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Inclusion of maritime emissions in EU Emissions Trading System (ETS)

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Notice to: Ship Owners/ Managers/ Operators / Surveyors/ Auditors

Aiming to include the maritime sector to the EU's increased climate protection set of actions, the European Parliament, Council of the European Union, and the European Commission, after proposal of the latest, have agreed to extend the scope of the EU's Emissions Trading System to cover CO₂ emissions from ships above 5000 GT, without regard of the flag they are flying from 2024. This extension will include all emissions from ships calling at an EU port for voyages within the EU as well as 50% of the emissions from voyages starting or ending outside of the EU, and all emissions that occur when ships are at berth in EU ports. This agreement is based on the proposal of the Commission on 14th July 2021, with the European Parliament and the Council of the European Union expected to formally adopt the directive and pass the relevant legislation on the 2nd half of March 2023.

Proposal to Legislation – In practice

The proposal aims to cap maritime transport emissions as part of the overall ETS cap. It would result in a price signal that should incentivise improvements in energy efficiency and low-carbon solutions and reduce the price difference between alternative fuels and traditional maritime fuels. The cap is to be put on market and a limited amount of emission allowances (the cap) is to be traded. The cap then is to be reduced each year, ensuring that less trade is taking place and more measures towards reaching the goal of the European Union of 55% reduction in emissions by 2030 – relative to 1990 – with the ultimate goal being climate-neutral by 2050. The proposal is based on the provisions in place for other EU ETS sectors, as well as the existing [EU Monitoring, Reporting and Verification Regulation](#).

In practice, the legislation will apply to all shipping companies and therefore the shipowners or any other organizations or persons (managers or bareboat charterers), responsible for the operation of the ship according to the ISM Code. ETS emission allowances are to be purchased and surrendered for each tonne of reported CO₂ emissions in the scope of the system over a calendar year, starting 2024. The emissions will be reported and verified through the existing EU MRV (Monitoring, Reporting and Verification) system, which will be revised and extended to cover necessary GHG emissions, ship types and sizes. The foresaid responsible entities will be attributed to an administering authority of a Member State that will ensure compliance using the same rules as for the other sectors under EU ETS.

To guarantee a smooth transition, according to the proposal agreed, shipping companies will only have to surrender allowances for a portion of their emissions during an initial phase-in period, reaching 100% after 3 years. A reporting and review methodology is included to monitor the implementation of the rules applicable to the maritime sector and to consider relevant developments at the level of the International Maritime Organisation (IMO).

Ship Types Applicable

As of 2024 the extended EU ETS scope will include ships above 5000 GT transporting cargo or passengers for commercial purposes. The EU MRV system will be extended as well from 2025 to apply to offshore ships above 400 GT and general cargo ships ranging 400 and 5000 GT transporting cargo for commercial purposes. All offshore ships above 5000 GT will from 2027 be included in the ETS as well. Two years after the initial implementation, 2026, the European Commission will consider whether general cargo and offshore ships between 400 and 5000 GT will also be included in the ETS.

A synopsis of the above in detail:

Type of Ship	GT	EU MRV	EU ETS
Cargo or Passengers Carrier	over 5000	In force	2024
General Cargo & Offshore Ships	400 - 5000	2025	To be decided
Offshore Ships	over 5000	2025	2027

Greenhouse Gas Emissions (GHGs)

Starting 2024, EU ETS will include CO₂ emissions only, while EU MRV will be extended to include Methane (CH₄) and Nitrous Oxide (N₂O). From 2026, both Methane and Nitrous Oxide will be included in EU ETS.

GHG	EU MRV	EU ETS
CO ₂	In force	2024
Methane (CH ₄) Nitrous Oxide (N ₂ O)	400 - 5000	To be decided

Voyages

Emissions on voyages and port calls within the EU/EEA are 100% subject to EU ETS while emissions on voyages into or out of the EU/EEA are 50% subject. Container ships stopping in transshipment ports outside the EU/EEA but less than 300 nm from an EU/EEA port, need to include 50% of the emissions for the voyage to that port as well. The EU will provide a list of transshipment ports.

Phase-in	2024	2025	2026
Emissions subject to EU ETS	40%	70%	100%

Compliance process & Penalties

For Companies that are registered in the EU, the administrating authority will be the Member State where it is registered, while for Companies outside the EU it is the Member State with the largest number of port calls from voyages performed by the ship company the last two monitoring years, or, if it has not traded in the EU the last two years, the Member State of the first port call in the EU. The EU will publish a list of the administering authorities per company, which will be updated every two years.

An updated ship EU MRV monitoring plan must be verified by an accredited verifier and submitted to the administrating authority of the company within three months after entry into force of the revised directive (upon adoption of legislation). The monitoring plan must describe in detail the method for monitoring and reporting of methane and nitrous oxide. Starting date 1st January 2024, each ship needs to start reporting according to the revised monitoring plan.

On 31st March each year from 2025, a verified company emission report needs to be submitted to the administering authority. The company emission report combines the emissions within the scope of the EU ETS reported and verified for each ship under the responsibility of the company during the reporting period. Special attention must be paid to the fact that, the emissions report needs to be verified and submitted a month before than under the current EU MRV system. 30th September of each year the necessary emission allowances are required to be surrendered to the administering authority.

Ships that will not comply with the EU MRV requirements for two or more consecutive periods may be expelled and denied trading in the EU. Companies that do not surrender allowances are liable to an excess emissions penalty of €100/tonne of CO₂ and are still liable for the surrendering of the required allowances. Companies that do not comply for two or more consecutive periods may be denied entry in the EU for all ships under its responsibility.

Acquiring Emission Allowances

Ship companies will not receive any free allowances. Emission allowances can be acquired in the primary market through auctions arranged by the European Energy Exchange (EEX) which is currently contracted by the EU to handle this.

Another option is a secondary market where allowances can be traded bilaterally or through various derivatives offered by financial institutions.

Act now

DBS urges Ship Owners/ Managers/ Operators having ships within the scope of EU ETS and EU MRV to prepare for the updated monitoring and reporting requirements. taking into consideration all the above and ensure compliance with the legislation once in effect. The follow-up of the Regulatory Updates and the Issued Circulars is highly advised.