Insurance Marine News

EU decision to add shipping to emissions trading system splits global regulations

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The European Commission proposed on Wednesday July 14th that shipping be added to the EU carbon market, the first time shipping would be included and a move that international shipping has been bracing for a number of years, but which it remains unhappy about.

Europe's emissions trading system (ETS) will now include shipping, with costs for polluters set to rise under Brussels' plans to meet the EU's climate targets, the EC said this week.

The EU ETS compels polluters to pay for each tonne of carbon dioxide they generate; it is at the centre of an EU drive to cut net greenhouse gas emissions by 55% 2030, taking 1990 as the base.

Although manufacturers, power firms and airlines operating flights inside Europe are already covered by the scheme, shipping had remained exempt. The plans published by the EC this week meant that shipping would be phased into the ETS over a three-year period.

Emissions from sea voyages within the EU, plus 50% of ships' emissions from international voyages starting or ending in the EU, would fall under the existing ETS, plus emissions that occur when ships are at berth in EU ports.

All the reforms proposed by the EC will have to be negotiated among member states and by the European Parliament, a process that was expected to take a couple of years.

International Chamber of Shipping (ICS) secretary general said that "other than as an ideological revenue raising exercise, which will greatly upset the EU's trading partners, it's difficult to see what extending the EU ETS to shipping will achieve towards reducing CO2, particularly as the proposal only covers about 7.5% of shipping's global emissions. This could seriously put back climate negotiations for the remaining 92.5% of shipping emissions."

Platten continued: "We know that non-EU States like Japan have already expressed concern over this diplomatic overreach and imposition of a unilateral and extra-territorial tax on trade. It cannot be equitable for non-EU shipping companies to be forced to pay billions of euros to support EU economic recovery plans, particularly under a scheme that undermines CO2 negotiations."

"It is clear from how such schemes work in other sectors that there will be unintended consequences from the imposition of such a proposal. There are simpler and more effective options – such as a global fuel levy – but these require political leadership rather than political expediency. Another key issue for ICS is that who pays for the cost of fuel should be the same person that ultimately pays the cost of carbon allowances.

Platten said that "the failure to include investment in research and development in the proposals, at a time when the IEA and the new US administration are highlighting that emission reduction will only be possible with the development of technologies that do not currently exist, is disappointing. To indicate one thing at the beginning of the process and then to withdraw it to pay for a post-Covid recovery sends a clear message to industry that the EU is not truly serious about decarbonising global shipping. This also sends a message beyond shipping that political and investment risk is high in Europe. This only goes to show why we need the $5bn IMO Maritime Research Fund.

Platten said that volatility in the price of allowances made this approach far more complicated to pass on the cost to the company that pays for the fuel, especially for the majority of smaller shipping companies, which make up the majority of shipping. He said that the proposal was overly bureaucratic, while the shipping industry's overwhelming preference was for a global levy that would incentivize "real emission reductions rather than red tape".

Platten said that there would have to be an independent impact assessment of these proposals as soon as possible, "to ensure that we are not sleepwalking towards unmanageable costs for global trade".

"We need urgent action, but action must result in decarbonization, rather than a pure money grab", concluded Platten.

Shipowners will have to buy permits under the ETS when their ships pollute, or else face possible bans from EU ports. In addition to ships sailing within the EU, the proposals will also cover 50% of emissions from international voyages starting and ending in the bloc. That decision has come in for criticism from the international shipping community.

Justifying the rationale for including emissions from outside the continent, the EU said that the coverage of a share of the emissions from both incoming and outgoing voyages between the EU and third countries would ensure the effectiveness of the EU ETS, notably by increasing the environmental impact of the measure compared to a geographical scope limited to voyages within the EU, while limiting the risk of evasive port calls and the risk of delocalisation of transhipment activities outside the Union.

Claes Berglund, president of the European Community Shipowners' Associations (ECSA), regretted that the IMO had not been able to lead shipping to an international green solution.

"Even though we would have preferred an international solution for shipping, we welcome the increased climate ambition of the EU and we recognise that shipping should contribute its fair share to address the climate crisis, at EU level as well," Berglund said.

ECSA advocates a dedicated fund to be set up under the EU ETS to stabilize the carbon price.

Faig Abbasov, shipping programme director at NGO Transport & Environment (T&E) favoured the announcement, stating that "the EU is finally making shipping polluters pay. Now lawmakers need to defend a carbon market that covers extra-European voyages, so that the biggest shipping companies are not let off the hook. The ETS revenues should be reinvested in deploying zero-emission vessels, port charging, and hydrogen refuelling infrastructure."