

ETS FOR MARITIME

The EU Commission has voiced intentions to include the maritime segment into the **European Emissions Trading Scheme** (ETS). This document is intended as an information paper for the Interferry membership.

What is ETS

ETS was established in 2005 as part of EU's ambition to control and reduce GHG emissions, initially CO₂¹. It is a system under which large CO₂ emitters are given an annual allocation of CO₂ it can emit. If more than the allocated CO₂ quota is required, additional quota can be purchased on one of the CO₂ exchanges. Initially the system covered large land-based emitters typically power plants, cement factories etc. Since 2013 intra-EU airline travel has been included. The maximum combined CO₂ emissions is restricted (capped), and this ceiling is lowered every year as part of the GHG reduction efforts. Phase 4 of the EU ETS will commence in 2020.

A separate ETS for the airline segment commenced in 2012 and there are discussions ongoing among the policy makers to also include maritime as the next step. If/when this happens it is likely the decision makers will look towards the airline system for inspiration on how to implement the system. This is also what was done when MRV was implemented for shipping.

The airline ETS

Since 2012 intra-EU airline travel has been part of the ETS system. Each airline operator² receives an annual allocation from its national regulating authority. This quota was originally calculated using a baseline established in 2005. The annual quota is reduced from the 2005 baseline every year. Some quotas are kept for "new entries" and for "rapidly expanding" companies. Currently about 82% of the baseline number is allocated to the airline free of charge. Should the airline require more, they need to acquire additional quotas from and of the official ETS exchanges. Should an airline be able to not use up its entire free quote, this can be sold (i.e. emissions trading), however such special airline quotas can only be sold to other airlines. There are thus two EU markets for CO₂ quotas – the "general" market and the "airline" market.

The airline ETS is only valid for flights within EU and EEA, after strong reactions from 3rd countries (e.g. US and China) who were originally also within scope of the EU ETS for aviation, in relation to flying to/from an EU airport

What would be needed for a maritime ETS?

If a maritime ETS is to be based on the airline model a number of things needs first to be reviewed. A baseline needs to be established. This is likely to be based on the MRV data. Whether one or more years will be used is an open question but using only 2018 data being the initial year is hardly sufficient data. Not least noting the data quality issues this first years of reporting revealed. Furthermore, the position of MRV data covering UK trade becomes an issue post Brexit.

The maritime CO₂ reporting – the MRV - goes directly from the emitter to the EU, there is no national authority involved. Therefore, unlike the airline system, any quotas will have to be allocated directly

¹ DIRECTIVE 2003/87/EC

² The operator is not necessarily the owner of the airline

from EU to the respective companies. This then entails that it will be the MRV reporting entity that received the quotas. This is typically the entity holding the ISM DoC.

It is likely that a special “maritime quota” will be established similar to the airline system and that trading will have similar restrictions to the airline system i.e. you can buy from the free market and the special trade market, but you can only sell to the specialized trade market.

Likely scenario for a maritime ETS.

As part of the MRV reporting companies have submitted separate data for “Intra EU” voyages compared to voyages between EU and 3rd party countries. One can envisage two proposals for a maritime ETS scope. One only dealing with Intra-EU voyages and one – larger- including also voyages between EU and 3rd party countries. The former will of course cover a much smaller scope and therefore CO₂ emissions, the latter will be much more complex to control and involves 3rd countries. Interferry believes the EU Commission will try and establish a maritime ETS covering the larger scope i.e. including voyages to and from 3rd countries, but as a natural fall-back position, at least to proceed with an intra-EU scope

While the EU has repeatedly commented that if the IMO does the right thing, there will be no special EU requirements, but that is a very open-ended approach and it is implausible that the IMO will ever “do enough” so satisfy the EU policy makers.

As far as timing is concerned, a maritime ETS could be implemented by adapting the existing ETS Directive but being a Directive, it would then necessitate enactment in national legislation before it becomes effective. As the MRV data collection does not involve national authorities but is a reporting direct from the operators to the EU, there is something of a “missing link” between the current elements.

On the other hand, “Period 4” of the current ETS Directive is already slated for 2021-2030 and it is likely the Commission will seek to have maritime included here.

What to look out for in the coming period.

- Suggested scope by EU Commission intra-EU only or to/from EU/EEA
- Timing
- Position of UK post Brexit
 - Can affect validity of MRV data as base line data
- Which entity will be getting the Fixed/free CO₂ quotas?
- Level of initial free quotes compared to baseline
- Will surplus/deficit CO₂ requirement be traded over an auction or against a fixed price?
- What will be reaction of EU major trading partners (China, US etc.) to EU collecting a “trade tax”
- Will EU nations be willing to provide EU with “tax collecting” powers? It would be a first.

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