



## **UK ETS Lessons Learned from EU ETS**

### *Introduction and Purpose:*

The UK Chamber of Shipping (Chamber) is the trade association for the UK shipping industry servicing domestic and/or international markets. The Chamber has over 200 members and associate members, which range from shipowners, ship managers, ship operators, law firms with maritime expertise, insurers, classification societies, to others providing maritime services to the shipping industry.

In March 2022, the UK Government issued a consultation on the proposed expansion of the UK's Emissions Trading Scheme (ETS). In July 2023, the UK ETS Authority published a response to this consultation, indicating its intention to extend the scope of the UK ETS to domestic maritime greenhouse gas (GHG) emissions in 2026.

The Chamber has sought to provide input as and when required and so as to continue to support the government in its efforts, the Chamber has prepared the following document. The purpose of the paper is to highlight key takeaways and recommendations from the perspective of the shipping industry following the extension of the EU ETS to specific international and domestic maritime emissions in January 2024.

It is crucial to highlight that the extension of the EU ETS to the shipping industry has not been without significant challenges, some of which remain outstanding. The Chamber therefore considers there to be an opportunity for the UK Government to utilise the experience of the industry in shaping its own policy and regulatory framework with respect to the expansion of the UK ETS.

*UK MRV:*

The purpose of a Monitoring, Reporting and Verification (MRV) system is severalfold but in the context of an ETS, is to serve as the basis for carbon allowance calculations. In May 2023, the UK Government published an updated Marine Information Notice to provide advice to stakeholders on legal and practical considerations for the introduction of the UK MRV regime (MIN 669 Amendment 1 found [here](#)). In this, it was stated that DfT was “working to develop a digital reporting system and ha[d] taken a decision to delay the requirement for ship operators to report emissions until the digital reporting system [was] fully operational.” The development of such a digital reporting system remains ongoing.

The industry needs a robust digital UK MRV in place that functions well, before extending the UK ETS to the maritime sector. Ensuring data integrity and quality in coordination with accredited verifiers as part of its functioning will be critical to the UK MRV’s workability.

It is vital that the UK has a workable MRV system that accepts data in the same format provided for within the International Maritime Organization’s (IMO) Data Collection System (DCS) and EU MRV, in order to reduce administrative burden and reduce complexity in administration. To be specific, it is particularly essential that there is compatibility with respect to:

- The metrics used;
- The format of collating and submitting;
- Definitions and the data being requested;
- Submission deadlines and periodic compliance cycles;

In order to assess its effectiveness, the Chamber would further suggest that an evaluation of the UK MRV be undertaken and published on an annual basis (as is currently completed at EU level), along with any scope for improvement.

*No Double Payment:*

The purpose of the current proposed expansion of the UK ETS is to capture domestic maritime emissions only. As such, it is not currently anticipated that such emissions would be paid for multiple times, under different regimes.

However, whilst the details of the UK ETS remain to be developed and finalised, it is necessary to emphasise that operators should not be expected to pay multiple times for the same emissions which would only add to regulatory uncertainty and create market distortion.

This basket of mid-term measures is still to be finalised and any IMO scheme should have primacy. Naturally, the UK’s obligations under the auspices of the IMO takes primacy but in order to avoid multiple payments being made for the same emissions under multiple regimes, it is recommended that:

1. The definition of domestic maritime voyages and emissions within scope of the UK ETS be made as clear as possible;

2. In addition to the above, the definition should be drafted so as to avoid overlap with emissions already accounted for on a regional and international basis;
3. In general, IMO scheme should have primacy in order to avoid any double payment and if regional schemes exist there should be clear mechanism to avoid paying twice for the same emissions.

#### *Avoid as far as possible Double Reporting*

For the reasons outlined above, the government should also seek to avoid the duplication of reporting already undertaken on a regional and international level.

#### *Responsible Entity*

Under the EU ETS, the “responsible entity” (i.e. the entity subject to compliance obligations) is named as the shipping company. This is defined as “the shipowner or any other organisation or person, such as the manager or the bareboat charterer, that has assumed the responsibility for the operation of the ship from the shipowner and that, on assuming such responsibility, has agreed to take over all the duties and responsibilities imposed by the International Management Code for the Safe Operation of Ships and for Pollution Prevention, set out in Annex I to Regulation (EC) No 336/2006 of the European Parliament and of the Council.”

In other words, it is possible for the shipowner to contractually mandate the International Safety Management (ISM) company to assume responsibility for all EU ETS and EU MRV obligations. This was agreed after extensive consultation and so as to enable flexibility of implementation after factoring in the complex operational structures seen across the shipping industry.

The Chamber would recommend mirroring this flexibility in the UK ETS.

#### *Registration of Foreign Entity*

It is evident that foreign (non-EU based shipping companies) have experienced multiple challenges with respect to registering with certain Administering Authorities, and with respect to opening a Maritime Operator Holding Account (MOHA) for the purposes of purchasing, trading and surrendering EU allowances to cover relevant emissions.

Issues experienced include:

- Lengthy registration processes in the event that a shipping company was not attributed to an Administering Authority – primarily due to the number of documents required to be submitted, the need for specific documents to be officially notarised and/or stamped etc.
- Lengthy waiting times for registration and for opening a MOHA due to lack of available resource within Member States.
- Insufficient time to prepare for registration – the EU’s [initial list of shipping companies specifying its Administering Authority was published on 30 January 2024. With a deadline of 1 April 2024 to submit a Monitoring Plan, there was insufficient time allowed for all](#)

[shipping companies to collate, review and submit a Monitoring Plan to their Administering Authority.](#)

- 'Helpdesk' – the EU implemented a 'Fit for 55 Helpdesk' to address issues related to EU ETS. However, the replies received were very slow and sometimes inefficient.

The Chamber therefore recommends:

1. That if a similar list is to be published for application under the UK ETS, that this is published well in advance to allow sufficient time for the shipping company to prepare.
2. That the process of identifying a shipping company be developed and published well in advance.
3. That appropriate resourcing be provided to 'helpdesks' in the event that advice is required or a solution needed promptly. Contact information for such 'helpdesks' should be made public so as to ensure smooth implementation.
4. That consideration be given to non-UK based entities caught within scope of the UK ETS to ensure that they are not subject to unduly onerous registration processes. (for example, allowing for digital solution to reduce the needs of posting off notarised document).

*'Timely review and clear plan'*

The EU MRV and EU ETS have a clear plan of revision for thresholds, vessel types (i.e. Offshore vessels), additional GHG gases etc. A similar clear plan for reviewing the system needs to put in place by UK Government.

The UK Government should indicate explicitly that the UK ETS will be reviewed in a timely fashion (e.g. one year) after IMO has adopted and reviewed its basket of measures to ensure that there is no double counting or double payment and alignment with fuel certification system with the IMO system

*Phasing of emissions*

The UK ETS should have a gradual phase-in timetable of emissions similar to the EU ETS requiring stakeholders to buy and surrender EU Allowances (EUAs). For example, the EU ETS requires surrendered EUAs to cover 40% of their verified emissions for intra-EU voyages in the first year of implementation, and then the figure rising to 70% and 100% in the following years.

*Offshore Vessels*

The extension and integration of offshore vessels within the EU MRV and EU ETS is in discussion due to their nuanced and varied operating profiles which do not fit into the simple movement of cargo or people from Port A to Port B.

Unfortunately, the initial drafted act published by DG CLIMA – (See [attached hyperlink](#)) severely lack details on various items – and numerous National, International Associations (such as, ECSA, IMCA, UK Chamber of Shipping, Norwegian Shipowners Associations, Royal Association of Netherlands' Shipowners, Royal Belgian Shipowners' Associations, The Workboat Association

etc.), Operators/Owners and Classification Societies have provided replies highlighting the shortcoming regarding the ‘Vessel types’ and ‘Vessel Movements’ proposed within the Drafted Act.

The 45 page report from CE Delft, published in November 2023: [Extension of EU ETS to the offshore sector \(practicalities\), highlights many of the practicalities and issues](#). highlights many of these problems.

The UK ETS will need to align with the EU ETS – otherwise the fairness of the two systems will be compromised and there will be a serious risk of Market Distortion with Double/multiple Payments and Double/multiple Reporting for the Offshore vessels.

The Chamber would advise DfT/DESNZ to:

- 1) Wait for the completion of this process on the European side (which hopefully will improve the current drafted act and create some specific guidance);
- 2) discuss with the EU authorities and establish contact with them;
- 3) ensure that there is an alignment between the two systems as regarding offshore movement and avoidance of Double Payment/Recording and Market Distortions

#### *Financial Risk (Short term charterer)*

The shipping industry is characterised by different company structures and different commercial agreements (bareboat, time charter, contracts of affreightment etc.) – and some vessels operate with very short term contracts.

If a system similar to that of the EU is implemented, the deadline for surrendering the applicable allowances may be on a yearly basis (such as September of the following reporting year) – a charterparty might end at the beginning of the reporting year and be followed by different short term charterparties.

The Chamber would therefore recommend the government to be flexible in the way in which ‘Responsible Entity’ can surrender allowances within the UK system – to allow these operators to submit ‘unverified’/‘partially verified’ allowances during the course of the year covering their anticipated portion of emissions and associated EUA’s.

#### *Domestic lifeline ferry services*

The UK ETS should provide a temporary and reviewable exemption to domestic lifeline ferry services until 2030, with a review point in 2028 for possible extension beyond 2030, dependent on progress that has been made in low or zero carbon fuels provision.

The UK’s domestic ferry network is the lifeblood of many communities across the UK mainland with vessels transporting hundreds of thousands of people annually to and from islands and remote regions around the UK coastline. They are often the only way to commute to work, access medical assistance and educational institutions, as well as the main delivery method for critical supplies. Such islands and remote regions include the Isle of Wight, the Isles of Scilly, Orkney and Shetland as well as other Scottish Islands.

For the UK ETS to fulfil its role for domestic lifeline ferries by helping to bridge the pricing gap for alternative fuels, the UK ETS needs to be part of a more complete package of net zero incentives, levers and power infrastructure to stimulate more sustainable innovations (such as the EU’s “Fit for 55” package), rather than hinder them. Some domestic ferries will need significant roll out of electricity to be powered on shorter journeys, whilst those with longer voyages will require alternative fuels and the associated infrastructure being put in place at both ends of the route. Neither of these options will be available at scale by the time the ETS is due to be extended.

Without an exemption, the likely increase in costs of 30-35% of annual fuel costs would limit many domestic ferry operators’ capacities to continue to invest in green technology and decarbonisation measures, and will paradoxically delay the decarbonisation of the sector. The increase in costs would also likely result in marginal services, that are often run as a public service in recognition of their importance to island and remote communities, either being reduced or withdrawn, and potentially having no alternative but to increase ticket prices significantly in order to remain commercially viable.

The EU has provided a derogation for passenger ships until 31 December 2030 for certain voyages between ports of certain islands of a Member State and ports located in the same Member State. This derogation will only apply in respect of specific ports and islands that fulfil the conditions established in the ETS Directive, and upon request of the relevant Member State. For example, an eligible island must have a population of fewer than 200 000 permanent residents and must not have any road or rail link with the mainland. Similar EU derogations have been provided for

- voyages between a port located in an outermost region of a Member State and a port located in the same EU Member State (e.g. Lanzarote-Valencia), and voyages between ports in the outermost regions of the same EU Member State (Guadeloupe – Martinique)
- transnational public service obligations (or transnational public service contracts) established by two EU Member States, one having no land border with another EU Member State and the other being the closest, shipping companies are not obliged to surrender allowances for emissions released by passenger ships or ferries (ro-pax ships) operating under such a public service obligation or public service contract until 31 December 2030.

On transnational public service obligations, care must be taken by the UK not to discriminate against commercial operators providing services which are also serviced through public service contracts. Crucially, the EU ETS is part of the EU’s wider “Fit for 55” package, which also imposes obligations on ports to facilitate ships to plug into electricity whilst in port by 2030.

#### *Certification Requirement for Renewable Marine Fuels (Zero-rating fuel / Carbon Capture)*

Any MRV system, along with the corresponding ETS system, needs to recognise the same fuel certifications and standards provided for in any technical fuel/emissions reduction standards for shipping, so that the same level of benefit of zero rating is provided when using various technologies such as second-generation biofuels, carbon capture, RFNBO, low carbon fuels and other technologies.

The Chamber understands that the EU Monitoring and Reporting Regulation MRR is due to be revised, and is likely to allow CO<sub>2</sub> that is emitted from an activity to be captured and then transferred to another activity, to not be counted as an emission from the source it originates from. If this is an accepted practice for land-based activities, this should also be facilitated for shipping. By facilitating this, it opens the market for the onward use of captured carbon for the manufacture of e-fuels.

Any domestic MRV system and ETS should also

- embrace “mass balancing” and “book and claim” systems, and
- be aligned with the IMO, fuel certification system and LCA guidelines to avoid fragmentation.
- Develop guidelines on how to ensure demonstration of the sustainability documents of renewable fuels

#### *Use of the Fund*

The EU ETS has formally recognised the need for a funding instrument in order to deliver its economy-wide commitments to net zero by creating the Innovation Fund, one of the world’s largest funding programmes for the demonstration of innovative low-carbon technologies.

The shipping industry is a hard-to-abate sector, which will have a lengthy and complex transition to net zero due to the different operating models, economic drivers and trading patterns, which in turn determines different energy requirements, as well as risks and opportunities.

The EU has recognised that bridging the price gap with the alternative fuels and technologies needed in the shipping industry requires a combination of public and private investment. As such, the EU has earmarked around two billion euros of the revenues of the Innovation Fund specifically for the maritime industry.

The Chamber would recommend considering a similar initiative in the UK, recognising that the UK’s own commitments to net zero will be contingent on the ability of all sectors to transition.

#### *Connectivity to the UK Registry Platform*

The EU Registry platform (Union Registry) holds the MOHA accounts for shipping operators. Company level data has to be uploaded into the Union Registry and marked as verified by the Administering Authority (AA) or the verifier (if delegated by the AA). This is a totally separate system to THETIS-MRV, and at present the two systems do not communicate with each other.

The EU Registry platform does not support connectivity to many third party systems for the surrendering and transfer of allowances. This lack of connectivity makes this a burdensome task for shipping operators.

The Chamber would recommend and suggest:

- When looking at incorporating shipping into the UK Registry Platform, the ETS Authority should consult verifiers on how to facilitate efficient data transfers;

- If a separate system is used from the UK MRV Shipping data, the ETS Authority needs to make clear its expectations regarding the quality and risk management of data.
- The ETS Authority needs to make clear its expectation regarding how the data will be verified for ascertaining that the two systems are aligned, consistent. And that a system of control is in place.
- The UK Registry Platform should support connectivity to its system by facilitating the use of third party systems to transfer and surrender UK allowances.