

FAQ:

EU ETS inclusion of marine shipping



The EU will include greenhouse gas (GHG) emissions from marine shipping in its Emissions Trading System (ETS) starting on 1 January 2024. From 2024, ship owners and charterers travelling in, out and within EU territorial waters will pay for 40pc of their GHG emissions by buying GHG credits sold on the ETS. In 2025, the emissions limit will increase to 70pc. The cap jumps to 100pc in 2026.

EU ETS applies to what types of vessels?

- From 2024: cargo and passenger ships 5,000 gross tonnes (GT) or larger
- From 2027: offshore ships 5,000 GT or larger

By 2026 the European Commission will review whether general cargo and offshore ships from 400-5,000 GT will also be included in the ETS.

What type of GHG emissions does EU ETS include?

The regulation includes carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O) emissions. CH₄ and N₂O emissions are calculated as CO₂-equivalents (CO₂e) using a Global Warming Potential of 100 years (GWP₁₀₀), where one tonne (t) of CH₄ equals 28t CO₂e and 1t of N₂O equals 265t CO₂e. EU ETS will apply to

- CO₂ emissions from 2024
- CH₄ and N₂O emissions from 2026

What is the geographical scope of the new regulation?

EU ETS accounts 100pc of emissions that occur when ships are within EU and European Economic Area (EEA) waters. EEA includes Iceland and Norway (which are not members of EU). EU ETS also accounts for 50pc of emissions from voyages starting or ending outside of the EU and EEA. Separately, container ships stopping in transshipment ports outside the EU and EEA but less than 300 nautical miles from an EU and EEA port, must include 50pc of the emissions for the voyage to/from the transshipment port as well.

Will companies have to surrender allowances for emissions from biofuels?

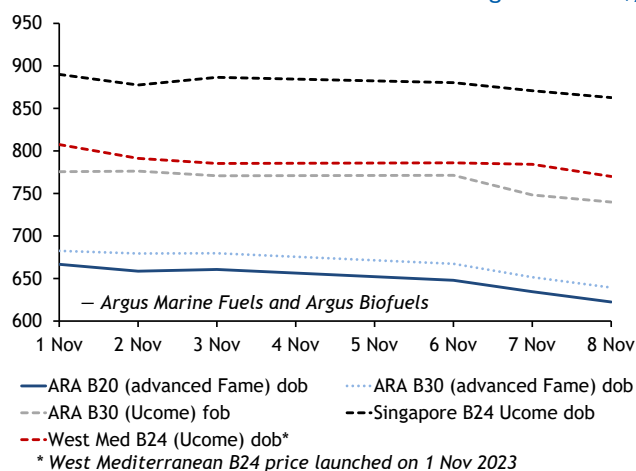
Currently, emissions resulting from the combustion of sustainable biomass compliant with the sustainability criteria established by Annex IX part A of the EU's Renewable Energy Directive (RED) have an emission factor of zero under the ETS.

EU ETS inclusion of marine shipping				
	2024	2025	2026	2027
Types of vessels				
Cargo/passenger ships (5,000+ GT)	40%	70%	100%	100%
Offshore ships (5,000+ GT)	-	-	-	100%
General cargo and offshore ships (400-5,000 GT)	-	-	-	Inclusion in the ETS to be considered
Greenhouse gasses				
Carbon dioxide	yes	yes	yes	yes
Methane and nitrous oxide	-	-	yes	yes

How does EU ETS work?

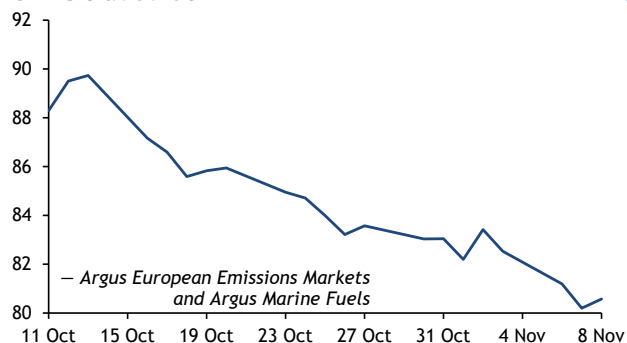
One EU ETS allowance (EUA) gives the ship operator the right to emit 1t of CO₂e. These are the same GHG allowances already used by EU industry, power sector and aircraft operators. Vessel operators are not allowed to generate more greenhouse gas emissions than their allowances can cover. For instance, if a company emits 10,000t of CO₂ during a reporting year, that company needs to buy and surrender 10,000 allowances by 30 September of the following year.

RED biofuel with VLSFO blend for bunkering \$/t



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EU ETS traded CO₂



EUAs are auctioned. They can be purchased in the primary market through auctions on the European Energy Exchange (EEX). There is also a secondary market in which allowances can be sold bilaterally or through various derivatives provided by financial institutions. To purchase ETS allowances, companies need to open a trading account or a maritime operator holding account in the EU Union Registry. Shipping companies can already open trading accounts to start buying allowances. Allowances do not expire and may be banked for future years.

How are emissions monitored, reported and verified?

Every year, shipping companies must submit an emissions report for each one of their ships. The data for a given year must be verified by an accredited verifier by 31 March of the following year. Once verified, companies must surrender (use) the equivalent number of allowances by 30 September of that year. Data must be reported through EU's THETIS-MRV online platform.

If a company already offsets its emissions, through carbon credit certificates or other mechanisms, would this have an effect on the amount of allowances?

No. Carbon credits or certificates cannot be used for EU ETS compliance. Shipping companies will need to surrender EU ETS allowances.

Will on-board vessel carbon capture and storage technologies reduce the amount of allowances that shipping companies must surrender?

Yes, companies do not have to surrender allowances.

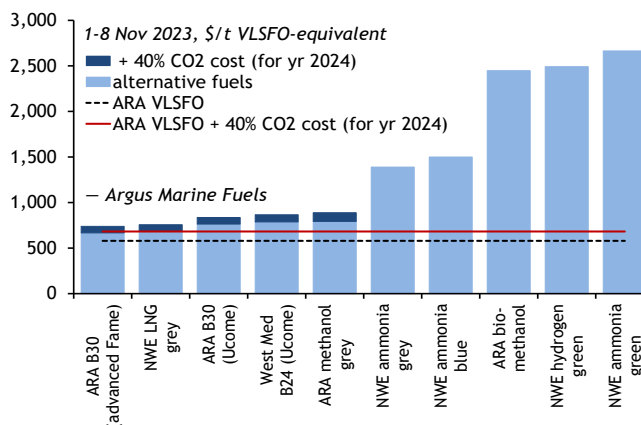
Can shipping companies pass on the ETS costs to the charterer of the ship?

If the purchase of the fuel and/or the operation of a ship is assumed by a charter, the ship owner is entitled to reimbursement from the charterer for the costs arising from the surrendering of allowances. Ship owners and charterers responsible for the purchase of the fuel and/or the operation of the ship are expected to develop contractual clauses to pass on the ETS surrendering costs as appropriate. But, the ship owner remains the responsible entity for surrendering allowances.

What happens if a shipping company does not comply with EU ETS?

The penalty includes €100/t (\$107/t) of CO₂e for each tonne of GHG emissions not surrendered. Names of the penalized companies will be disclosed to the public. In case a shipping

\$/t Europe conventional vs alternative bunkers



company has failed to comply with surrendering obligations for two or more years, the EU country of the port of entry may refuse entry to the ships of this company until the company fulfils its ETS obligations.

Argus launched a west Mediterranean B24 (Ucome-VLSFO) biodiesel bunker price assessment in November. Why?

Argus observed a rising interest in marine biodiesel blends in the western Mediterranean as a result of the Carbon Intensity Indicator (CII) legislation which took effect in 2023 and in anticipation of the forthcoming EU ETS. Liquidity had developed around a B24 blend as opposed to a B30 blend due to an International Maritime Organisation (IMO) guideline subjecting "sea-going" vessels in the Mediterranean to chemical tanker regulations rather than to oil tanker regulations if they carry a blend comprising of bio-component exceeding 25pc of the total blend. This guideline does not apply to the Amsterdam-Rotterdam-Antwerp (ARA) hub because tankers going through ARA are classified as "river-going" vessels.

Where can I find EU ETS-traded CO₂ prices? What other fuels (in addition to biofuels) could be used to reduce a ship's GHG emissions?

Argus publishes daily EU ETS-traded CO₂ prices in its *Argus European Emissions Markets* and *Argus Marine Fuels* reports. Ship owners are considering LNG, ammonia and methanol, among others. Argus publishes prices of these in its *Argus Marine Fuels* report.

For more information

Read more about EU ETS key prices:

B24 (UCOME Ucome & VLSFO) dob Algeciras-Gibraltar, B30 (Advanced Fame o & VLSFO) dob ARA, B100 (Advanced Fame o & VLSFO) dob ARA, B30 (UCOME Ucome & VLSFO) fob ARA and EU ETS-traded CO₂. These prices are published on the *Argus Marine Fuels* and *Argus Biofuels*, *Argus European Emissions* markets reports.

More info For general queries and to talk to one of our experts, contact marinefuels@argusmedia.com or BiofuelsEditorial@argusmedia.com. To speak to our team about subscribing to these services, please contact oil-products@argusmedia.com