



CAP₂ Position



**Emissions trading to be expanded in 2024:
International shipping to be included on a mandatory basis**

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Integration into the EU ETS

This year, international shipping will be integrated into the EU Emissions Trading System (EU ETS) alongside the energy sector, energy-intensive industry and aviation. This integration is intended to contribute to a further significant reduction in greenhouse gas emissions. Globally, shipping accounts for around 2.9% of CO₂ emissions, while in the EU this figure is 3.7%.

The new regulations provide for a gradual introduction of the obligation to purchase emission allowances for shipping. Specifically, this means that from 2024, 40% of emissions must initially be covered by EUAs, with this proportion rising to 100% by 2026. This staggered introduction is intended to make it easier for ship operators to adapt to the new conditions.

Increased demand for EUAs

In order to cover the increased demand for emission allowances, the EU plans to auction 78.4 million additional emission allowances in 2024. This measure aims to ensure a smooth transition while maintaining the integrity of the emissions trading system.

This increase of almost 80 million emission allowances is based on the average CO₂ emissions from EU maritime transport in 2018 and 2019, as recorded in the MRV (Monitoring, Reporting, and Verification), taking into account the reduced geographical scope for maritime shipping. The linear reduction factor (LRF) of 4.3% applicable in the EU ETS is applied retroactively to these emissions. From 2028, the LRF will be increased to 4.4%. In 2026 and 2027, the number of allowances will be increased again to take account of the inclusion of additional greenhouse gases such as methane and nitrous oxide emissions and emissions from offshore vessels that are only included at a later date.

The 78.4 million additional EUAs will be freely tradable between all sectors covered by the EU ETS, just as before, which means that these

allowances can be used by actors in the maritime sector as well as in other sectors covered by the EU ETS. This approach aims to increase the flexibility and efficiency of the market and enable participants to achieve their emission reduction targets in a cost-effective manner.

Achieving the climate targets

In addition to the integration of maritime transport into the EU Emissions Trading System (EU ETS), further significant expansion steps are planned in order to achieve the EU's climate targets. In particular, the EU Commission's "Fit for 55" package of July 14, 2021 includes several legislative changes to adapt the EU's energy and climate instruments to the target of reducing emissions by 55% by 2030 compared to 1990 levels. A significant step in this regard is the introduction of a new ETS for buildings and road transport, known as ETS 2. The introduction of ETS 2 is an essential part of the EU's comprehensive approach to achieving its climate targets and reflects the need to extend emission reductions beyond industry and energy production to broader sectors of the economy. This is also against the background of the observation that significant CO₂ reduction successes in Europe have almost only been achieved in those sectors where emissions trading is already mandatory.

Adjustments are planned with regard to the avoidance of double burdens, particularly in the context of national emissions trading systems such as the German national emissions trading system (nEHS). With the introduction of the EU ETS 2, the German national emissions trading system (nEHS) is expected to be revised or transferred to the EU ETS 2 over the next few years. This process will examine whether (commercial) national shipping should continue to be exempt from the nETS or the EU ETS 2. The aim is to avoid double burdens and to ensure that all shipping segments are covered by the emission reduction measures, particularly with regard to the future expansion of the EU ETS to other ship types and sizes.

Like probably all economists, we at CAP2 are convinced that this is another step in the right direction, despite the limited significance of maritime shipping for climate change. European emissions trading has proven several times that it can make a contribution to climate protection. According to EU figures, EU emissions in the sectors covered have already been reduced by a significant 41% by 2020 since the introduction of emissions trading. What's more, we have already explained in one of our position papers that the continuous scarcity of emission allowances can reduce emissions of climate-damaging gases more than all known alternatives.

An outlook

The integration of additional sectors is always associated with certain risks: If change-induced price spikes are to be avoided, the additional demand must be flanked by a moderate expansion of the EUAs auctioned by the member states. We have the impression that additional demand and supply have been carefully balanced here. In any case, important experience can be gained from this for the introduction of ETS 2 with the much more important building and road transport sectors.

Further information can be found in the article "Extension of the EU ETS to maritime transport" by the Federal Environment Agency dated October 5, 2023.



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