

THE EXTENSION OF THE EU EMISSIONS TRADING SYSTEM (EU ETS) TO MARITIME TRANSPORT





OVERVIEW

1. Policy Context
2. Overview of EU ETS and scope of application
3. Responsibility of compliance
4. Compliance cycle and first steps to be taken





POLICY CONTEXT RESULTING IN NEW LEGISLATION

July 2021: “Fit For 55” Package

- Legislative package introduced by the European Commission and included a basket of measures with the aim to reduce greenhouse gas emissions by at least 55% by 2030 (compared to the 1990 levels)
- Package introduced a number of measures to address greenhouse gas emissions from the maritime sector

WHAT IS THE EU ETS?

- The EU Emissions Trading System (EU ETS) was established in 2005 and is the foundation of EU's climate policy.
- Covers around 40% of EU's total greenhouse gas emissions (i.e. emissions from installations in the energy sector and manufacturing industry and aircraft operators)
- 'Cap-and-Trade' system
 - Cap on total GHG emissions allowed for all participants covered
 - Legislation generates 'Emission Allowances' (EUAs) which represent rights to emit GHG emissions
 - 1 allowance = 1 metric ton of CO₂ equivalent emissions
 - At the end of each period, participants must purchase and surrender EUAs, which represent their emitted GHGs which have been monitored, reported and verified over that period.

WHERE IS THE EU ETS APPLIED?

- Maritime transport to be included from 1 January 2024 onwards
- Types of vessels regulated:
 - Cargo and passenger vessels over 5,000 GT
 - From 2027 onwards, offshore vessels of over 5,000 GT will be included
- Geographical scope of application:
 - 100% of the emissions for voyages between two EU ports of call;
 - 50% of the emissions for voyages from an EU port of call to a non-EU port of call, or vice-versa.
- To facilitate smooth introduction, there will be a phase-in period as follows:
 - 2024, 40% of the emissions reported;
 - 2025, 70% of the emissions reported;
 - 2026 onwards, 100% of the reported emissions.
- Types of GHG emissions covered:
 - Initially applies only to CO₂ (carbon dioxide) emissions
 - From 2026 onwards, EUAs will need to be surrendered also for CH₄ (methane) and N₂O (nitrous oxide) emissions



WHO IS RESPONSIBLE FOR COMPLIANCE WITH THE ETS?

The **responsibility of compliance** rests on the **'Shipping Company'** which can either be the:

- Shipowner; or
- ISM Company (DOC holder)



must have assumed responsibility under the ISM Code and have to submit a document signed between the shipowner and the ISM Company that shows the existence of a mandate

ADMINISTERING AUTHORITY

Each shipping company is obligated to have a **'Maritime Operator Holding Account'** (MOHA) in the Union Registry with the Administering Authority to which the company will be allocated.

Each shipping company is attributed to the administering authority of one EU Member State. The administering authority for each shipping company will depend on:

- If the shipping company is registered in the EU, then it will be the Member State in which it is registered
- If the shipping company is not registered in the EU, it will be the Member State where the company's vessels made the greatest number of port of calls in the 4 previous monitoring years
- If the shipping company is not registered in the EU and there have been no ports of call in the EU in the previous 4 monitoring years, it will be the Member State where the company's vessel has started or ended its first voyage that falls under the scope of the EU ETS

*By 1 February 2024, the European Commission will determine and publish a list of shipping companies specifying the administering authority in respect for each shipping company

WHAT IS THE UNION REGISTRY?

- The Union Registry is an IT system, similar to online banking
- Main functions of the Union Registry:
 - Enables the transfer of allowances between participants
 - Records annual verified emissions
 - Surrender of allowances to cover emissions for compliance
 - Does not record the financial part of a transaction
- All participants in the EU ETS must have an account in the Union Registry; each shipping company **must** request the opening of a MOHA account
- 1 shipping company = 1 MOHA account

WHAT CHANGES FROM 1 JANUARY FROM THE OWNER'S PERSPECTIVE

- As of 1 January 2024, shipowners with ships conducting voyages within ports of the EU must take into consideration the extra cost of purchasing EUAs for the GHG emitted during each voyage
- In case a vessel is under a time charter, then the shipping company is entitled to reimbursement from the charterer for the costs arising from the surrendering of allowances for GHG emitted during the charter period. However, the responsible entity for surrendering allowances remains the **shipping company**. Nevertheless, shipowners should develop contractual clauses and agreements to pass on the ETS costs to the responsible parties.

*It is important to keep in mind that the market of EUAs is highly volatile, and prices are expected to rise, especially after the inclusion of the maritime sector. Therefore, delaying the purchase of EUAs until the last minute may result in significantly higher costs.

As of December 21, the price of 1 allowance (1 EUA) was €79.00

FIRST STEPS TO BE TAKEN



January 2024

Submit monitoring plan in THETIS-MRV to verifiers



1 February 2024

Identify responsible Administering Authority and request the opening of a Union Registry account within 40 working days



By 1 April 2024

Submit assessed monitoring plan to Administering Authority for approval

COMPLIANCE CYCLE



PENALTIES FOR NON-COMPLIANCE

A Shipping Company which fails to surrender sufficient EUAs to meet the verified emissions of a vessel will be liable to:

- Meet any shortfall in EUAs due;
- Penalty of €100 for each tonne not surrendered; and
- As an additional measure, vessels could be denied entry to EU ports where a shipping company fails to comply for two or more years in a row.

HOW WE CAN ASSIST

At Nostra, we offer a dedicated range of environmental services tailored to meet your compliance obligations related to EU ETS matters. Our services include the following:

- Identification of the Administering Authority
- Opening of a Union Registry MOHA account
- Purchasing and reporting of emission allowances
- Guidance on the purchasing policy of emission allowances
- Preparation, uploading and submission of EU-MRV monitoring plans and emissions reports
- Assistance in developing and implementing strategies for transitioning to low carbon emissions

+

○

THANK YOU!

Andria Philippou

Legal Consultant, Certified Exchange Trader

andria.philippou@nostraship.com

