conjunction of application of the deferral with the non-triggering of default clauses is the non-classification of a Loan Agreement as a NPL.

- Member states should be encouraged to **seriously step up with investments in future proof port infrastructure** and more specifically **bunker infrastructure**, such as for On shore Power Supply OPS. These investments could be funded by Member States receiving funds out of Pillar 1.

- **The EU's TEN-T policy, and more particularly the Motorways of the Sea** concept and the positive modal shift it can bring, **should be updated**, made more flexible and maximised to ensure the realisation of a resilient and sustainable EU transportation network, with the shipping sector being an important element in that. Among others, ECSA calls for instruments to facilitate investment in new technologies on board of new and existing vessels, including currently existing alternative energy carriers (such as LNG).

- **A strong R&D policy (in particular Horizon Europe)** which covers the needs of the sector and the important partnerships with other stakeholders in the EU maritime cluster, e.g. co-partnership zero-emission waterborne transport can significantly contribute to the long term recovery.

- **EU and national public tenders that reward innovation** can give European shipowners an improved competitive position (e.g. in segments such as dredging and offshore wind.

- **Stepping up the energy transition** by for instance supporting **offshore wind** developments.

- **Accelerating the support for development and uptake of digitalisation in shipping, port and logistics ecosystems** (e.g. single windows, digital transport letters, harmonized data standards).

- Ensuring, during the implementation process, **access of SMEs and mid-cap size companies to the needed instruments**.

Future EU’s own resources - Maritime ETS

The European shipping industry is fully aligned with the IMO's 2030 and 2050 CO_2 reduction targets, and has been committed to the EU Green Deal's ambition to be the world's first carbon-neutral continent. To ensure the shipping sector can realise the decarbonisation objectives, the industry has identified some effective ways in reaching that objective, among others through the establishment of a US$ 5 billion maritime R&D fund, financed by the global shipping industry via a surcharge on bunker fuels. The industry is also positively engaging in the IMO’s discussions on short and medium-term measures to further reduce CO2 emissions.

The EU industry is in this respect highly concerned by the identified possibility of future EU own resources to stem from the extension of the Emissions Trading System to the maritime sector, and this to generate (together with aviation ETS) 10 billion euro per year. Depending on the content of the proposal, expected in June 2021, ECSA is also for other reasons concerned about the impact of the extension of the EU ETS to the shipping industry on:

- the progress IMO will make on deciding on additional global reduction measures for the global shipping industry
- the establishment of other regional ETS schemes
- the funds available for R&D as shipowners will have to spend scarce resources on buying emissions rights
- the effectiveness of an EU ETS as carbon leakage might occur
- the administrative burden especially for the many SMEs that form a big part of the EU shipping industry
- and on the competitiveness of the European shipping industry.

Moreover, there seems to be a strong anomaly in seeking additional income to ensure recovery of the current crisis from one of the sectors that is hardest hit by the same crisis (as referenced in the EC’s own analysis).

In addition, there is a contradiction in trying to maximise own EU resources through the ETS extension while the ultimate aim of such a market based measure policy initiative, should be to reduce CO2-emissions from the covered sector and not maximise income which would lead to encouraging keeping the “high emission” sectors as income source.

Concluding remarks on the specificities of the shipping industry

ECSA invites policy makers at EU and national level to carefully consider the needs of the shipping industry, when advancing in implementing the concrete support measures and particularly, in the process of distributing the funds. In this light policy makers are invited to take into account the specificities of the shipping industry, such as:

- The EU shipping sector has to be competitive both at global and at EU level (geopolitical asset, environmental performance, modal backshift). Any new policy actions do not unnecessarily and disproportionately put burdens and costs on business.
- The presence and development of European maritime industries and, by extension, of employment opportunities and the retention of skills and expertise, requires a globally competitive EU shipping sector. It is therefore important that any measures taken in the EU context do not prejudice the competitiveness of the EU fleet or EU shipowners.
- The shipping industry is characterised by a diversity of ship types representing different proportions of the world fleet, such as containers, bulk carriers, tankers, passenger ships, (offshore) service vessels, ro-ro and ro-pax vessels. This diversity implies diversity in characteristics and technical solutions which should be taken into account.
- The shipping industry is characterised by a diversity of operations of its fleet: tramp shipping - liner shipping, deep sea - short sea shipping. The particularities of these modes of maritime transport should be taken into account.
- The shipping industry is capital intensive: access to competitive (green) financing within Europe should be a priority and the global level playing field should be ensured.
- Shipping companies significantly vary in size with a large proportion of small to mid-cap sized companies. Different size companies have different needs.

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Founded in 1965, the **European Community Shipowners' Associations (ECSA)**, promotes the interests of 20 members associations in the EU, the UK and Norway. Together with EU and national policymakers, ECSA strives for a regulatory environment that fosters the international competitiveness of European shipping.

For more information, visit www.ecsa.eu