

## JBCE POSITION PAPER ON THE REVIEW OF THE EU ETS DIRECTIVE

### INTRODUCTION

As a cross-sector association with member companies operating in different industries and stages of the supply chain, the Japan Business Council in Europe (JBCE) welcomes the opportunity to contribute to the consultation regarding the review of the EU emissions trading system for maritime, aviation and stationary installations, and market stability reserve.

### KEY MESSAGES

1. **Regulatory simplification** is essential, as the complexity of regional frameworks and growing administrative burdens are placing significant strain on the private sector.
2. **Alignment with global regulations** is crucial to prevent regulatory overlap and avoid unnecessary burdens on companies operating internationally.
3. **Ocean Carbon Capture and Storage (OCCS) should be formally recognised** as a viable emissions reduction solution to advance the decarbonisation of the shipping sector.
4. **The use of high-integrity Carbon Dioxide Removal (CDR) credits should be enabled** in the maritime industry as a complementary measure to help achieve net-zero emissions targets.

### 1. Simplification of Regulations

The implementation of the EU Emissions Trading System (EU ETS) in the maritime transport sector involves a complex regulatory landscape that spans from the EU Monitoring, Reporting and Verification (MRV) Regulation to the EU ETS Directive, requiring reference to more than ten regulations, including related implementing laws.

These regulations tend to be issued without sufficient lead time, which has a significant impact on practical work. In particular, the details of implementing laws are sometimes discussed within the European Sustainable Shipping Forum (ESSF), but the limited number of participating members makes it difficult for non-participants to follow the discussions and does not facilitate transparency.

Furthermore, in the context of the shipping industry, the regulatory entities of the EU ETS are the ship's Registered Owner or the International Safety Management (ISM) Company,

which means that a single shipping company may be bound to multiple regulatory entities. Each regulatory entity must comply with an administering authority assigned by EU Member States. As the EU ETS is a Directive, it is necessary to continuously monitor its transposition by each Member State.

The procurement and management of EU Allowances (EUA) necessary to fulfil emission reduction obligations include establishing new purchasing systems and responding to financial instruments trading regulations, such as the Markets in Financial Instruments Directive (MiFID II), thereby entailing compliance risks with legislations other than the EU ETS. The purchase of EUAs also requires selecting new counterparties, managing foreign exchange and market risks, and ensuring consistency with the accounting standards of the country where the headquarters of companies are located, all of which represent a high barrier to entry, especially for non-EU businesses.

Additionally, a dedicated account must be opened for trading and surrendering EUAs, but the required documents and procedures differ depending on the Member State of compliance, which can lead to cases where opening an account takes nearly a year.

## **2. Harmonisation with Global Regulations**

International shipping is not subject to the Kyoto Protocol or the Paris Agreement, as the United Nations delegates the drafting of regulations to the International Maritime Organization (IMO). New IMO regulations on GHG emission were approved at the Maritime Environment Protection Committee (MEPC) 83 meeting in April 2025, with enforcement planned to be adopted at the extraordinary MEPC session in October 2025.

On the other hand, the EU ETS is structured based on the "polluter pays principle," ultimately passing costs onto shippers. However, the introduction of local regulations alongside the IMO could lead to double regulation, risking the competitiveness of all the companies related to ocean transportation within the EU. Achieving harmonisation with the IMO is essential to ensure international fairness.

## **3. Recognising Ocean Carbon Capture and Storage**

Shipping is a key infrastructure that accounts for over 90% of global trade volume and is involved in all Scope 3 emissions. Decarbonising the shipping industry is essential for achieving net-zero targets across all industries.

However, shipping is classified as a "hard to abate sector," and due to structural constraints specific to each vessel, it is challenging to implement direct reduction measures such as

electrification. Additionally, unlike land-based facilities, it is difficult for ships to achieve economies of scale, which tends to raise the relative costs of decarbonisation.

Therefore, where substantial emission reduction effects resulting from the introduction of Ocean Carbon Capture and Storage (OCCS) are recognised, these effects should be institutionally assessed and certified.

#### **4. Utilisation of Qualified CDR Credits**

Shipping is categorised as a "hard to abate sector," and despite making efforts to reduce Scope 1 and 2 emissions due to technical and structural constraints, complete reduction of residual emissions, including Scope 3, remains difficult. The IPCC AR6 Working Group III also clearly states the necessity of utilising Carbon Dioxide Removal (CDR) credits alongside other reduction measures, indicating that while they cannot serve as an immediate and substantial alternative for emission reductions, they are positioned as an important complementary tool for achieving net zero. Therefore, a framework should be established to institutionally recognise the use of high-integrity CDR on credits that meet requirements such as additionality and durability in the shipping sector.

### **ABOUT JBCE**

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organisation representing the interests of over 100 multinational companies. Our members operate across a wide range of sectors, including information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceuticals, textiles, and glass products.

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