



THE EU ETS: NO ESCAPE

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AGENDA: THE E IN ESG



The ETS: when, how, how much?

HOW MUCH?!!!!!!!

Carbon Border Mechanism

Conclusions...and Consequences

THE EU ETS: LIKE NO TAX YOU HAVE EVER PAID



- Not a tax but a surcharge
- No escape or evasion and heavy fines for non-compliance
 - (€100 per tonne CO2 plus the required EUAs)
 - EU Member States may set out additional penalties that are “effective, proportionate and dissuasive.”
- Company name published in a register
- 2 years non-compliance = all your vessels refused entry to EU ports.

EU ETS Extension to Maritime Transport

Introduction Timeline

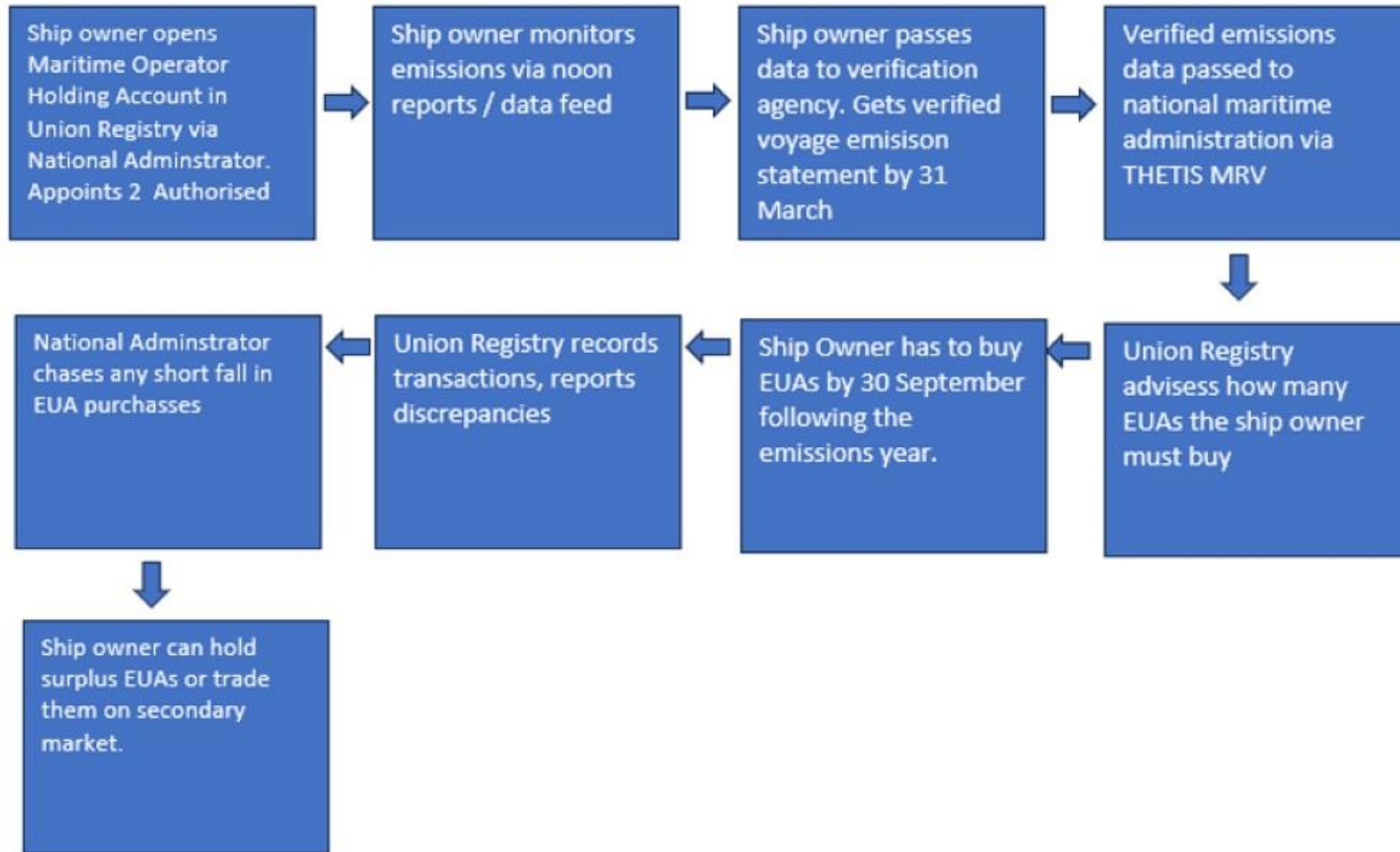
	2023	2024	2025	2026	2027	2028 +
Ship sizes and types		MRV review		ETS review		
Cargo / passenger ships* (5000 + GT)			First surrendering year on 2024 emissions			
Offshore ships (5000 + GT)	—	—				First surrendering year on 2027 emissions
Offshore and general cargo ships (400 - 5000 GT)	—	—			Inclusion in the EU ETS to be considered as part of the ETS review	
Greenhouse Gases						
Carbon dioxide (CO ₂)						
Methane (CH ₄) and Nitrous Oxide (N ₂ O)	—					
Phase-in						
% of emissions to be surrendered as per the EU ETS Directive	—	40%	70%	100%	100%	100%

*Ships already covered today by the EU MRV regulation

Under MRV scope

Under MRV and EU ETS scope

A ROUGH GUIDE TO HOW IT WORKS



HOW DO YOU GET REGISTERED FOR EU ETS?



- Each company will be associated with the administering authority of one EU Member State.
 - For ship owners with multiple ships, the head owning company will be deemed the responsible company.
 - Unclear how to deal with joint-venture owned vessels with perfectly even shareholdings
- By 1 February 2024, and every two years thereafter, the Commission will publish a list attributing each company to the administering of one EU Member State. It will be done in accordance with the rules spelled out in the EU ETS Directive, i.e.:
 - in the case of a shipping company registered in an EU Member State, it will be the EU Member State in which the shipping company is registered;
 - in the case of a shipping company that is not registered in an EU Member State, it will be the EU Member State with the greatest estimated number of port calls from voyages performed by that shipping company in the last four monitoring years;
 - in the case of a shipping company that is not registered in an EU Member State and that did not carry out any voyage falling within the scope of the EU ETS Directive in the preceding four monitoring years, the administering authority will be the EU Member State where a ship of the shipping company has arrived or started its first voyage falling within the scope of the EU ETS Directive.

WHAT IS THE UNION REGISTRY?



- The Union Registry is an online database that holds accounts for stationary installations (transferred from the national registries used before 2012) for aircraft operators (included in the EU ETS since January 2012) and ship owners (included in the EU ETS from January 2024).
- The Registry records:
 - National implementation measures (a list of installations covered by the ETS Directive in each EU country and any free allocation to each of those installations in the period 2013-2020)
 - Accounts of companies or individuals holding such allowances
 - Transfers of allowances ("transactions") performed by account holders
 - Annual verified CO₂ emissions from installations and aircraft operators
 - Annual reconciliation of allowances and verified emissions, where each company must have surrendered enough allowances to cover all its verified emissions.

DISCLOSURE: INFO REQUIRED TO OPEN EU ETS ACCOUNT



1. Document proving registration of the legal entity.
2. Bank account details of the legal entity.
3. VAT registration.
4. The name, date of birth and nationality of the legal entity's **beneficial owner** as defined in point (6) of Article 3 of Directive (EU) 2015/849 including the type of ownership or control they are exercising.
5. A list of directors.
6. A copy of the instruments establishing the legal entity;
7. A copy of **the annual report or of the latest audited financial statements**, or if no audited financial statements available, a copy of the financial statements stamped by the tax office or the financial director.
8. The criminal record, or any other document that is accepted by the administrator of the account as criminal record, of the natural person requesting to open an account. If a legal person requests the opening of an account, the national administrator may request the criminal record, or any other document that is accepted by the administrator of the account as criminal record, of the beneficial owner and/or the directors of this legal person.

CLARITY OF SHIP OWNER DEFINITION



The EU has been working on improving its definition of “ship owner” for its ETS. In the original documentation, the ship owner was defined as the holder of ISM code documentation, but this could be transferred under certain circumstances, so some words have been added to try to ensure that the beneficial owner is on the hook, or some other corporate person or actual person who is mandated by the owner. I’m not sure this does help much but here is the wording:

“... To guarantee the proper enforcement of the EU ETS and to take account of the differences between the EU ETS and general maritime law, Member States should ensure that where the organisation or person that has assumed the responsibility for the operation of the ship from the shipowner and that, on assuming such responsibility, has agreed to take over all the duties and responsibilities imposed by the International Management Code for the Safe Operation of Ships and for Pollution Prevention, set out in Annex I to Regulation (EC) No 336/2006 of the European Parliament and of the Council (3) has also assumed responsibility for the EU ETS obligations, such organisation or person has been duly mandated by the shipowner to comply with the national measures transposing Directive 2003/87/EC, including the obligation to surrender allowances under Articles 3gb and 12 of that Directive.”

- Source: https://eur-lex.europa.eu/eli/reg_impl/2023/2599

HOW WILL THE MONEY RAISED BE USED?



- The revised EU ETS provides for dedicated support to accelerate the decarbonisation of the maritime sector through the Innovation Fund.
- According to the Commission, 20 million allowances (i.e. about €1.6 billion with a price of €80 per allowance) should be deployed up to 2030 via the Innovation Fund to support the decarbonisation of the sector, notably through dedicated topics in future calls for proposals.
- The Innovation Fund could support a wide diversity of projects and innovative solutions in the maritime sector, across the whole sector and at scale, including in relation to the production and uptake of renewable and low-carbon fuels.
- Besides the Innovation Fund, all auction revenues attributed to EU Member States have to be used for climate-related purposes; and the list of these purposes has been expanded to explicitly cover measures to decarbonise the maritime sector.
- The list also includes the financing of climate action in vulnerable third countries, including adaptation to the impacts of climate change.

EU INNOVATION FUND



INNOVATION FUND

Deployment of net-zero and innovative technologies

Funded by EU Emissions Trading System



*based on a carbon price of 75 EUR/tonne

The Innovation Fund's goals are to:

- Help businesses invest in clean energy and industry
- Boost economic growth
- Create future-proof jobs
- Reinforce European technological leadership on a global scale.

This is done by funding innovative projects focusing on:

- Innovative low-carbon technologies and processes in energy-intensive industries, including products that can substitute carbon-intensive ones
- Carbon capture and utilisation – CCU
- Construction and operation of carbon capture and storage (CCS) facilities
- Innovative renewable energy generation
- Energy storage
- New sectors added following the revision of the ETS Directive: net zero mobility

WHO IS ON THE HOOK?



The 2022 MRV data of 12,000 records include data from

3,764 bulkers

1,847 oil tankers

1,774 container ships

1,310 chem tankers

1,066 general cargo ships

2,289 other types



2022 MRV FUEL CONSUMPTION BY SHIP TYPE



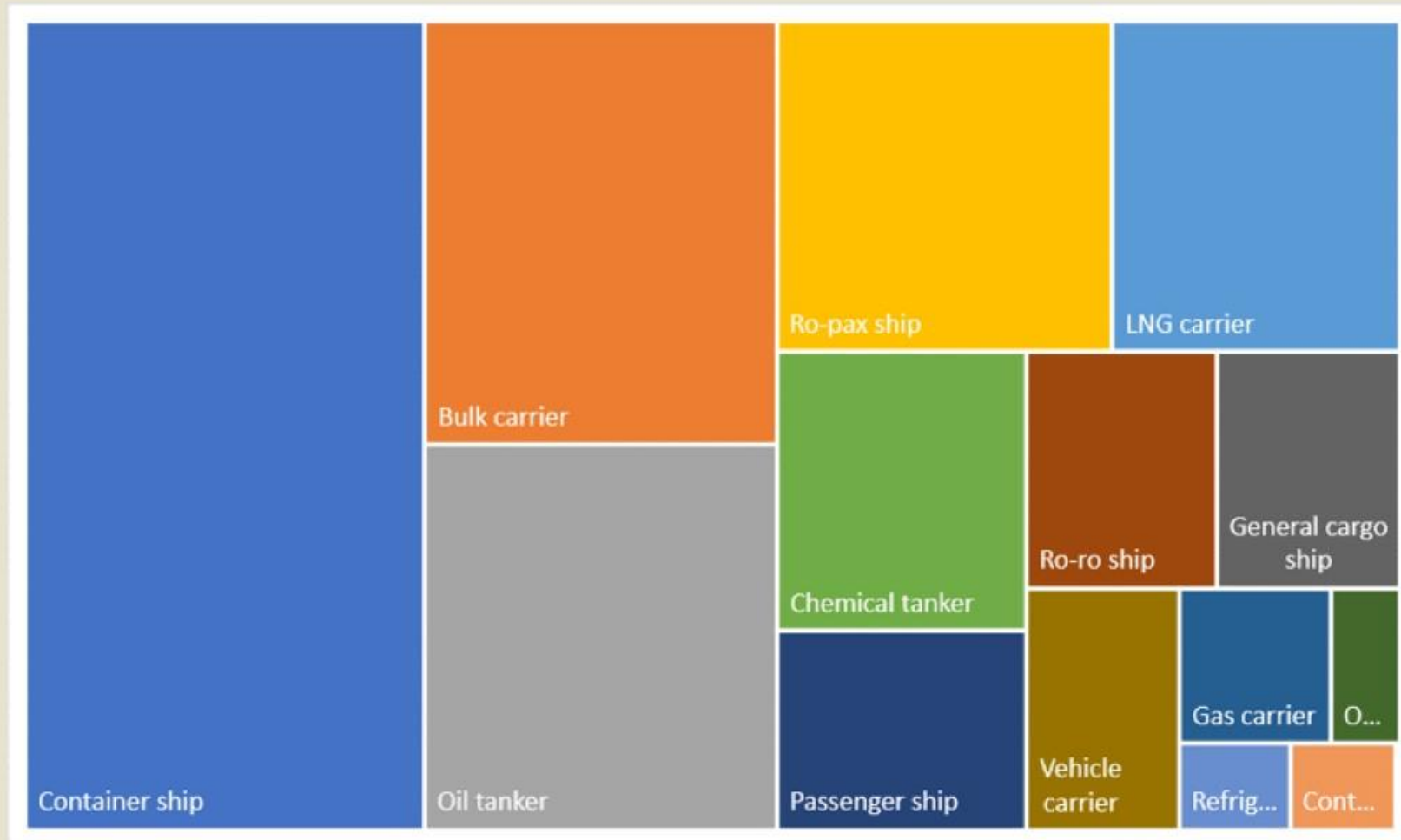
The 2022 data of 127 Mn T fuel consumption includes:

Container ships:
29%

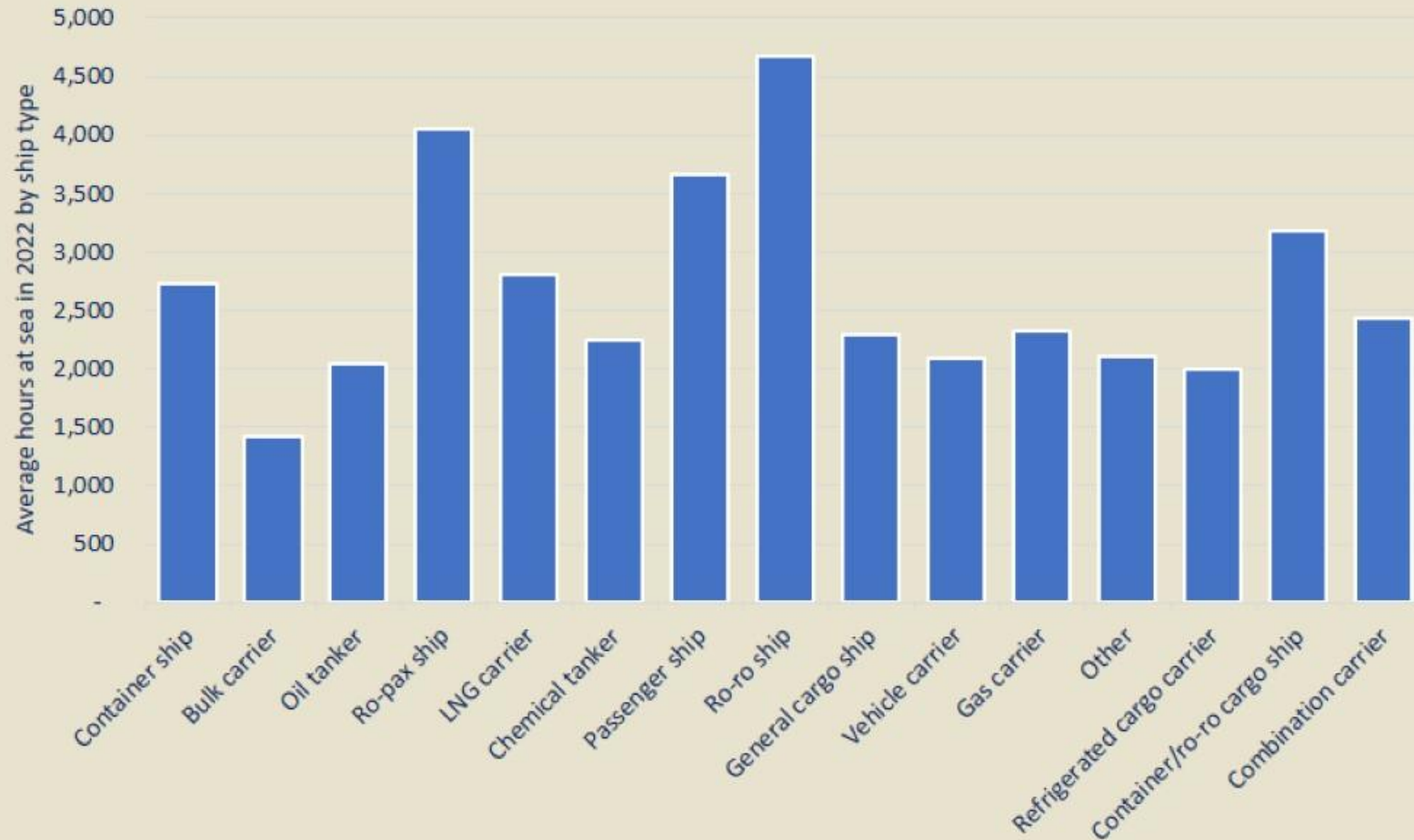
Bulk carriers
13%

Oil tankers:
12%

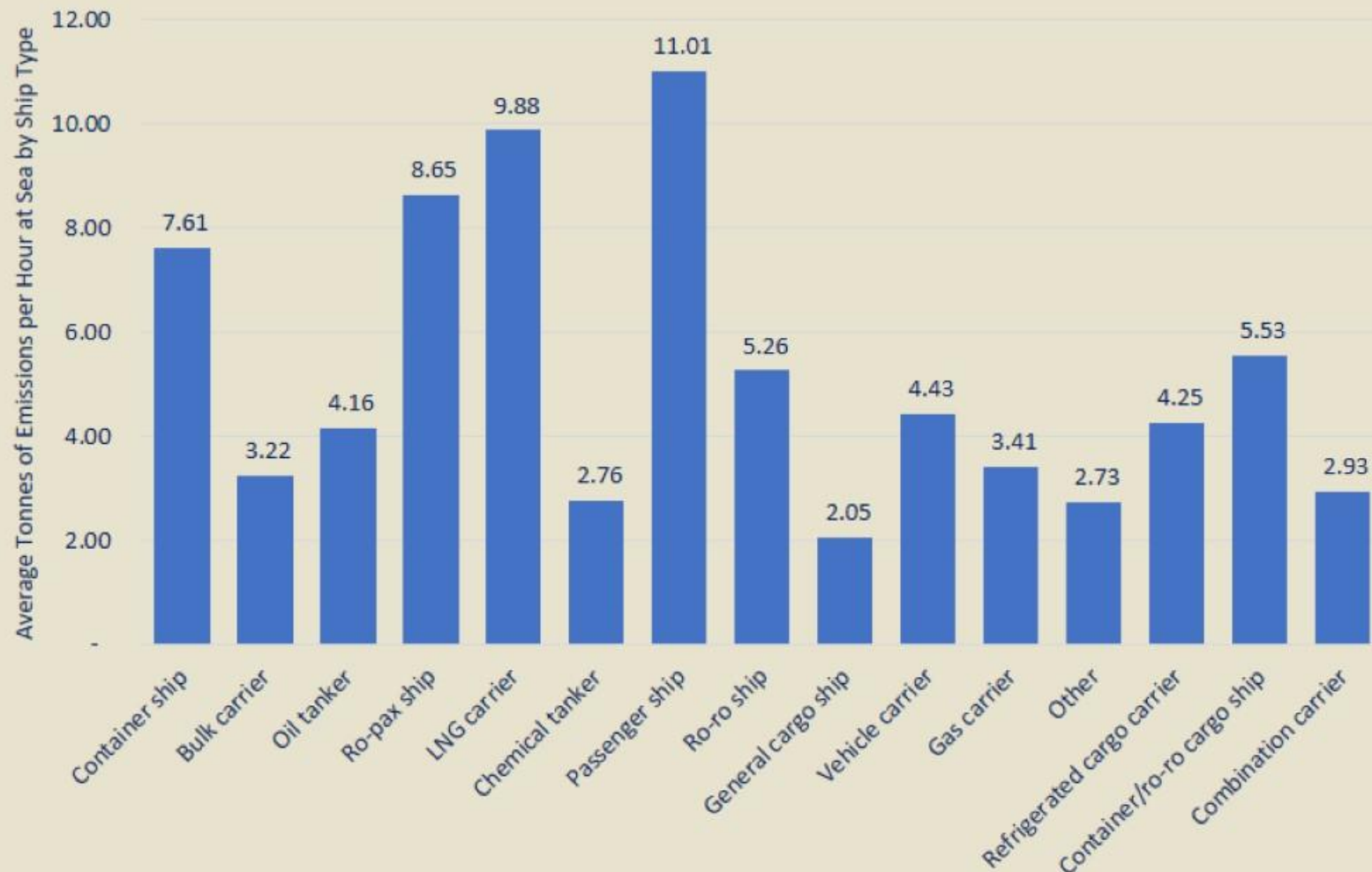
RoPax:
10%



AVERAGE HOURS AT SEA IN THE EU IN 2022 AS REPORTED TO MRV



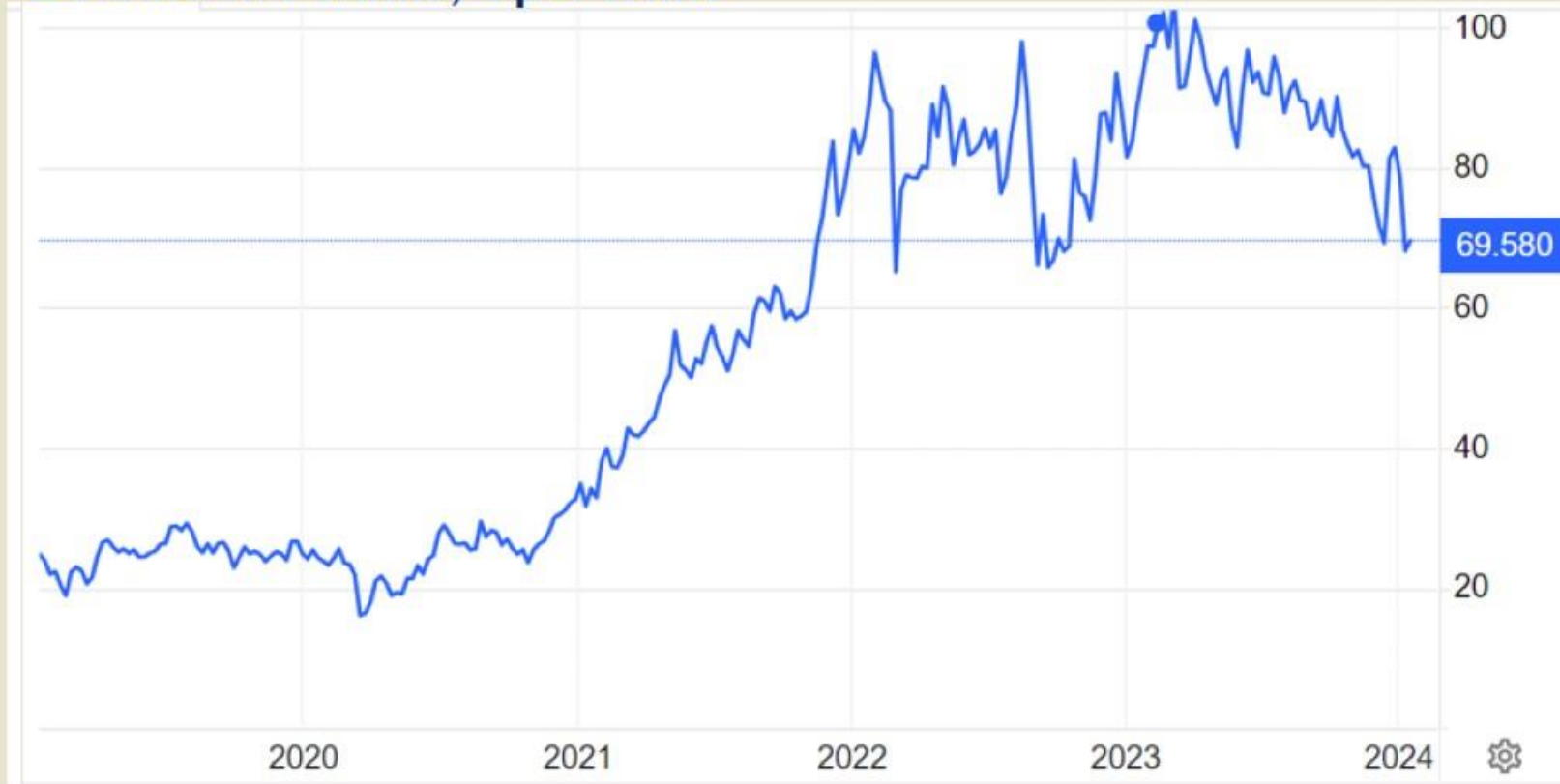
AVERAGE TONNES OF EMISSIONS PER HOUR AT SEA IN THE EU BY SHIP TYPE, BASIS MRV DATA



THIS TREND WILL RISE IN FUTURE



EU Carbon Permits, € per tonne



COSTING IT OUT



- To recap, will be liable to buy allowances for a portion of voyages undertaken by their vessels, as per the following scale:
 - 50% of emissions from voyages departing from an EU port to a non-EU port
 - 50% of emissions from voyages departing from a non-EU port to an EU port
 - 100% of emissions from voyages between EU ports
 - 100% of emissions from ships at berth in an EU port
- And on a phased in basis
 - 2025: 40% of emissions reported for 2024 must be covered by emission allowances
 - 2026: 70% of emissions reported for 2025
 - 2027 and beyond: 100% of reported emissions

WORKED EXAMPLE – HANDY BULKER



Assume a 38k Dwt Bulk Carrier Sailing NW Europe - Brazil

- 40 Day Voyage excluding port days at Rotterdam
- 12 knots on 18mt IFO (380 CST) laden + 0.1 MDO at sea
- Total 720 tonnes fuel @ \$500 / tonne = \$360,000
- Total emissions @ 3.12 T CO₂ / tonne fuel = 2,246 tonnes CO₂
- Of which, in 2024, the ship owner is responsible for 40% of 50% = 449 tonnes
- At \$80 per EUA, ship owner buys \$35,942 of EUAs by 30/09/2025
- *All else being equal, that goes up to*
- \$62,899 in 2026
- \$89,856 in 2027

- How does the Owner pass the cost on to the Charterer?

WORKED EXAMPLE – 20KTEU BOXSHIP



Assume a 20,000 TEU container ship sailing Shanghai-Rotterdam, @14 knots with six intermediate stops, via Suez Canal

- 31 day voyage plus six port days
- 40 tonnes VLSFO / day at sea, one tonne diesel in port (we will ignore this bit for now)
- Total 1,240 tonnes fuel @ \$500 / tonne = \$620,000
- Total emissions @ 3.12 T CO₂ / VLSFO = 3,869 tonnes CO₂
- Of which, in 2024, the ship owner is responsible for 40% of 50% = 774 tonnes
- At \$80 per EUA, ship owner buys \$61,901 of EUAs by 30/09/2025

The same is payable for the return voyage, so that's \$123,802 for the round trip.

If the ship does 6 round trips a year, total cost is \$742,810

If there are 10 ships deployed on the line, and if allowances stay at \$80, total cost is:

- \$ 7,428,100 in 2024
- \$ 12,999,168 in 2026
- \$ 18,570,240 in 2027

WORKED EXAMPLE – 20KTEU BOXSHIP



Assume a 20,000 TEU container ship sailing Shanghai-Rotterdam, @14 knots with six intermediate stops, via **Cape of Good Hope**

- 41 day voyage plus six port days
- 40 tonnes VLSFO / day at sea, one tonne diesel in port (we will ignore this bit for now)
- Total 1,640 tonnes fuel @ \$500 / tonne = \$820,000
- Total emissions @ 3.12 T CO₂ /VLSFO = 5,117 tonnes CO₂
- Of which, in 2024, the ship owner is responsible for 40% of 50% = 1,023 tonnes
- At \$80 per EUA, ship owner buys **\$81,869** of EUAs by 30/09/2025

The same is payable for the return voyage, so that's **\$163,738** for the round trip.

If the ship does 6 round trips a year, total cost is \$982,426

If there are 10 ships deployed on the line, and if allowances stay at \$80, total cost is:

- \$ 9,824,260 in 2024
- \$ 17,192,448 in 2025
- \$ 24,560,640 in 2027

ASK YOURSELF:



- Have you opened your bank account for trading allowances?
- Have you opened your Union Registry trading account for trading allowances?
- Have you estimated your working capital requirements for trading allowances?
- Have you registered with a verification agency?
- Have you opened your secondary market account?

CHALLENGES FOR SHIP OWNERS



- How to pass on the ETS costs to charterers – when you don't know what the cost will be at the time you come to buy the allowances.
- Which platform to choose to trade allowances – deal direct via EEX auctions, or through secondary market via brokers (voice or online)
- To bank or not to bank allowances? And how to treat them in your accounts? Inventory? Intangible assets? Emissions are classified as financial instruments under MiFID
- Will your bank be willing to extend hundreds of millions of dollars in new RCFs to fund EUA purchases?

ROLE OF EEX AS COMMON AUCTION PLATFORM



WEBINAR RECORDING

**Webinar:
EU ETS - Auction
participation and
Secondary Market
outlook**



<https://www.youtube.com/watch?v=k6N0p-LZaYA>


ETS AUCTION PARTICIPATION

Direct Access – bid directly at EEX

A Full Membership/ Power Plus / Gas Plus



B Environmental & Emerging Markets Membership

 Emissions: Auctions and Secondary Market

C Auction-Only Membership - System

 Emissions: Auctions via Auction System

D Auction-Only Membership - Helpdesk

 Emissions: Auctions via Market Operations

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E-mail: memberreadiness@ecc.de

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E-mail: sales@eex.com

or your Key Account Manager

Market Operations (Helpdesk)

Phone: +49 341 2156 222

E-mail: sales@eex.com or auctions@eex.com

Eikon-ID: eex-trading@eex.com

Indirect Access – bid via an intermediary

Intermediaries are eligible to bid on own behalf and on behalf of clients in accordance with Article 18 of the [Auctioning Regulation](#). Currently the following companies offer to bid on behalf of clients in EEX auctions:

E Intermediary

 Emissions: Auctions via Intermediaries

www.abnamro.com / www.abnamro.com/clearing

www.actcommodities.com

www.afsgroup.nl

www.gkpge.pl/dom-maklerski

www.viennainvestment.ro

www.zf-bg.com


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 Emissions: Auctions via Auction System

D Auction-Only Membership - Helpdesk

 Emissions: Auctions via Market Operations

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Sales Emissions

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E-mail: sales@eex.com

or your Key Account Manager

Market Operations (Helpdesk)

Phone: +49 341 2156 222

E-mail: sales@eex.com or auctions@eex.com

Eikon-ID: eex-trading@eex.com

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www.abnamro.com / www.abnamro.com/clearing

www.actcommodities.com


www.afsgroup.nl

www.gkpge.pl/dom-maklerski

www.viennainvestment.ro

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Toni Stojcevski, General Manager, Project Sales &...

Mark Williams 2 months ago 2 min read

EU CARBON BORDER MECHANISM



One that puts a fair price on the carbon used to produce the most emission-heavy imports

CARBON BORDER MECHANISM



- On 1 October 2023, the CBAM entered into application in its transitional phase, with the first reporting period for importers ending 31 January 2024.
- The CBAM will initially apply to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage: **cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.**
- With this enlarged scope, CBAM will eventually – when fully phased in – capture more than 50% of the emissions in ETS covered sectors. The objective of the transitional period is to serve as a pilot and learning period for all stakeholders (importers, producers and authorities) and to collect useful information on embedded emissions to refine the methodology for the definitive period.
- Until the end of 2024, companies will have the choice of reporting in three ways: (a) full reporting according to the new methodology (EU method); (b) reporting based on an equivalent method (three options); and (c) reporting based on default reference values (only until July 2024). As of 1 January 2025, only the EU method will be accepted

IMPLICATIONS



Click on the image to read my blogpost, "The Future of Logistics?"

THANK YOU FOR LISTENING



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