

FuelEU for thought

by Steve Marshall

Implementation of the FuelEU Maritime Regulation 2025 presents an accountability dilemma for shipping companies. They are currently the Document of Compliance (DoC) holders that will be held responsible for fuel selection and could, therefore, face penalties – contrary to the ‘polluter pays’ principle.

FuelEU is intended to promote the uptake of zero- and low-carbon fuels as well as the adoption of sustainable technologies like wind power for fuel efficiency by mandating progressive reductions in the greenhouse gas (GHG) intensity of energy used by ships over gross tonnage of 5,000 compared with a 2020 baseline, rising from 2% next year to 80% by 2050, with penalties for non-compliance.

“Shipping companies must start preparing now for the regulation as they face the 31 August deadline to submit a monitoring plan to track the fuel type and consumption for each EU voyage for every vessel as required by FuelEU,” says Albrecht Grell, Managing Director of the Hamburg-based OceanScore maritime technology firm.

Significant cost exposure

The default responsible entity for FuelEU compliance remains the DoC holder – typically the technical manager – who has operational responsibility for the ship and handles compliance with a wide range of EU regulations relating to maritime safety under the International Maritime Organization’s International Safety Management Code. The DoC holder is also responsible for reporting emissions and other voyage data under the EU’s Monitoring, Reporting and Verification regime that will underpin FuelEU, which apparently makes this entity well-placed to manage data collection and reporting processes for the new regulation.

“However, this poses the risk of significant cost exposure for the DoC holder in the event of heavy penalties due to non-compliance with carbon intensity targets, which would far exceed the financial capacity of most ship management companies. They are in no position to carry the related burdens – neither financially nor contractually,” Grell explains. He says the clock is ticking as the DoC holder can be slapped with a penalty for each vessel with a compliance deficit as of June 2026, based on the FuelEU report

due to be submitted in March that year for the preceding 12-month reporting period.

A similar scenario with the EU ETS resulted in an implementing regulation that designated the shipowner as responsible for compliance, with the option of reassigning this responsibility to the DoC holder. But the EU’s Directorate-General for Mobility and Transport has reportedly stated that “the responsible entity will not change” as the European Commission’s powers to make such a change by an implementation regulation are limited under FuelEU.

“The DoC holder does not though have any influence or control over the type of bunkers used on a vessel or investments made and therefore, based on the EU’s overarching ‘polluter pays’ principle, should not be held accountable for the financial impact of those decisions,” Grell stresses. He further, “Rather, the consequences in terms of penalties should be allocated to the parties making such decisions, with either the shipowner or charterer responsible for fuel choice depending on the charter party, so this would require a similar mechanism to the EU ETS.”

Ensuring accountability

As things stand, though, the most pressing task is to put in place responsible reporting and verification procedures for each ship affected by FuelEU, giving priority to the submission of the monitoring plan.

As well as costs incurred due to under-compliance with FuelEU intensity targets, or compliance deficit, there is also surplus from overachieving these goals that can either be banked and carried over for future use or shared with other vessels that have deficits under a pooling arrangement – different from commercial pooling – including non-owned units, to gain compliance for all pooled vessels provided there is a combined surplus.

Consequently, contractual arrangements need to be in place both to ensure cost accountability for the appropriate parties in the case of a deficit and to assign the benefits

of surplus to the entities responsible for fuel procurement, whether this is the charterer or registered owner – with data quality a key factor. This will require amendments to the charter party to assign FuelEU costs and benefits, as well as to ship management contracts to align responsibility and expenditure.

To avoid penalties and gain an advantage over competitors, shipowners can adopt structural measures like wind-assisted propulsion and draw (green) power from the shore. Respective investment assessments should be prepared, including a technical assessment of the suitability for the specific vessel and trading area, as well as the availability of cold ironing at likely ports of call. An additional FuelEU requirement for zero-emission at berth will be compulsory from 2030 for container and passenger vessels. Identifying sources of alternative fuels and running the respective business plans should be part of the same preparations from an operations perspective, according to OceanScore.

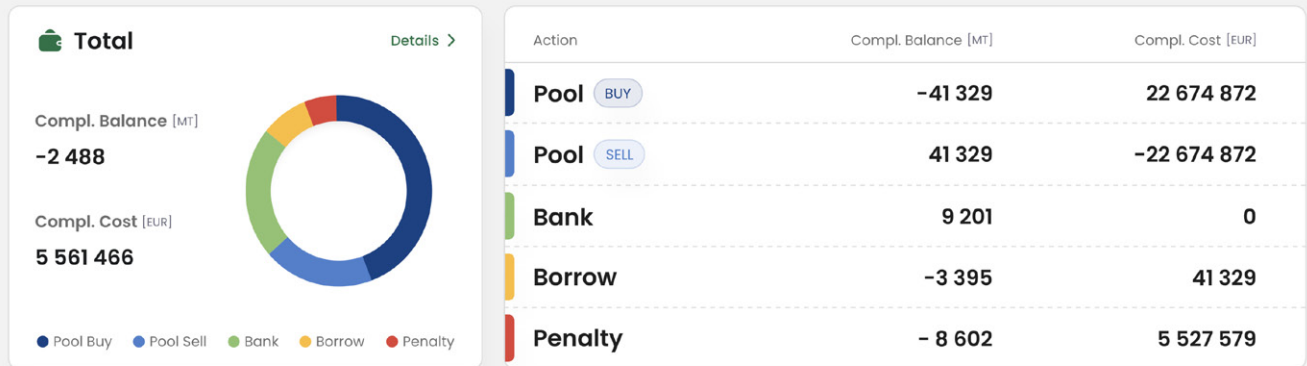
Simulation-tracking-transparency

“However, the immediate priorities for shipping companies are to familiarise themselves with the complexities of the new regulation and understand how it might impact their operations and costs. This can be done by simulating decisions in areas such as investments, vessel deployments and alternative fuel usage to decide on the optimal way forward,” Grell says.

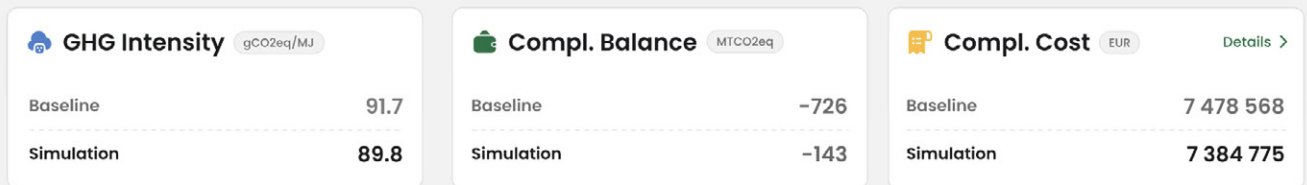
He believes it is necessary to set up a management solution to track the compliance balance and emerging penalties and determine accountability, so these costs can be allocated through automated invoicing. Smart simulations can also be conducted to ensure the respective clauses in charter parties are correct and that there is full transparency around these processes and resulting penalty exposures by the time FuelEU is implemented on 1 January 2025.

While shipping awaits final adjustments to the regulation and BIMCO clauses to

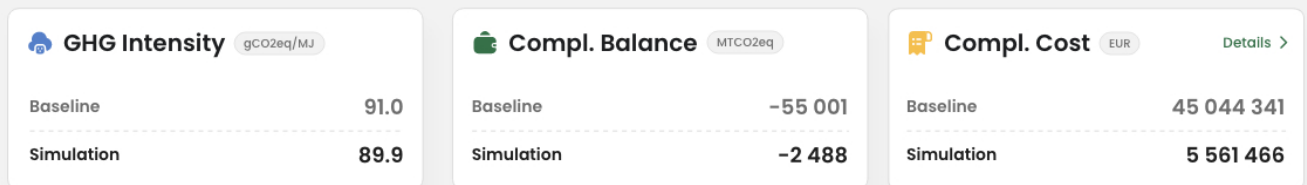
Actions ?



← MSC Joy



Fleet Overview ?



clarify the contractual side, OceanScore has developed a new solution to support shipping companies with planning for the impact of FuelEU on a per-vessel and fleet-wide basis, assessing the current exposure, simulating the effect of different fuels and investment strategies, and planning for how to handle remaining compliance balances (also through pooling). This is aligned with OceanScore’s market-leading ETS Manager, including data on vessel, charterer, and charter parties, as well as bunker consumption.

Once FuelEU enters force next year, tracking the development of compliance balances and resulting penalties will become of paramount importance; the planning of future operations and bunker procurements needs to be covered, as well as charterers invoiced based on charter party clauses and incurred compliance deficits.

Leveraging tech and global reach

OceanScore’s upcoming FuelEU Planner will facilitate all these processes, along with engagement between the three main parties in relation to FuelEU transactions – owners, charterers, and managers – to secure accountability. While assessing the initial FuelEU compliance balance given today’s operational patterns, the new solution will also be able to simulate optional scenarios for 2025 to assess their implications for compliance balance and expenditure.

“FuelEU will also require a new level of collaboration in the industry, given compliance pools can be formed beyond current fleets of owners and managers, while alternative fuels must be matured and onshore power options explored,” highlights Grell. “As well as developing smart solutions to navigate regulatory complexity, OceanScore is leveraging its global reach to facilitate new industry partnerships that will be necessary to help shipping companies meet the challenges of the upcoming FuelEU regime,” he sums up. ■



OceanScore

New sustainability regulations for shipping create substantial financial risks and require significant resources to tackle. OceanScore’s solutions and services simplify and streamline your compliance. Our end-to-end tools, powered by high-quality data, make each step digital, transparent, straightforward, and aligned with stakeholders’ needs. Visit oceanscore.com to discover more.