

8. EXECUTIVE SUMMARY

8.1. Chairman's review

2022 and early 2023 were a period of intense work for our Association amid complex, fast-evolving national and international scenarios, geopolitical challenges and encouraging market recovery signals. Compared to the years of the pandemic emergency, the recovery of passenger traffic is now well established while the cruise market is strongly recovering (+263.6% year on year) and, according to expert sources, is on its way to reach the pre-pandemic levels already in the course of the year. Yet despite such positive signals, great uncertainties ahead remain significant at global level. The last quarter of 2022 and the first months of 2023 have seen decreased demand for maritime transport, and, in the last nine months, a huge drop in freight rates in containerized transport. The present situation confirms, once again, what we have been long arguing, namely the absence of any correlation between inflationary trend (on the rise in the last period) and costs of maritime transport (which have instead plummeted): a fragile thesis, sustained on several occasions during the pandemic but which proved to be groundless.

In this context, Assarmatori has played its part in defending shipowners' interests in Italy and Europe. The opening of an office in Brussels proved to be a winning bet. Within the *Fit for 55* package, and in particular with regard to the inclusion of shipping in the Emissions Trading Scheme (ETS) as well as the new FuelEU Maritime Regulation, some important derogations, which we had advocated during the legislative process, were approved to mitigate the impacts of these measures on territorial continuity and protect the level playing field in the container transshipment services sector. Yet, the economic and operational impact of these new, draconian measures on maritime transport in Italy will be significant unless extraordinary industrial and regulatory measures are taken. In this context, it is essential that the considerable revenues generated nationally from the ETS are specifically allocated to the country's maritime and port sector to adequately accompany its complex energy transition.



On 1 January 2023 the IMO Carbon Intensity Indicator (CII), assigning ships a rating (from A to E) in terms of carbon dioxide emissions in relation to miles travelled, became operational after its entry into force. A study conducted by RINA for Assarmatori showed that by 2025 73% of the Italian ferry fleet would find itself not being compliant with the standard and, therefore, potentially no longer able to be used in these services. Ferries are just one example though, albeit a relevant one. The CII impacts all shipping segments of transport and its current calculation metric is highly distortive since does not faithfully describe the environmental characteristics of ships. The same ship, deployed on different routes with different operating conditions, can indeed have significantly divergent CII rating results, for instance as a result of operational factors outside the shipowners' control. This is why the CII metric needs to be changed and why we are working very hard on this, having found an important backing to our arguments also from the European Commission during our Association's first "Mission to Brussels" organized in March. In 2022, Italy decided to finally modify its state aid regime for national shipping operators to enable them to benefit from such regime even if their ships fly the flag of an EU or EEA country, following the decision of the European Commission of June 2020. This is a scheme that has been enabling national shipping companies to compete internationally for over 24 years, developing investments, maintaining and creating additional Italian jobs and, thus, contributing to the growth of the Italian maritime cluster system. Yet, we are still waiting for the implementing decrees to be adopted by the Government, which we hope will not be long in coming. More than ever, it is now urgently necessary to simplify the sector's regulatory system to make the Italian flag competitive and thereby avert the danger that the new instrument will create the conditions for flagging out in favour of other EU registers. Such simplification, at zero cost, is necessary also in order to tackle the crisis caused by the shortage of on-board personnel which, during the past summer seasons, has become a real emergency, namely for our ro-ro and ro-pax services. Lastly, it is paramount for the Italian government to finance the *Marebonus* eco-incentive (or, based on the outcome of ongoing reform process, the so-called *Sea Modal Shift*), an instrument that has ensured the efficiency of Motorways of the Sea services of which Italy, having the largest ro-ro/pax fleet in the world, is today the leader in the Mediterranean Sea with a market share of 38%.

8.2. EU *Fit for 55* package: perspectives and impacts on ships and services

In early 2023, negotiations were concluded at EU level on key legislative proposals of the *Fit for 55 Package* presented by the European Commission in July 2021, namely the inclusion of shipping in the ETS and the new FuelEU Maritime Regulation. In practice, as far as the ETS is concerned, in 2025 shipping companies will have to pay for 40 per cent of the CO₂ emissions generated by their ships on intra-EU voyages and in EU ports in 2024. This percentage will increase in 2026 to 70 per cent of the CO₂ emissions generated the year before and from 2027 onwards to 100 per cent of the CO₂, CH₄ (methane) and N₂O emissions of the respective previous years. These percentages are halved for emissions generated when travelling into or out of the EU. Compared to the original proposal, the adopted Directive introduces an exemption until end 2030 for ferries voyages to small islands. Under the FuelEU Maritime Regulation, ships calling at EU ports will be obliged to use less carbon-intensive fuels from 2025 onwards. Container and passenger ships will also have to use cold ironing in the main European ports as from 2030. Compared to the initial proposal, also the agreement reached on the FuelEU Maritime Regulation introduces some important temporary exemptions, namely for ferry voyages to small islands as well as domestic voyages to large islands subject to public service obligations or contracts. All in all, these measures are nevertheless destined to have a profound structural, economic, and operational impact on the maritime transport system in Italy, considering the complex challenges of the sector's energy transition from the use of fossil fuels to new alternative carbon-free or carbon-neutral sources. Measures that imply for shipping not only the need for huge investments to adapt the fleets, but - above all - the need for fuel solutions and infrastructures not yet available. For this reason, it is imperative that the Government specifically allocates revenues from the ETS generated in Italy to the maritime transport sector in order to finance the significant investments required for the renewal of the fleet as well as for the research, production and creation of an adequate logistic chain and infrastructure network to ensure the timely supply and distribution of the new alternative fuels in sufficient quantities and at affordable prices to shipping companies.



8.3. Imo Carbon Intensity Indicator (CII): the urgency of changing a penalising metric

The IMO's *Carbon Intensity Indicator* (CII) is intended to measure the amount of carbon emitted by a ship in relation to its transport work, defined as the amount of cargo transported per the distance travelled. As of 1 January 2023, ship owners must document their annual CII achieved and compare it to the annual CII required to determine their ship's operational carbon intensity rating. Ships will receive a rating of A, B, C, D or E, based on their performance levels. A ship rated D for three consecutive years, or rated E, will have to develop a corrective action plan to bring it back into the higher categories. Unfortunately, the current metric of this index fails to adequately capture the combination of the technical characteristics of ships and operational factors. A ship that, based on its technical characteristics, is performing better than another one in terms of CO₂ emissions, may receive a worse CII rating due to operational elements that are often out of the shipowner's control. Hence, two similar ships - or even the same ship in different operating conditions - can obtain very different CII values. The need to change the metric for calculating the CII is now clear to all: it is therefore of utmost importance that Italian administration, jointly with the other EU Member States, brings to the IMO a proposal to modify the currently penalising algorithm for calculating the CII in view of the review of this index due by 2026. It is also necessary to introduce criteria and correcting factors in order not to unfairly penalize the use of biofuels (biogas and biodiesel), whose carbon-neutral credentials are not considered based on the current *tank-to-wake* approach of the IMO. This is important since these fuels, in particular biodiesels, at the moment constitute the only pathway effectively available to kick start the decarbonization of a large portion of the existing fleet.



8.4. Alternative fuels: is the (land-based) industry ready to support the maritime transport's energy transition?

The IMO and EU ambitious trajectories for the decarbonisation of our sector call for carbon-neutral and zero-carbon fuels to be adopted rapidly and in increasing quantities. Ambitious decarbonisation targets must however be confronted with the existence of barriers - technological, production, infrastructural, economic, and regulatory barriers - often interdependent on each other that must be overcome as soon as possible. The technological barriers to be overcome require the identification of alternative solutions that are technically effective and reliable in terms of safety, i.e. solutions that are technologically mature enough to actually be taken on board ships. In this sense, we can say that technology is no longer the bottleneck in the decarbonisation process; in fact, engine solutions that can accommodate almost all emerging alternative fuels are now available. The issue of production barriers is different since there is a need to build, practically from scratch, a land-based industry capable of producing 'sustainably' carbon-neutral or zero-carbon fuels in the quantities necessary for the decarbonisation of the shipping industry. Besides, the production of these fuels must be done 'sustainably', which is why the impact of fuels must be assessed over their entire life cycle, from production to use (*well-to-wake approach*) and not only in the combustion phase (*tank-to-wake approach*). From the identification of fuels and their production it will be necessary then to ensure their distribution in ports and therefore overcome the existing infrastructural barriers which are significant, especially in a country like Italy. The energy transition of the sector must be nevertheless accelerated and, pending the future effective availability of the new alternative fuels, which it will be possible to use only used in newbuilt ships or after major retrofit interventions, the existing world fleet must drastically reduce its carbon footprint. Yet, the world fleet replacement will be a complex, decades-long process, while in meantime existing ships will need to continue sailing. In this context, the only immediate solution for these ships is represented by the blending (so-called drop-in) of biodiesel with the residual fuels and distillates currently in use. Such solution, while not eliminating it, can begin immediately to decrease the carbon footprint of a sector widely acknowledged as hard-to-abate and for which we still need to wait for the land-based industries and distribution logistics to find sufficiently viable solutions from an industrial and sustainability perspective.

8.5. Main national issues in 2023

Evolution of Italian State Aid Support for Maritime Transport

It is urgently necessary for Italy to complete the process of implementing European Commission's decision C(2020) 3667 which approved the State aid scheme for Italian maritime transport subject to the fulfilment of certain conditions. Conditions that the Italian Government has, however, not yet translated into appropriate regulatory acts and that, therefore, cannot not be considered as fulfilled.

State aid for fleet renewal

Following the conclusion of the first call for fleet renewal projects, the Association has been engaging with the Italian Administration in view of the preparation of a possible second decree aimed at disbursing the remaining 65 per cent of the 500 million EUR envisaged in the Supplementary Fund to the Italian National Recovery and Resilience Plan (PNRR) which could not be allocated during the first call. The objective would be to broaden the scope and potential beneficiaries of projects to be financed while ensuring full compliance with the European Commission's guidelines on state aid for climate, energy, and environmental protection. The expected enlargement of scope and potential beneficiaries could, in fact, entail clear benefits in terms of facilitating investments, improving the environmental impact of shipping, and thus helping accelerate the necessary renewal of the Italian fleet against the backdrop of the ambitious EU and IMO decarbonisation trajectories.

Measures in support of intermodality

The European Commission recently approved the Italian proposal for a new national road-sea intermodal incentive named '*Sea Modal Shift*' replacing the former *Marebonus*. With an annual budget of 21,5 million EUR for the 2023-2026 period, the new incentive will be directly aimed at



small and large road haulage companies (based in Europe) using maritime services attributable to the Motorways of the Sea. In 2023, the EU moreover adopted a Regulation allowing the Commission to adopt further Regulations exempting, from the notification obligations, certain categories of state aid in favour of rail, inland waterway, and multimodal transport to support “transport coordination”, including intermodality, in accordance with Article 93 of the EU Treaty. Based on this treaty article, it is worth noting that the Commission approved an eco-incentive scheme for the development of intermodal transport in Friuli Venezia Giulia (Cfr. State aid SA.100286 – Italy). In view of the potential relevance of the afore-mentioned Regulation for possible future national measures to support intermodally also from the port-railway side, the Association is collaborating with some Port Authorities to evaluate possibilities to support rail transport of goods destined to or coming from national ports by reducing existing gap in operational costs (at least those that are port-related).

Port Investments and *Cold Ironing* Infrastructure: a priority to be no longer procrastinated

The realisation of the National Cold Ironing Plan, within the framework of the above-mentioned PNRR, is of primary importance for the energy transition of Italy’s shipping, including in view of the CII application, as well as for the competitiveness of our ports. In this regard, piecemeal interventions made only in certain terminal quays rather than others within the same port, with which they may be in direct competition for handling specific traffic, should be avoided. It is also imperative that the distribution of *Cold Ironing* facilities is made subject to public tender procedures, also pursuant to Regulation (EU) 1084/2017 which inter alia covers state aid to port infrastructures. The Association is taking an active role with the competent Administrations to achieve an adequate framework for the allocation of the resources, together with the proper building and management of *Cold Ironing* facilities, that takes also into account possible liability profiles in case of inefficiencies or bottlenecks.



Industrial relations

In view of the renewal of the national sectoral collective bargaining agreement (“CCNL”), the Association has taken various actions to identify, in consultation with its members, the sector’s main priorities and needs ahead of the forthcoming negotiations with social partners. The Italian Government has, furthermore, approved a legislative decree with some important changes to tackle the structural problem represented by the shortage of onboard personnel, which we hope will be complemented by initiatives to support the initial training of workers willing to pursue a career at sea. The Association has been, moreover, working on various other initiatives to boost maritime employment, in cooperation with the social partners, namely with regard to the completion of the Single Digital Register of seafarers, the implementation of the seafarers’ placement reform as well as in the areas of recruitment, training and administrative simplification. Amongst others, Assarmatori has signed various memoranda of understanding with Italian maritime training institutes and created the first ever Advanced Training School for Ship Doctors in Italy, in close collaboration with the Merchant Marine Academy Foundation, with the objective of responding to the shipping companies’ difficulties to find specialized medical personnel to be employed on board ferries and cruise ships. The first training course edition kick-started in January 2023, with the participation and support from several member companies of Assarmatori.

