EUROPEAN COMMISSION (EC) ***"REVIEW OF THE EU ETS FOR MARITIME, AVIATION AND STATIONARY INSTALLATIONS, AND OF THE MARKET STABILITY RESERVE"***

REF. ARES(2025)3030455 - 14/04/2025

COMMENTS BY INTERNATIONAL CHAMBER OF SHIPPING (ICS)

Introduction

1 The International Chamber of Shipping (ICS) appreciates this opportunity to provide input to the European Commission (EC) *"Review of the EU ETS for maritime, aviation and stationary installations, and of the Market Stability Reserve"* (Ref. Ares(2025)3030455 - 14/04/2025).

2 The EC says it is seeking input, inter alia, with respect to the new UN International Maritime Organization (IMO) agreement on reducing GHG emissions from international shipping and *"Reviewing the ETS accordingly, so as to avoid a significant double burden on maritime operators and prevent environmental backsliding"*. This request for input, and the acknowledgment by DG CLIMA of the core issues to be addressed, is both timely and welcome, although ICS considers that the EU should seek to avoid **any** double burden on maritime operators, financial or administrative, following the expected adoption of the "IMO Net-Zero Framework" (NZF) in October 2025.

3 ICS is the global trade association for shipowners and operators comprising the world's national shipowners' associations based in Asia, Africa, the Americas and Europe. Our EU-based national associations are also members of European Shipowners (ES/ECSA) which is an ICS Regional Partner, as is the Asian Shipowners' Association (ASA). ICS speaks for over 80% of the world merchant fleet operating in all shipping sectors and trades. ICS enjoys consultative status at IMO at which ICS has been actively engaged throughout the negotiations between IMO Member States leading to the recent adoption of the ambitious IMO NZF for the phase-out of international shipping's GHG emissions by 2050.

4 ICS (with ES/ECSA) has been committed to achieving net zero GHG emissions by international shipping by 2050 since the UNFCCC Climate Conference (COP 26) in 2021. ICS (with ES/ECSA) fully supports the successful implementation of the 2023 IMO GHG Strategy, and acknowledges the critical role which EU States and the EC have played in the IMO negotiations leading to approval of the IMO NZF in April 2025.

5 ICS notes that the EU has adopted key EU priorities 2024-2029 to shape its policy agenda which can be summarised as Safety and Security, Competitiveness

for EU Companies, and Climate. ICS assumes that the EC will carefully address these EU priorities as it assesses the future application of the EU ETS to international shipping, including to EU ships engaged in international trade.

6 ICS also trusts that the EC will give due consideration to the important points submitted by ES/ECSA to this review for an efficient EU policy and regulatory approach to deliver on the energy transition for shipping, consistent with the ambitious IMO NZF, in particular with regard to avoidance of double regulation and double payment for the same GHG emissions from international shipping.

Current Application of the EU ETS to international shipping

7 The following comments from ICS are limited to the EU's unilateral extension of the application of the EU ETS to international shipping which also applies to CO_2[1] emitted by non-EU flag ships under the sovereign jurisdiction of third country flag State Administrations during commercial voyages to and from European ports, including CO_2 emissions which occur outside of the territorial waters of EU Member States, plus those of Norway and Iceland, as defined by the United Nations Convention on the Law of the Sea (UNCLOS).

8 ICS fully supports the implementation of a global GHG emission pricing mechanism for international shipping, as provided by the IMO NZF. However, ICS continues to oppose the unilateral application of any emissions trading systems to international shipping, whether national, local or regional. This includes the extension of the EU ETS by Directive (EU) 2023/959 to international shipping which is especially inappropriate for a global sector that largely comprises SMEs, many of which are located outside of the EU, as opposed to large land-based sectors within the EU, such as energy, steel and cement producers for which the EU ETS was originally designed and whose companies individually generate significant GHG emissions.

9 The variable and volatile cost of EU ETS allowances, which is determined by the market and is greatly affected by geopolitical developments, is particularly challenging for small shipping companies (including most EU shipping companies) to administer and finance, and creates specific administrative and financial burdens for shipping companies located outside of the EU which are required to set up individual accounts (THETIS and the Union Registry) with the particular EU Member State which has been allocated to them for the purpose of surrendering allowances.

10 ICS further notes that the majority of the income generated from the surrender of EU ETS allowances will be directed for the benefit of EU Member State governments, even though the GHG emissions for which international shipping must

[1] Soon to be extended to other GHGs.

11 surrender these allowances have mostly occurred beyond EU Member States' territorial waters. This is in contrast to the IMO NZF and its establishment of the IMO Net-Zero Fund which, in line with the 2023 IMO GHG Strategy[2], will support this hard-to-abate sector with its efforts to rapidly transition to zero/near-zero GHG fuels and technologies ("ZNZs") with US$ tens of billions per year, acknowledging that shipping is currently very dependent on fossil marine fuels due to a current lack of globally available alternative energy sources.

12 ICS emphasises that the decarbonisation of international shipping is a multi-stakeholder endeavour. Penalising shipping alone with double regulation/double charging of GHG emissions, particularly given the current unavailability of ZNZs, which shipping itself cannot produce and which are essential across all sectors of the world economy for meeting UNFCCC decarbonisation commitments (NDCs), would be unfair and also ineffective for achieving the goal of net zero GHG emissions from international shipping by 2050.

13 ICS also notes the negative economic impacts which the EU ETS reportedly may have on the volume of transhipment cargoes via EU ports, especially in the Mediterranean, an impact which may increase as the application of the EU ETS to shipping is fully implemented next year, increasing the number and total cost of the allowances which international shipping companies will be required to surrender.

14 The extension to international shipping of the EU ETS has created an unhelpful regional precedent which, unfortunately, is already being replicated, emulated, or considered for application to international shipping elsewhere around the world. Encouraging this trend directly undermines the EU's long-standing leadership and instrumental role in supporting the achievement of a global, multilateral solution under the IMO NZF. Regional measures, such as the application of the EU ETS to international shipping, risk undermining global co-operation for decarbonisation by fragmenting global efforts and eroding the consensus and instrumental support necessary for the effective implementation of the IMO NZF agreement.

15 In summary, therefore, ICS continues to regard the extension of the EU ETS to international shipping as an extraterritorial burden on global and EU maritime trade, which hampers and unnecessarily complicates the efforts of all IMO Member States (including EU States) to decarbonise the entre global shipping sector, a view shared by the EU's third country trading partners.

[2] IMO Resolution MEPC.377(80)

The IMO Net-Zero Framework

16 As the EC will be aware, on 11 April 2025, the IMO Marine Environment Protection Committee (MEPC 83) approved amendments to Annex VI of the MARPOL Convention[3], including a new Chapter 5 and the "IMO Net-Zero Framework" (NZF), which, if adopted at the Extraordinary MEPC meeting in October 2025 (MEPC/ES.2) will enter into force globally in March 2027.

17 As advocated by ICS (and ES/ECSA), and also by the EU 27 and the EC, the IMO NZF will, inter alia, introduce a maritime GHG emissions pricing mechanism for international shipping, which will be the first global system of its kind to be adopted and implemented worldwide for an entire industrial sector to achieve the ambitious goal of net zero emissions from international shipping by 2050.

18 ICS very much welcomes the fact that 23 EU States[4] voted to approve this ambitious package of MARPOL amendments at the MEPC 83 meeting, and ICS was pleased to co-operate closely with the EC and EU States during these complex IMO negotiations as part of the "50+ Group" of IMO Member States which had advocated for a flat rate levy/contribution per tonne of GHG emitted instead of an emissions trading system, as a cap and trade system, such as the EU ETS, would not have been an appropriate mechanism for global application to shipping, any more so than for regional application, and would not have achieved the necessary political consensus among IMO Member States.

19 The IMO NZF approved in April 2025 firmly establishes a global price for GHG emissions for internationally trading ships using conventional marine fuels, with the purpose of reducing the price gap with zero/near-zero (ZNZ) marine fuels, the uptake of which needs to be rapidly accelerated on a global basis if the sector is to achieve net zero GHG emissions by (or about) 2050, as required by the 2023 IMO GHG Strategy to which all EU Member States have committed.

20 ICS and its member national shipowners' associations therefore fully support adoption of the IMO Net-Zero Framework by all Parties to MARPOL Annex VI at the Extraordinary MEPC meeting in October 2025.

Replacement of current text in Directive (EU) 2023/959 with the new IMO MARPOL Annex VI text to avoid double-charging for the same GHG emissions

21 Assuming that the MARPOL amendments are adopted in October, ICS asserts that the relevant text of current Directive (EU) 2023/959, which extends the application of the EU ETS to international shipping, should be **replaced** by the

[3] See document MEPC.ES.2/2 (Secretariat)
[4] See document MEPC 83/14/Add.1, annex 10 (Secretariat)

provisions set out in the new Chapter 5 of MARPOL Annex VI, although certain existing provisions should be retained. In particular, ICS suggests that transposition should draw on the methodological principles used for the cost recovery formulation and allocation under the ETS in terms of passing on the cost to the commercial operator, which is stronger than what has been agreed under the IMO NZF.

22 It is essential that internationally trading ships should not be charged twice for the same GHG emissions under both the IMO NZF and a separate regional EU emissions charging regime for which, following adoption of the IMO NZF, there will no longer be any environmental justification, and which should therefore be replaced with the new IMO text before the MARPOL Annex VI amendments enter into force globally in March 2027.

23 ICS presumes that the EU Member States and the EC will strongly advocate for adoption of the NZF at IMO in October. However, adoption by the requisite number of MARPOL Annex VI Parties (73 of 108), especially if this goes to a vote at MEPC/ES.2, cannot be assumed by the EU. It is therefore essential that the EU avoids making any statements (which ICS considers would be factually incorrect) to the effect that the IMO agreement may not be sufficiently ambitious to achieve the goals of the 2023 IMO GHG Strategy, as this could potentially jeopardise adoption of the IMO agreement at MEPC/ES.2.

24 The IMO NZF is currently an incomplete framework. But with the support of EU States, the IMO MEPC will soon adopt necessary implementation guidelines, as set out in the draft work plan[5] to be agreed at MEPC/ES.2, including guidelines for the calculation and disbursement of rewards to ships by the IMO Net-Zero Fund for the use by ships of zero/near-zero (ZNZ) marine fuels and technologies. Rapid approval of all these guidelines should ensure that the IMO NZF will indeed incentivise achievement by the sector of net zero GHG emissions globally by 2050 and the immediate IMO level of ambition for at least 5-10% of the energy used by international shipping to come from ZNZ sources by 2030, so that delivery of these ambitious goals will remain on track.

25 ICS's assessment is that once the system for providing rewards to ships which use ZNZ fuels is in place, work on which can be begin immediately as soon as the NZF is adopted in October, the NZF will be sufficient to help achieve the goals of the IMO Strategy, especially if IMO, with EU support, can satisfactorily address the issue of how rewards to ships for the use of ZNZs will be calculated and efficiently disbursed, so that they rapidly incentivise the uptake of ZNZ fuels, and provide the clarity and certainty needed so that energy producers and shipowners can take urgent investment decisions.

[5] See document MEPC.ES.2/3 (Secretariat)

Suggested EC Actions ahead of MEPC/ES.2

26 To help ensure support for adoption of the MARPOL amendments by non-EU States in October 2025, ICS suggests that the EC should announce in advance of MEPC/ES.2 that it is already giving consideration to replacing the text within the current EU ETS Directive with the new MARPOL Annex VI text, and that the EC review of implications of the IMO agreement, as required by the EU ETS Directive, will be completed as soon as possible, with the outcome to be submitted to MEPC 84, in Spring 2026, for the information of all IMO Member States.

27 ICS considers that it is essential that the EU gives a clear signal of its intention to replace the text in the EU ETS Directive that applies to shipping with the new text agreed by IMO. This is to avoid any possibility that adoption of the IMO NZF could be jeopardised. This is due to serious concerns among many non-EU States about the implications of double-charging, as well as about the additional administrative burden that would be created for EU and non-EU flag State Administrations if they were required to reconcile conflicting requirements under separate global and regional systems operating in parallel, with different annual compliance timelines and calculation/payment methods for GHG emission charges.

28 ICS appreciates that the EC might not be able to publish detailed proposals with respect to how it will align the two systems until the NZF has been adopted by IMO in October. Nevertheless, assuming that the substance of the final IMO text adopted will differ very little to that approved in April, it is essential that the EC now makes the appropriate signals to non-EU States and makes preparations to issue the results of its review as far in advance as possible of the latest date required by Directive (EU) 2023/959. This is very important so that non-EU States will have clarity and confidence about the EU's intentions before the end of the 10 month acceptance period[6] following adoption at MEPC/ES.2, during which Parties to MARPOL Annex VI are entitled to submit reservations to IMO declaring that they have elected not to implement the new Chapter 5 (without prejudice to their other treaty obligations under MARPOL Annex VI).

Effectiveness of IMO NZF compared to application of ETS to international shipping

29 ICS asserts that the IMO NZF is in fact far more ambitious and likely to achieve the goal of net zero GHG emissions from the global shipping sector by 2050 than the unilateral application of the EU ETS to international shipping.

In this context, it is particularly important to note that:

[6] MARPOL Convention, Article 16(2)(f)(iii)

.1 The GHG price established by the IMO NZF will apply to the entire world fleet i.e. 100% of GHG emissions from all internationally trading ships of 5,000 GT and above (85% of international shipping's total GHG emissions), whereas ICS calculates that the surrender of allowances under the EU ETS will only apply, if fully implemented in 2027, to about 10% of total global GHG emissions from international shipping, based on data from the IMO Fuel Oil Data Collection System (DCS) and EU MRV data.[7]

.2 The reduction factors for the required GHG intensity (GFI) of marine fuels, approved by IMO under the NZF, are far more **stringent** than those agreed under FuelEU Maritime. especially noting that, unlike the application of the EU ETS Directive to international shipping, the IMO NZF also takes account of **Well to Tank emissions** (upstream emissions involved in fuel production etc).

.3 The IMO regulations (unlike the EU ETS) do establish a genuinely **global** GHG price for shipping per tonne of actual CO_{2eq} emitted on a Well to Wake basis, which attaches a fixed price for IMO GHG emission pricing contributions (US$ per tonne of CO_{2eq}) for those ships which continue to use conventional marine fuels with a high GHG intensity. Moreover, the cost of these contributions will increase, aggressively, on an annual basis, as the Annual Required GFI that ships must achieve becomes ever more stringent year on year.

.4 Under the IMO NZF, unlike the EU ETS, where ships trading between EU and non-EU ports only require allowances for 50% of their total emissions, the GHG emission pricing contributions to be made by ships to the IMO Net-Zero Fund apply to **100%** of the CO_{2eq} emissions from the use of fuels by ships which under-comply with the Annual Required GFI provisions; noting also that for the five-year period between 2028 and 2032, some 95% of marine fuels which ships (of 5,000 GT above) will continue to use are expected to be subject to increasingly high penalties (as those marine fuels which do not attract penalties will not yet be available in significant quantities).

.5 Given that under the EU ETS (when the current phase-in period is over) ships engaged in trade between EU and non-EU ports will only need to surrender allowances for 50% of their emissions, based on the (4 July 2025) price of EU ETS allowances, the cost to these ships is **in effect** only about 35 Euros per tonne of CO_2 emitted (50% of the current price of about 70 Euros).

[7] This 10% figure is probably an overestimate. Based on IMO DCS and EU MRV data for 2024, the EU ETS seems to apply to about 15% of global international shipping emissions from ships of 5,000 GT and above, but allowances only have to be surrendered by 2027 for 50% of these occurring during international voyages. However, account also has to be taken of those GHG emissions from intra-EU voyages, plus GHG emissions by ships at berth, for which 100% of GHG emissions must be covered by allowances. Using published data, ICS has found it difficult to precisely calculate the proportion of those emissions subject to 100% allowances which may occur during international voyages and has therefore erred on the side of caution.

.6 The price of emissions under the IMO NZF is therefore comparable (or will soon exceed) the cost of emission allowances for international shipping (excluding intra-EU trades or ships at berth) under the EU ETS. Under the IMO NZF, ICS currently estimates[8] that the price for each tonne of CO_{2eq} emitted by any ship using conventional fuel oil is likely to be equivalent to over US$60 per tonne of CO_{2eq} emitted in 2030, increasing to over US$150 per tonne of CO_{2eq} by 2035 (calculated on a Tank to Wake basis as used by the EU ETS) – which, respectively, in 2030 and 2035 may be around 80% and 200% higher than the current effective cost of ETS allowances for ships trading between EU and non-EU ports.

.7 Based on the above, it therefore appears (unless the future cost of EU ETS allowances increases significantly) that for the vast majority of ships, including ships trading with Europe, that will continue to use conventional marine fuel, the cost of IMO GHG emission pricing contributions under the IMO NZF – **and thus the crucial incentive these will provide to ships to reduce their GHG emissions** – will soon be greater than under the EU ETS for ships trading between EU and non-EU ports. It therefore seems hard to justify why the application of the EU ETS to shipping would continue to be necessary for the EU to achieve its GHG reduction goals or those of the IMO.

.8 It is also important to note that, unlike the revenue from allowances to be surrendered by international shipping under the EU ETS, the IMO NZF will ensure **direct re-investment** of almost all of the large revenues to be collected by the IMO Net-Zero Fund (from annual GHG emissions pricing contributions to be paid by ships) for **supporting the deployment of ZNZ marine fuels and technologies globally** and other decarbonization projects around the world, such as green marine fuel generation and safe ZNZ bunkering infrastructure in ports, which will be essential for the hard-to-abate sector of international shipping to achieve the ambitious goal of net zero GHG emissions by 2050 – which is shared by the EU and the global shipping industry.

30 ICS hopes that these comments are useful, and will be happy to elaborate further and/or provide clarifications to the EC if helpful.

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[8] ICS intends to provide more data on the estimated cost of GHG emission pricing contributions under the IMO NZF to ISWG-GHG 20 (20-24 October 2025).