EU Emission Trading System

The regulation and its impact

Revision date:
November 2023

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Background

1. Background

The European Green Deal & the Emission Trading System

The European Green Deal and the Emission Trading System are interconnected in their efforts to combat climate change.

- The European Green Deal is a comprehensive plan developed by the European Union to make Europe the world's first climate-neutral continent by 2050. It aims to transform Europe's economy, industries, and society to be more sustainable and environmentally friendly.
- The Emission Trading System (ETS), is a key policy tool within the European Green Deal. It is a cap-and-trade system designed to reduce greenhouse gas emissions from industries and power plants.
- In summary, the European Green Deal sets the broader vision and goals for a sustainable Europe, while the ETS is one of the specific mechanisms used to achieve those goals by regulating and reducing greenhouse gas emissions.

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Change on this scale is never easy – even when it is necessary.
For that reason, there are some who will say we should go slower,
we should go lower, we should do less.
But when it comes to climate change, doing less or doing nothing
literally means changing everything.

Ursula von der Leyen
President of the European Commission
14 July 2021

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About the ETS

2. About the Emissions Trading System (ETS)

Key Facts

ETS for Shipping

The ETS is being extended to include the maritime sector to reduce greenhouse gas emissions from industries within the sector, including shipping.

Cost implications:

Following the ‘Polluter Pays Principle’, the ETS will lead to additional costs for shipping services to account for the carbon pricing mechanism.

Cap and Trade:

Through the ETS regulation, a cap-and-trade system is enforced, aiming to limit harmful pollutants by establishing a market-based price mechanism on emissions.

Compliance and penalties:

Shipping companies failing to comply with the ETS regulations may face penalties and fines, which could impact pricing of shipping services.

Emission monitoring:

Ships covered by the ETS need to monitor and report their emissions to ensure compliance with the set limit.

Transition period:

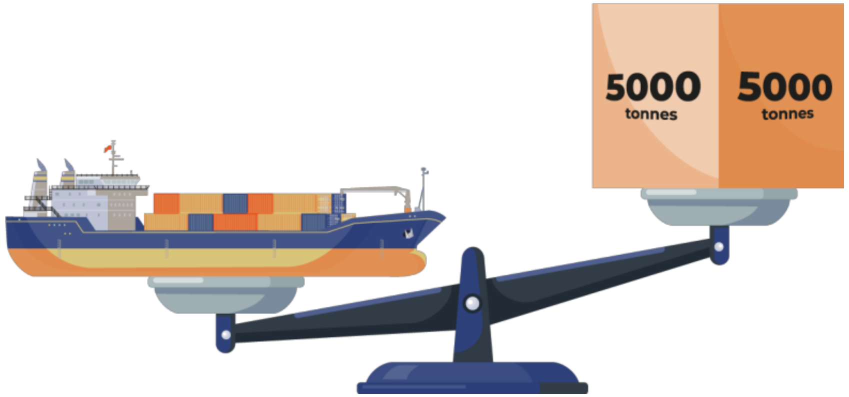
The implementation of the ETS for the maritime industry will have a phased approach, allowing for adjustments and the adoption of cleaner technologies.

2. About the Emissions Trading System (ETS)

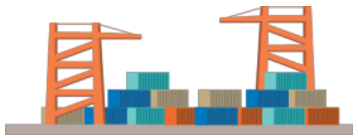
Scope – Vessels and Shipping Activities

- Vessels above 5,000 gross tonnage
- Regardless of vessel flag state

- Voyage for the purpose of transporting passengers or cargo for commercial purposes



Passengers

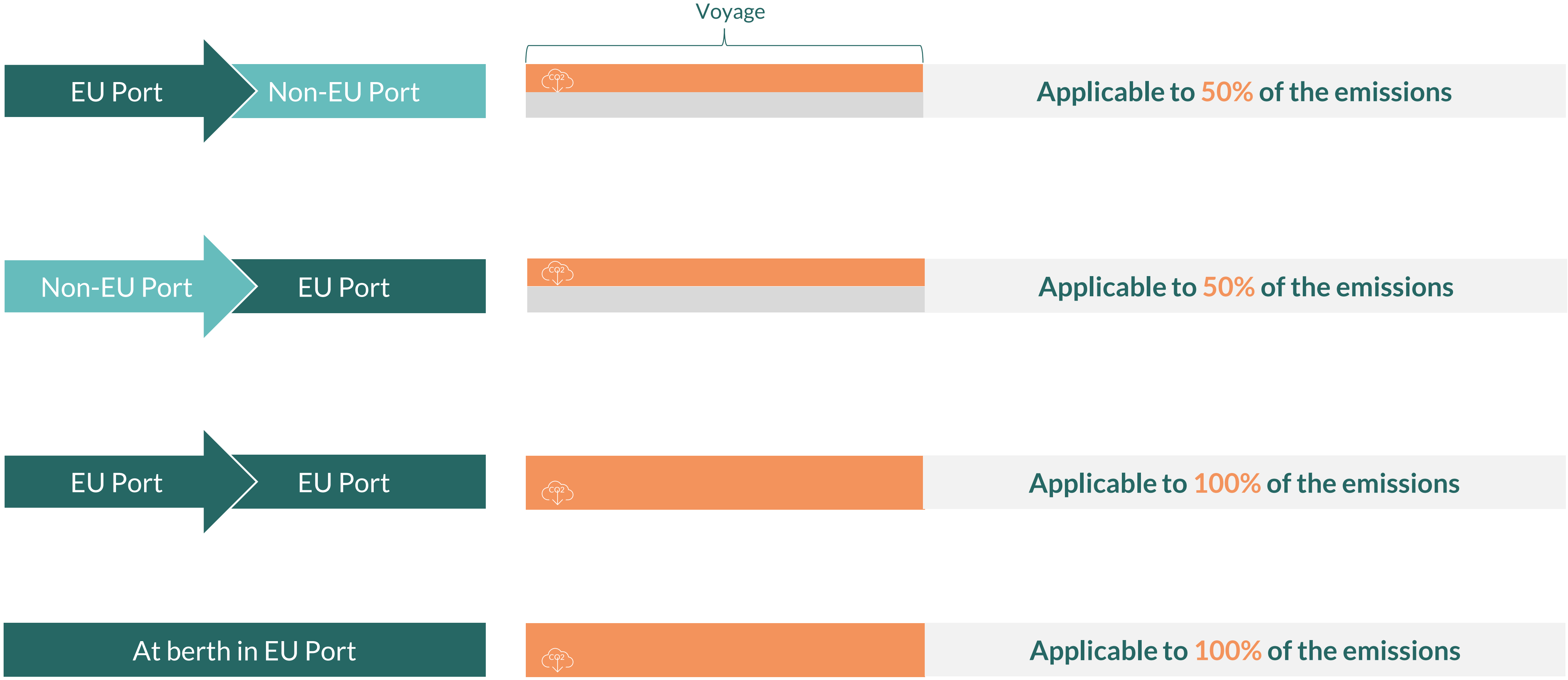


Cargo

Offshore

2. About the Emissions Trading System (ETS)

Scope - Routes

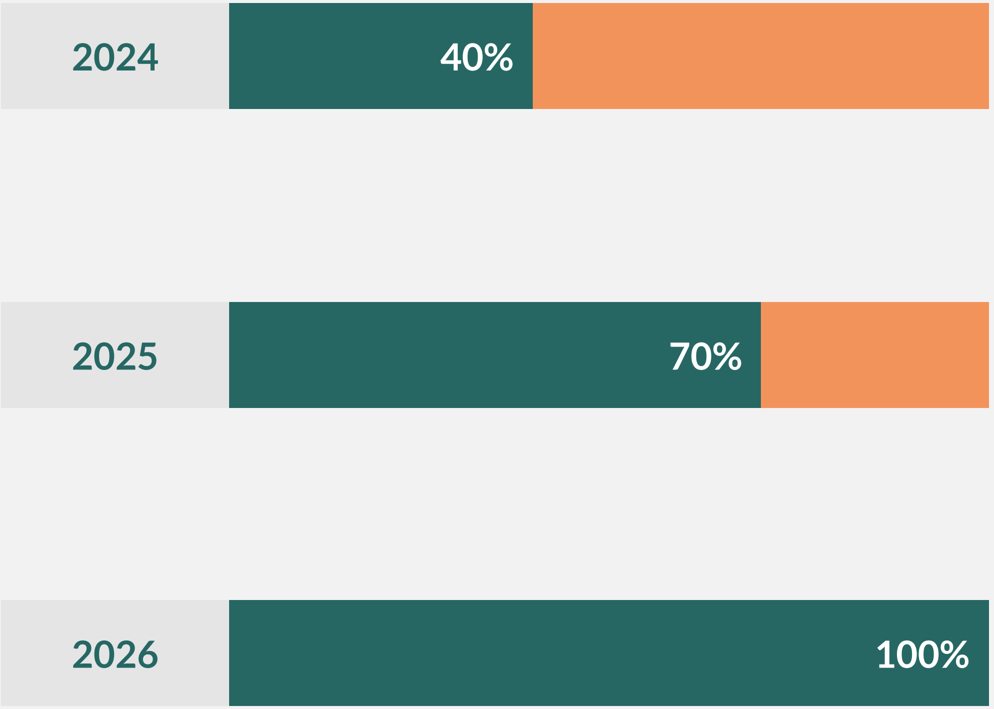


Note: Emissions include Carbon Dioxide from 2024, Methane from 2026 and Nitrous Oxide – from 2026.

2. About the Emissions Trading System (ETS)

Timeline

- The ETS for shipping is being phased in gradually. The initial monitoring period in 2024, with full compliance starting in 2026.
- Shipping companies covered by the ETS need to monitor and report their emissions annually, starting from the monitoring period.
- Companies will be allocated emission allowances (EUAs) based on their historical emissions. These allowances can be bought, sold, or traded within the system.
- Companies will have to surrender allowances for a portion of their emissions during an initial phase-in period, reaching 100% after two years.
- Maritime transport will not receive free allocation of allowances.
- To the extent fewer allowances are surrendered compared to the verified emissions, a corresponding quantity will be cancelled rather than auctioned.



The scope for surrendering allowances will be gradually phased-in

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Impact on Customer

3. Impact on Customer
EU ETS Surcharge

	SPOT CONTRACT CUSTOMER Immediate orders	**SHORT PERIOD COA CUSTOMER** Contract duration up to 1 year	**LONG-TERM COA CUSTOMER** Contract duration over 1 year
EU ETS Surcharge*	**Fixed cost for the 1st quarter of 2024:** Bulk/Breakbulk: USD 2 per revenue ton Containers: USD 120 per 20 ft. and USD 240 per 40 ft.	**Fixed cost.** Fixed USD amount per revenue tons cargo for each contract.	**Fixed EU ETS Surcharge Factor** Fixed EU ETS Surcharge Factor for each contract. Variable EUA price and FX Conversion Rate.
Calculation of the EUA Cost	*EU ETS Surcharge **X** Cargo Quantity*	*EU ETS Surcharge **X** Cargo Quantity*	*EU ETS Surcharge Factor **x** Phase-in Period **X** EUA Price **X** FX Conversion Rate **x** Cargo Quantity*
Calculation methodology	**EU ETS Surcharge:** covers the expected fuel consumption, CO_2 factor, voyage area rate, EUA Price, FX Conversion Rate and phase-in period. **Cargo Quantity:** Cargo weight or measurement in Revenue Tons.	**EU ETS Surcharge:** covers the expected fuel consumption, CO_2 factor, voyage area rate, EUA Price, FX Conversion Rate and phase-in period. **Cargo quantity:** Cargo weight or measurement in Revenue Tons.	**EU ETS Surcharge Factor:** covers the expected fuel consumption, CO_2 factor and voyage area rate. **Phase-in Period:** 40% of GHG emission in 2024, 70% in 2025 and 100% in 2026 **EUA Price**:** Expected carbon allowance price. **FX Conversion Rate**:** Expected currency conversion rate. **Cargo Quantity:** Cargo weight or measurement in Revenue Tons.

*The EU ETS Surcharge for spot contract customers will be reviewed quarterly and invoiced together with the freight invoice.
** The EUA Price and FX Conversion Rate for long-term COA customers will be updated periodically (monthly to annually) as agreed in the contract.

Thank you.

For more information, please contact your local G2 Ocean representative.