



Key Issues

Emissions Trading and Market Based Measures

In November 2017, the European Union decided that international shipping will not be incorporated into the EU Emissions Trading System (ETS) as part of the wider overhaul it is undertaking of its existing ETS for CO₂ emissions. This important decision – which followed intensive negotiations throughout 2017 between EU Member States, the European Parliament and the European Commission – is a very welcome development.

In conjunction with the European Community Shipowners' Associations (ECSA), ICS has consistently argued that the application of a regional EU ETS to all ships calling at EU ports, regardless of flag, would have been completely inappropriate and would have led to serious market distortion. Many ships would have simply diverted to non-EU ports (including potentially a post-Brexit United Kingdom) in order to minimise exposure to the EU system. Moreover, the unilateral application of the ETS to shipping could have generated trade disputes with China and other Asian nations, as happened several years ago when the EU tried unsuccessfully to impose its ETS on international aviation.

Notwithstanding the industry's doubts about the real CO₂ reductions that can be delivered via Market Based Measures (MBM), the only appropriate forum to have this debate is IMO. But the application of emissions trading – a system designed for heavy industries such as power generation and steel and cement production – would have been far too complicated to apply to an industry such as shipping which comprises thousands of companies, most of which are Small and Medium Sized Enterprises (SMEs). Given that many of the companies potentially included are located outside of the EU, this would have also greatly complicated efforts by the European Commission to reform the ETS which, since its establishment, has actually done little to reduce CO₂ emissions, other than to encourage those industries which generate significant emissions to relocate their activities elsewhere.

But this EU decision does not remove the pressure from IMO. The terms of the EU political agreement are that continued exclusion from some form of regional MBM may be dependent on IMO adopting some kind of alternative measure by 2023, which is understood to mean that the EU believes there should indeed be a global MBM. Moreover, the European Commission will be required to make an annual report to the European Parliament and EU Member States on progress being made by IMO. In effect this could mean that, if at any time, the European Commission deems progress insufficient, it may seek to justify the need to continue working on unilateral measures. Nevertheless, the EU decision in 2017



represents a recognition that IMO is the best forum in which to have the debate about the appropriateness or otherwise of applying an MBM to shipping.

Despite the industry's serious reservations about emissions trading, ICS is conscious that many other non-EU nations are now establishing carbon taxes and ETS systems as a policy tool. Regardless of the hostility of the Trump Administration to the Paris Agreement on climate change, many individual U.S. States have established carbon markets which are now linking up with Canadian provinces to form a single North American trading system. Many governments in Asia, most notably China, are also setting up emissions trading systems. It will therefore be vital to ensure that IMO continues to make real progress in addressing CO₂ from shipping, in order to discourage any suggestion that these local carbon taxes and ETS systems should be applied on a mandatory basis to visiting foreign flag ships.

ICS continues to assert that policy makers will achieve far more by focusing on additional technical measures and the development of new fuels that will deliver genuine CO₂ reductions from shipping. But compared to the nightmare of participating in regional ETS systems, a global fuel levy would clearly be preferable for the vast majority of shipowners should IMO eventually decide that MBMs are in fact required for international shipping