



## EU ETS - Inclusion of the Shipping industry

Under the scope of the EU Green Deal, the European Commission adopted a package of legislative proposals to reduce CO<sub>2</sub> emissions, well known as "Fit for 55". One of the pillars of this package is the EU ETS. The European Parliament and Council agreed, on 18 December 2022, that Directive 2003/87/EC will be revised to include Marine transport with the first reporting period the year 2024.

### Key elements of EU ETS

- First emissions trading system and the largest carbon market
- Operated by the European Union (other countries may also develop their own ETS)
- ETS is a "cap - and - trade" system
- EU emission allowances (EUAs) are assigned to each company

Hence, based on the total GHG emissions allowed by participants of each sector covered by EU ETS, there is a "cap" or a limit. This limit represents the number of emissions allowances that can be tradable and allocated to interested parties, via a mixture of free allocation and auctions.

The shipping section will not be entitled to free allowances. Therefore, additional emission allowances can be obtained through auctions regulated by European Energy Exchange or traded through derivatives provided by reliable financial institutions.

If the company does not have enough allowances, it should reduce its carbon emissions or purchase additional allowances. In contrast, if the company has a surplus of allowances, the sale option is permissible.



### The phasing-in period from 2024 to 2027

The GHG allowances can be allocated by an authority or purchased by participants. In the case of shipping, the whole number of allowances should be purchased according to the following phase-in period schedule:

In 2025, ships will have to pay **40%** of their verified CO<sub>2</sub> emissions from 2024.

In 2026, ships will have to pay **70%** of their verified CO<sub>2</sub> emissions from 2025.

In 2027, ships will have to pay **100%** of their verified CO<sub>2</sub>, methane (CH<sub>4</sub>), and nitrous oxide (N<sub>2</sub>O) emissions from 2026.

Extension of regulation as of 1 January 2026

**In 2028, offshore vessels of over 5000GT will also have to pay 100% of their verified emissions from 2027.**

**Allowances Surrendering** The EU ETS will apply to ships covered already by Regulation (EU) 2015/757 (5.000GT and above) and call EU ports. Therefore, shipowners should buy allowances to cover the following emissions.

- 100% of emissions occur during the ship's berthing in EU ports
- 100% of emissions occur during the ship's sailing within the EU (Intra - EU Voyages – EU Port to EU port)
- 50% of the emissions for non-EU voyages:
  - a. EU Port to Non-EU Port
  - b. Non-EU port to EU Port

**Each company is liable to surrender the required allowances to cover the previous year's emissions, by 30 April.**

**Example** Based on the above propositions, let us assume that in 2024 a ship makes a trip from a European port to a non-European and emits 1,500 tons of CO<sub>2</sub>. Since the voyage does not occur entirely within the European borders, the company must pay the allowances only for the 750 tons (i.e., 50%). The cost for 2024 amounts to 40% of emissions, therefore 300 tons. So, at a current price of € 78/ton, the total cost for carbon rights on this voyage would be € 23.400. Therefore, the shipping company must pay by 30 April 2025 for the verified emissions concerning 2024. This condition means that the emission report should be verified at least one month earlier.

## Derogations

The following exceptions will be allowed till **30 December 2030**:

For Ice-classed vessels, the company may surrender 5% fewer EUAs of verified emissions.

The companies that perform voyages to small islands with a population lower than 200.000 inhabitants and depend more on maritime transport than the other regions, are exempted from the obligation of surrendering emissions.

The companies performing transnational public services connections between Member states and outermost regions may be excluded from any obligation of allowance surrounding (i.e., Maritime connection between Cyprus and Greece).

## EU ETS as Part of EU MRV regulation

For the smooth inclusion of Shipping into EU ETS, the EU MRV regulation 2015/757 should be amended. From 1 January 2024, the emissions subject to verification will also



be amended to include methane and nitrous oxide emissions before inclusion in the EU ETS. Furthermore, from 1 January 2025, general cargo ships and offshore vessels of 400GT and above, called European Ports, will be included in the MRV, (inclusion in ETS – to be reviewed).

The Monitoring plan should be revised and submitted to the verifier. The verifier assesses the Monitoring plan and confirms compli-

ance with the regulation. Then, the Monitoring plan may be submitted to the responsible administering authority within three months after EU ETS is set in force. Finally, the accountable authority should approve the submitted plan within the next two years.

Each shipping company will have an initial appointment with a specific Member State in the following months. The administering authority will be the member state where the shipping company has been registered. If the Shipping company is not registered in the EU, then the administrative authority will be the member state where the shipping company has performed the most port calls during the last two reporting years. If the shipping company has not called any EU port during the previous two years, then the EU member state where the company will perform its first port call will be assigned as administrative authority.

The company should report emissions from the beginning of 2024, according to the revised Monitoring plan, and submit the relevant emission report to the administrative authority by 31 March of the next year. Hence, by 30 April, the company will be capable of paying for the required allowances based on the verified emissions. **It is worth noting that Greece and Cyprus are entitled to an allocation of 3.5% additional allowances till 31/12/2030.**

## BIMCO Clause for Time Charter

As the European Council and the European Parliament support the idea that the ETS scheme is based on the principle of "polluter pay," both involved parties of a charter party should collaborate effectively. Under these conditions, BIMCO aims to assist the cooperation between Owners and Charterers, issuing the ETSA Clause for time charter Parties. This clause allocates the responsibilities and the cost of surrendering and transferring allowances for ships that apply to the ETS. Additionally, it is stated that the party responsible for the supply of fuels and, consequently, their payment under the time charter is also responsible for providing and paying emissions trading allowances. The owners are still

responsible for monitoring and reporting the ship's emissions. However, in this case, data is also published to charterers to transfer back the appropriate allowances to the owners. Subclauses due to off-hire or failure of charterers to comply are also mentioned.



## Penalties

The Shipping company that fails to comply with Directive 2003/87/EC will be liable to the emission penalty of € 100 per CO<sub>2</sub> ton, along with the obligation to surrender the required allowances. Furthermore, if the shipping company fails to comply for two consecutive years, it is possible that entry to the EU for the managed vessels will be denied.

## The objective of EU ETS

The general scope behind EU ETS is to encourage participants to decarbonize their emissions and take measures to decarbonize the fleet. Hence, it has been decided that a certain amount of the shipping revenues, derived from ETS will accrue to the Innovation Fund to support the green research of the shipping industry, as well as investments in low-carbon technologies and other climate-related actions.

## Suggestion to Shipowners & Managers



Since the final text has yet to be adopted, Emicert will keep customers posted on any development.

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Once the legislation is published officially by the EU parliament and Council and the required guidelines on the procedures of assessment of the Monitoring plan become available, we will inform you on how to proceed with the amendments of the Monitoring plan.

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Furthermore, EMICERT will inform you regarding further requirements on data reporting for EU ETS. Therefore, we suggest you evaluate your company's situation, considering the verified emissions from the reporting period 2022 under the scope of the MRV. Then, based on the subject data, you could estimate if your company would need to acquire additional emission allowances in the upcoming reporting years.

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The Ministry of Environment and Energy recommends that shipping companies create shortly an exchange account and collect the necessary documents in order to avoid delays.