

Addressing governance challenges for the EU ETS in shipping

Policy Brief

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Highlights

The introduction of the EU emission trading system (ETS) in shipping signals a proactive effort and strong commitment to address climate change concerns in shipping. However, ETS implementation is hindered by lack of accountability and transparency, and a mismatch between the scale of the problem (global climate change) and policy implementation (EU ETS), which could limit the effective implementation of the European Green Deal. This policy brief recommends that:

- **The European Commission** develops a digital tool enabling shippers to calculate ETS payments and verify that charges do not exceed amounts actually paid by shipowners/carriers.
- **The Commission** clearly communicates with shipping actors its response to the postponement of the IMO Net-Zero Framework.
- **The Commission** develops an interactive platform for all actors to seek redress and engage with designated authorities.
- **Shippers and shipowners** include in their contractual agreements how ETS allowance costs and potential penalties are shared or allocated.

This policy brief is a result of research conducted by the PERMAGOV project which sets out to improve EU marine governance so that it can better meet the goals and objectives established in the European Green Deal.

EU ETS Implementation in Shipping

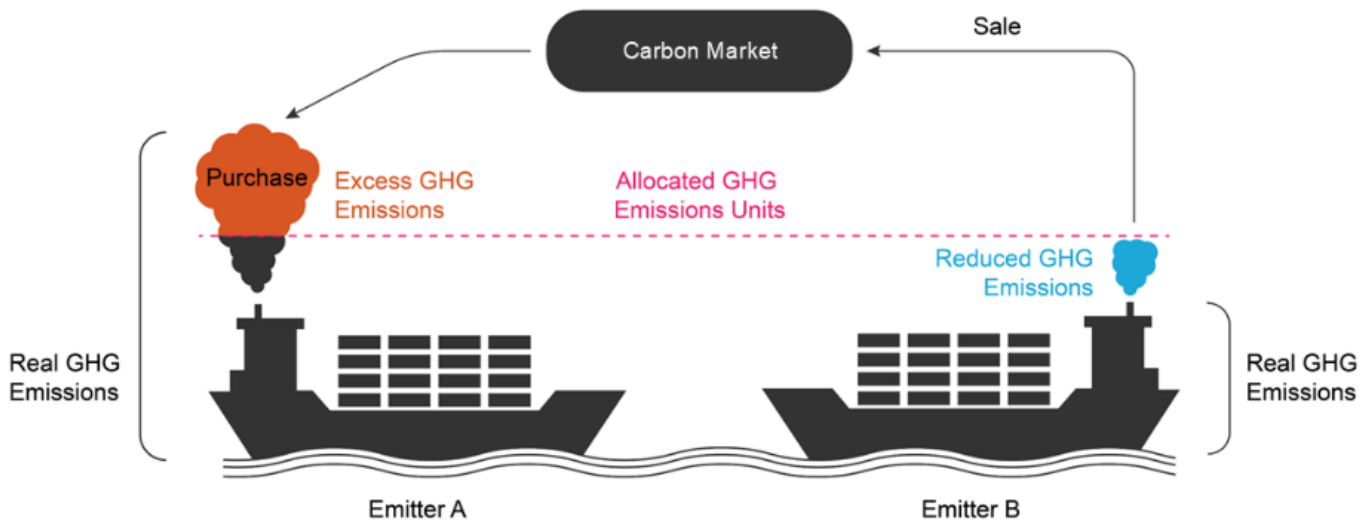
Faced with limited progress at International Maritime Organisation (IMO) level, the EU has taken a leading role in reducing greenhouse gas (GHG) emissions from shipping. Through the “Fit for 55” package, it aims to cut net GHG emissions by at least 55% by 2030 compared to 1990 levels. The EU ETS (*Directive (EU) 2023/959*), which is considered a cornerstone of EU’s climate policy, supports the objectives of the European Green Deal (EGD), seeking to promote resource and energy-efficient, low-carbon solutions and to achieve climate neutrality by 2050.

The EU included shipping in the ETS directive in January 2024, covering emissions of CO₂ as well as methane and nitrous oxide, but the latter two only from 2026. Emissions from shipping are included in the overall EU ETS cap, which defines the maximum amount of GHG that can be emitted under the system. The cap is reduced over time to ensure that all ETS covered sectors contribute to the EU’s climate objectives. One year later, IMO’s MEPC 83 endorsed a draft Net-Zero Framework, introducing global emission limits and carbon pricing, though implementation discussions continued and formal approval was postponed to October 2026.

The EU’s move to include shipping in the EU ETS policy demonstrates strong political commitment, yet stakeholders such as the European Shippers Council (ESC), European Community Shipowners Associations (ECSA) and ports near non-EU hubs, highlight significant technical, economic, and operational challenges, including uneven stakeholder involvement, limited transparency, and weak coordination between EU and global regulatory regimes.

The EU Emission Trading System (EU ETS)

The revised EU ETS which covers maritime transport covers emissions from ships of 5000GT based on a phased approach; from 40% of CO₂ emissions in 2024 to 70% in 2025 and 100% from 2026 onwards. Shipping companies must purchase and surrender EU ETS emission allowances for each ton of reported CO₂ emissions in the scope of the EU ETS system. At the end of each year, shipowners are expected to balance between their emission allowances and verified emissions, and those who emit below the threshold are rewarded through the sale of their surplus.



The cap-and-trade system of the EU ETS in shipping

Governance challenges with EU ETS implementation in shipping

(1) The dominant role of shipowners: Shipowners are primarily responsible for ensuring compliance with technical, operational, and regulatory standards, including the EU ETS. This position allows them to unilaterally pass additional emission-related costs on to other actors, particularly shippers. Reports indicate that large shipping companies may be profiting from EU ETS surcharges at the expense of cargo owners. This is exacerbated by the top-down approach of communication about EU level directives such as the EU ETS, which makes it difficult for actors such as shippers to get their voices heard.

Limited transparency and accountability around ETS surcharges, combined with the weak involvement of shippers and other stakeholders in decision-making related to ETS cost, makes it difficult to verify whether the total amount paid for ETS by shippers does not exceed the actual amount paid by shipowners/carriers themselves. This limits the trust that key actors have in, and their acceptability of, the EU ETS as an effective means to decarbonise shipping.

Split incentives between shipowners and shippers further weaken motivation for technical improvements, as shipowners can transfer EU ETS costs to those paying for fuel. The current design of the EU ETS focuses heavily on ships and shipowners, without sufficiently reflecting power relationships across the maritime value chain.



(2) The mismatch of regulatory scales between the EU and the IMO: Mismatches in spatial scale arise when the scale at which an issue occurs and the scope of the management and governance systems that have jurisdiction over the issue are incompatible. Scale mismatches are aggravated by a lack of coordination and cooperation between actors, and across multiple jurisdictions, resulting in conflicting goals and objectives. In decarbonising shipping, there is a mismatch between global emissions of GHG and the European approach to managing them, i.e. the ETS. The IMO's failure to approve its Net-Zero Framework highlights the difficulties of establishing global mandatory emission limits and carbon pricing. This undermines both the environmental integrity of the EU ETS and its predictability within global maritime governance. For shippers, shipowners, and other key actors in the maritime value chain, no agreement could also result in uncertainty and hesitance to invest in green shipping.

Inversely, the implementation of the latter is also affected by regional and local specificities at the EU level, insufficiently considered in the design of the ETS (e.g. transshipment affecting some ports). Such a mismatch between the scale of the issue (carbon emission) and the scale of governance arrangements, limits the effective implementation of the ETS. A lack of alignment, especially with IMO regulations, increases the risk of carbon leakage through evasive industry practices and may lead to uneven economic impacts across countries and segments of the maritime transport value chain. Therefore, in its current form, the EU ETS may not deliver the sought-after effect of GHG reduction from shipping.

Recommendations

- (1) The European Commission** should clearly communicate with key actors in the maritime value chain in the EU about how it will respond to the recent postponement of the IMO Net-Zero Framework and its implications on the current EU ETS System.
- (2)** To deal with the dominant role of shipowners, the contestations associated with lack of clarity on who pays for the cost of emission, and the split incentives for decarbonisation, there is a need to include in contractual agreements among actors (especially between **shipowners and shippers/cargo owners**) the ETS allowance costs and how potential penalties are shared or allocated.
- (3)** Improving transparency on emission calculations and real-time data on emission calculation is crucial in dealing with the governance challenges with EU ETS implementation. Currently, ETS utilizes the EU Monitoring, Reporting and Verification (EU-MRV) system as the foundation of accounting for the EU emissions from ships. Real-time environmental and emissions data are often inaccessible, delayed, or aggregated, which slows decision-making of shippers in selecting the most carbon friendly ships that contribute to carbon emission reductions. The **European Commission** should develop accessible and user-friendly digital tools to calculate the actual ETS payments especially for less-than-container loads and verify that charges do not exceed amounts actually paid by shipowners or carriers.
- (4) The European Commission** should provide platforms and forums (e.g. online interactive platforms) where different maritime actors, including shipowners, shippers, and other important stakeholders could provide real-time feedback on challenges with EU ETS implementation, seek redress of their concerns, and interact with EU designated authorities.

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