Shipping Emissions Trading System (ETS)

Shipping companies to finally pay their fair share

Context

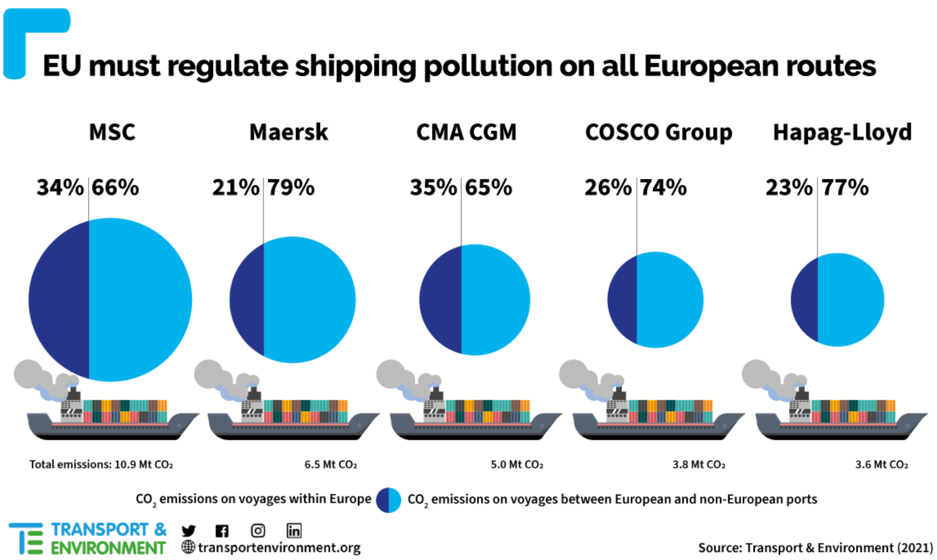
Shipping is the only sector in Europe that does not yet have emissions reductions measures. Combined to this its grave climate impact - 3.5% of EU's total emissions - and the low amount of profits that go to governments, it is clear that action to make shipping companies pay for their pollution is long overdue.

What has the European Commission proposed?

Shipping companies will pay for emissions allowances for voyages between European ports, half of emissions from voyages to or from non-EU ports, and all emissions between EU ports. There will be a phase-in period of three years, no free allowances and a strict enforcement policy: if a ship does not pay for two years, member states should deny entry to any European port to any ship operated by the liable shipping company.

What's good? What's not?

The proposal is consistent with its core goal: making polluters pay. By including half of the emissions from voyages between European and non-European ports, the Commission has recognised that international shipping must be subject to emissions reductions targets. This is especially important given that the majority of the emissions from the biggest container carriers happens on these international voyages.



How should it be improved?

The proposal must ensure Carbon Contracts for Difference (CCfDs) - subsidy schemes for clean fuels - are designated for the sector. Public intervention is sorely needed. CCfDs are proven, market-friendly tools to kickstart shipping's transition.

Moreover, two clear loopholes must be closed. Firstly, the polluter-pays principle will not apply to every charter contract. In time charters - the majority of all charter contracts - the shipowner will be left to foot the bill instead of the operator, who makes the decisions on fuel use, speed, cargo volume and itinerary, all of which determine emissions. This can be solved by amending the definition of shipping company to make the commercial operator responsible for ETS costs.

Secondly, the proposal's limited scope compared to the MRV is a serious flaw. It will delay price signals, prevent investments in energy efficiency and undermine the EU's climate goals. Similarly, there is no economic or environmental rationale for the phase-in period. The shipping industry plans intricately its business based on fuel prices, which will effectively increase only slightly with the ETS. It has no need whatsoever for a phase-in period.

Don't forget...

The EU has acknowledged that shipping emissions between European and non-European ports are its responsibility. It is now time for the EU and each MS to update their Nationally Determined Contributions (NDCs) to reflect this reality and make sure international transport emissions are accounted for.

What next?

The co-legislators must maintain the ETS' ambition, but also close the loopholes undermining the polluter pays principle. This means no phase-in period and that the commercial operator must bear responsibility for costs. Funds from the maritime ETS must also flow back to green shipping projects. Revenues from the ETS are a huge opportunity for Europe to lead the way in the decarbonisation of shipping. Such an opportunity cannot be thrown overboard.

Further information

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