

Isle of Man Ship Registry Technical Advisory Notice

EU 'Fit for 55' – EU Emissions Trading Scheme Directive & Monitoring, Reporting and Verification

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1. Introduction

EU 'Fit for 55' is an EU target to reduce emissions 55% by 2030 when compared against 1990. As part of 'Fit for 55', a package of regulations aimed at the maritime sector have been introduced. This TAN provides operators with advice on the EU Emissions Trading Scheme Directive (ETS), which expands the EU Monitoring, Reporting and Verification Regulations ([EU MRV](#)) already in force.

Under ETS, ships are required to buy and surrender emissions allowances on an exchange market to offset emissions reported under the EU MRV Scheme. Each emission allowance gives the holder the right to emit one tonne of carbon dioxide (CO₂), or the equivalent amount of other greenhouse gases such as nitrous oxide (N₂O) and Methane (CH₄) in the EU.

This TAN is to be taken as a brief summary of the requirements, it is strongly recommended that operators consult the further information at the end of this notice to familiarise themselves with the requirements in full. Key compliance dates for operators are detailed in Section 7 of this notice.

The Directive is expected to enter into force on 1st January 2024 following final sign-off from EU member states.

2. Application & Timeline

The ETS will apply to all companies trading in the EU/EEA with Manx Ships that meet the following criteria:

- From 1st January 2024 - Cargo and passenger ships ≥5,000 gross tonnage (GT)
- From 1st January 2027 - Large offshore service ships over 5,000 GT

By 2026, the European Commission will commission a report to review whether offshore ships and general cargo ships above 400 GT are to be included in the Directive from 2027.

Allowances are required for emissions from vessels on the following voyages:

- 100% of the emissions from ships travelling between EU ports
- 100% of the emissions at berth in EU ports
- 50% of the emissions for ships travelling between an EU port and a non-EU port

Dry-docks and other maintenance, as well as emissions from emergency situations are exempted from the requirements.

The ETS requirements will be phased-in on top of the verified emissions reported under the existing MRV scheme. The phase-in period will begin 1st January 2024 and require allowances to be surrendered from 2025 for the previous reporting year as follows:

- 2025 - 40% of verified emissions for the 2024 MRV reporting period
- 2026 - 70% of verified emissions for the 2025 MRV reporting period
- 2027 - 100% of verified emissions for the 2026 MRV reporting period



3. Considered Emissions

Initially, the ETS will only consider emissions from CO₂, however the MRV reporting requirements will be expanded beginning 2024 to include Methane (CH₄) and Nitrous Oxide (N₂O). Allowances for these gases must be surrendered under ETS from 2026.

4. Exclusions

There are some limited exclusions under the ETS until 31st December 2030:

- Ships with ice-class IA or IA super, or equivalent, may surrender 5% fewer allowances;
- Passenger and RoRo-Pax Vessel's on voyages -
 - to or from an EU port on an island with fewer than 200,000 permanent residents where there is no road or rail link with the mainland and a port of the same State, including activities within that port;
 - performed as part of a transnational public service contract or obligation between two EU ports, including activities within those ports;
 - between an EU port located in an outermost region and a port of the same State, including activities within those ports

Emissions not directly released into the atmosphere (including on board carbon capture and storage) still require surrendering of allowances.

There are two exceptions to this:

- Emissions stored in a storage site in accordance with [Directive 2009/31/EC](#) of the European Parliament and of the Council;
- Emissions that are permanently chemically bound in a product in accordance with EU requirements.

The EU has not yet specified the conditions that allow emissions to be considered permanently chemically bound.

5. Emissions Trading

The EU ETS system is framed around the Shipping Company and not the individual ship, emission allowances are purchased for the company's fleet as a whole and not per individual ship. MRV reporting remains at the ship level, however, the shipping company is required to appoint an accredited verifier at the fleet level.

Each company must be registered with an EU administrating authority. For companies registered in the EU, the administrating authority will be the member state where it is registered. For companies registered outside the EU, the authority will be the EU member state with the highest number of port calls from voyages performed by the shipping company over the previous two monitoring years. If the company has not traded in the EU for more than two years (or ever), it will be the member state of the first port of call in the EU.

The list of shipping companies and respective administering authorities will be set in February 2024 and then updated every two years.

5.1 Cap and Trade

The EU ETS system is a 'Cap and Trade' system. A limited amount of emission allowances (the Cap) is placed onto the ETS market each year and these can then be traded. A single ETS market has been established to cover power plants, industrial factories, aviation and shipping. 78.4 million allowances will be added to the market in 2024 for shipping.

The [European Energy Exchange](#) is in charge of allocating allowances for EU emissions and has been appointed by the European Commission as a common auction platform. Initial release of the Cap is in the form of an auction on the platform. A secondary market has also been



established that facilitates the trading of allowances bi-laterally or through derivatives offered via financial institutions.

To allow the EU to meet its climate targets, the Cap will be reduced on an annual basis according to a linear reduction factor. This will be -4.3% from 2024 to 2027 and -4.4% thereon.

Companies can only produce emissions up to the amount covered by their allowances. Where the allowances are not enough to cover a company's needs then they must purchase additional allowances on the market. Inversely, where a company has emitted less than their total allowances then they may sell remaining allowances on the market or roll these over into the following year.

6. Non-Compliance

Companies that produce emissions in excess of permitted allowances will be subject to a financial penalty of €100 per metric ton equivalent emitted. In addition, the operator will remain under obligation to purchase allowances for the excess emissions.

In the case of non-compliance for two or more reporting periods, expulsion orders may be issued at the EU port of entry. As the ETS is applied at company level then this expulsion order would apply to all ships in a company's fleet.

7. Key Reporting Dates for Compliance

To comply with the Directive, within 3 months of 1st January 2024 an updated EU MRV plan (including Methane and Nitrous Oxide) must be verified by an accredited verifier and submitted to the shipping company's administrative authority.

Beginning in 2025, the company must submit a verified emission report to the administering authority each year by 31st March. The company emission report must aggregate all emissions within the scope of the ETS reported and verified for each ship under the responsibility of the company during the reporting period. In practice, this will require the company to submit the individual ship level MRV emission reports for verification earlier than under the current MRV system.

By September 30th each year, the company will have to surrender the required allowances to cover emissions generated over the reporting period, beginning with 40% of CO₂ emissions generated in 2024 for 2025.

8. More Information

- [*EU Emission Trading System \(including Directive\)*](#)

Please note - The Isle of Man Ship Registry cannot give legal advice. Where this document provides guidance on the law it should not be regarded as definitive. The way the law applies to any particular case can vary according to circumstances - for example, from vessel to vessel. You should consider seeking independent legal advice if you are unsure of your own legal position.

