

## Emissions Trading System (ETS) in shipping

On 18 April 2023, the European Union adopted a legislation for the inclusion of maritime transport in the European Union Emissions Trading System (ETS). The legislation will come into effect from 01 January 2024. The EU ETS is a cornerstone of the EU's policy to combat climate change and is a key tool for reducing greenhouse gas emissions.

The shipping industry is an essential global supply chain, but it is also a growing contributor of GHG emissions. The Fourth IMO GHG Study 2020 shows that the share of shipping emissions in global anthropogenic GHG emissions has increased from 2.76% in 2012 to 2.89% in 2018, primarily due to a continuous growth in international maritime trade.

Globally, the IMO has adopted mandatory technical and operational measures to reduce emissions of GHGs from international shipping under its pollution prevention treaty (MARPOL). However, certain states and/ or blocs have further committed to reducing these levels even more substantially to meet their own specific goals of GHG emission reduction targets.

Aimed at reducing GHG emissions from the shipping industry, the EU Commission adopted Market Based Measures (MBM) to meet their climate goals. An Emission Trading System (ETS) is one such MBM.

The Club has produced the following Frequently Asked Questions (FAQs) guidance to assist Members in further understanding the EU Emission Trading System in more detail.

### WHAT IS EMISSION TRADING?

Emissions trading is a concentrated approach to control pollution by providing economic incentives for achieving reductions in the emissions of pollutants. Various countries, states, and companies have adopted such trading systems, notably for mitigating climate change. At this stage, these systems are not connected to the maritime sector. Emissions trading programs have two key components:

- a limit (or cap) on pollution,
- and tradable allowances equal to the limit that authorise allowance holders to emit a specific quantity (e.g., one ton) of the pollutant.

By adhering to this limit entities can ensure that they meet their environmental goal, and the tradable allowances allow individual emissions sources to set their compliance path. These programs are often labelled “market-based” due to the fact allowances can be bought and sold between entities in an allowance market.

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## WHAT IS THE EU - EMISSION TRADING SYSTEM (EU-ETS), AND HOW DOES IT WORK?

The [EU-ETS](#) works on the 'cap and trade' principle. A cap is set on the total amount of certain greenhouse gases that the entity covered by the system can emit. The cap is reduced over time so that total emissions fall. Within the cap, an entity can buy or receive emissions allowances, which they can trade with one another as needed. The limit on the total number of allowances available ensures that they have a value.

After each year, an entity must fully surrender enough allowances to cover its emissions; otherwise, heavy fines are imposed. If an installation reduces its emissions, it can keep the spare allowances to cover its future needs or sell them to another entity short of allowances. Trading brings flexibility that ensures emissions are cut where it costs least. A robust carbon price also promotes investment in innovative, low-carbon technologies.

This [video](#) presents a simple illustration of EU-ETS.

## WHICH VESSELS WOULD BE COVERED?

Applicable to cargo ships and passenger ships above 5000 GT from 2024. It will also apply gradually to other vessels as below:

- Offshore vessels above 5000 GT will be included in [EU-MRV](#) from 2025 and in EU-ETS from 2027.
- General cargo vessels and offshore vessels between 400-5000 gross tonnage will be included in the EU-MRV from 2025 and their inclusion in EU ETS will be reviewed by not later than 31st December 2026.

## WHICH EMISSIONS ARE INCLUDED?

- 50% of the emissions from vessels performing voyages departing from a port under the jurisdiction of a Member State and arriving at a port outside the jurisdiction of a Member State,
- 50% of the emissions from vessels performing voyages departing from a port outside the jurisdiction of a Member State and arriving at a port under the jurisdiction of a Member State,
- 100% of emissions from vessels performing voyages departing from a port under the jurisdiction of a Member State and arriving at a port under the jurisdiction of a Member State and
- 100% of emissions from vessels at berth in a port under the jurisdiction of a Member State.

The Commission will establish a list of neighbouring transshipment ports (non-EU ports), which will not be considered last port calls.

## WHAT IS THE PHASE-IN OF REQUIREMENTS FOR MARITIME TRANSPORT?

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Shipping companies shall be liable to surrender allowances according to the following schedule:

- 40 % of verified emissions reported for 2024.
- 70 % of verified emissions reported for 2025.
- 100 % of verified emissions reported for 2026 and each year thereafter.

## **WHO IS RESPONSIBLE FOR MONITORING AND REPORTING?**

The person or organisation responsible for the compliance with the EU ETS should be the shipping company, defined as the shipowner or any other organisation or person, such as the manager or the bareboat charterer, that has assumed the responsibility for the operation of the vessel from the shipowner and that, on assuming such responsibility, has agreed to take over all the duties and obligations imposed by the International Management Code for the Safe Operation of Ships and Pollution Prevention.

## **WHAT ARE THE REPORTING REQUIREMENTS?**

The shipping company, under its responsibility, monitors and reports the relevant parameters during a reporting period and submits to it verified aggregated emissions data at the company level in accordance with [EU-MRV regulations](#).

The deadline for submitting verified maritime emissions reports for the previous year to the relevant administering authority is March 31 of the following year.

The shipping companies subject to the requirement of ETS are required to submit the first verified emission reports by 31 March 2025.

## **WHO DO ENTITIES REPORT TO?**

To fulfil its obligation, a shipping company must monitor and report the relevant parameters during a reporting period and submit verified aggregated emissions data at the company level to the administering authority, which is:

- In the case of a shipping company registered in a Member State, the Member State in which the shipping company is registered.
- In the case of a shipping company not registered in a Member State, the Member State with the most significant estimated number of port calls from voyages performed by that shipping company in the preceding four monitoring years.
- In the case of a shipping company that is not registered in a Member State and that did not carry out any voyage falling within the scope of these regulations in the preceding four monitoring years, the administering authority shall be the Member State from where the shipping company has started or ended its first voyage falling within the scope of the regulation.

## **WHAT ARE THE PENALTIES FOR NON-COMPLIANCE?**

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In addition to the general EU ETS rules on penalties, expulsion orders can be issued against vessels under the responsibility of a shipping company that has failed to surrender allowances for two or more consecutive reporting periods. As a result, vessels under its responsibility can be detained by the Flag Member State and denied entry into a port under the jurisdiction of a Member State other than the Flag State.

## **WHICH OTHER JURISDICTIONS HAVE INCLUDED MARITIME SECTOR IN ETS?**

The UK government has also announced to include shipping in its expanding emission trading scheme (ETS). From 2026 domestic shipping will be included in the UK's ETS and apply to vessels of 5,000 GT and above.

On its path to decarbonisation, we trust that Members would find this article informative. We welcome all feedback on this or any other Loss Prevention guidance.

The Club has also prepared an article on the [contractual considerations for owners and operators](#), which focuses on responsibility for compliance, allocation of costs for compliance, and the BIMCO Emission Trading Scheme Allowances Clause for Time Charter Parties 2022.

Please feel free to contact the [team](#) should you have any further queries on this matter.