

Shipping ETS

Parliament adopts ambitious carbon pricing for shipping

One year after the European Commission's landmark climate package, 'Fit for 55', it is now in the hands of the European Parliament (EP). We look at what is at stake for the European Green Deal and Europe's climate ambitions, as the lead committees of the EP vote to adopt key Fit for 55 proposals.

Context

20 years after committing to regulate shipping emissions at the EU-level, the European Commission's proposal to include shipping in the EU's emissions trading system (ETS) is finally on the European Parliament's table.

The ETS is the cornerstone of the EU's climate policy. It is based on a very simple principle: you pay for every tonne of greenhouse gas emissions you pollute. No more, no less. This hugely important principle – that the 'polluter pays' – has, for far too long, been absent from the shipping sector.

But while the ETS will be important in internalising the external cost of shipping pollution, the price differential between conventional dirty fuels and clean e-fuels is far too great to be covered by predicted ETS prices. Therefore, other legislation is needed to mandate clean fuels and the ETS will be important for the revenues it generates that must be channelled to clean shipping technology.

The Commission proposal was a good step forward, notably for its geographical scope. However, it contained a number of

significant flaws. The Commission proposed to exempt greenhouse gases (GHGs) other than CO₂ from ships under 5,000GT and ship types that do not carry cargo or passengers (such as fishing or offshore vessels). Funds are also not guaranteed for 'Carbon Contracts for Difference (CCfDs)', an effective subsidy instrument to fund clean fuels at the price of conventional ones.

MEPs have proposed the correct way forward for the shipping ETS: climate ambition that works for industry without loopholes

What's good? What's bad?

The Parliament Committee tasked with dealing with environmental issues, ENVI, has addressed the flaws in the Commission proposal. As well as proposing to regulate all emissions from voyages departing from, and arriving at, European ports, they have recommended to get rid of the phase-in proposed by the European Commission, where shipping companies would only pay for the full cost of their emissions after four years.

Fit for 55 Committee Votes

Most significantly, MEPs have proposed to regulate all the relevant GHGs in shipping (CO₂, CH₄ or methane, and N₂O). This will ensure that ships running on [methane-leaking](#) natural gas (LNG) do not receive unfair subsidies. Their proposal also charts the path for the inclusion of ships under 5,000 GT and offshore vessels, supported by [industry and green groups alike](#).

But, while MEPs have successfully tackled the politically sensitive – but by all accounts nonexistent – issue of ‘port evasion’ without reducing the ETS scope, exemptions have been added without clear justification. While these derogations – for ice-class ships and voyages to outermost regions – may appear acceptable, it should be remembered that the ETS costs will only be between 20% and 10% of the fuel costs (where fuel costs have been between 500 and 900\$/mt since 2019 and the ETS cost

has been under 90€/tonne of carbon equivalent). Policy-makers should not exempt ships from marginal, but important, environmental price signals. Finally, other ship types, like yachts, fishing and service vessels, remarkably remain unregulated.

How should the proposals be improved?

The ENVI Committee’s proposal contains all the correct elements, but proposed delays are not compatible with the urgency of the climate crisis. In particular, the decision to only apply a full geographical scope from 2027 must be brought forward to 2023, alongside the inclusion of non-CO₂ GHGs. Ships above 400 GT and other ship types like yachts, service and fishing vessels must also be brought under the ETS from its entry into force, while the exemptions for ice navigation and outermost regions should be deleted.

Next steps to deliver on Europe’s climate goals

The ETS will go to the Plenary on June 6–9 before going to Trilogue negotiations with the Council of the European Union and European Commission. Each stage will be critical in ensuring the ambition laid out in the ENVI Committees proposal is maintained.

T&E Comment

Jacob Armstrong, sustainable shipping officer at T&E: “Shipping’s right to pollute for free is finally coming to an end. The ENVI Committee has proposed a climate-ambitious carbon market that works for industry and for the climate. The European Parliament Plenary must now rubber stamp this proposal so that we can start to take advantage of the ETS revenues and begin shipping’s long-delayed voyage towards decarbonisation.”