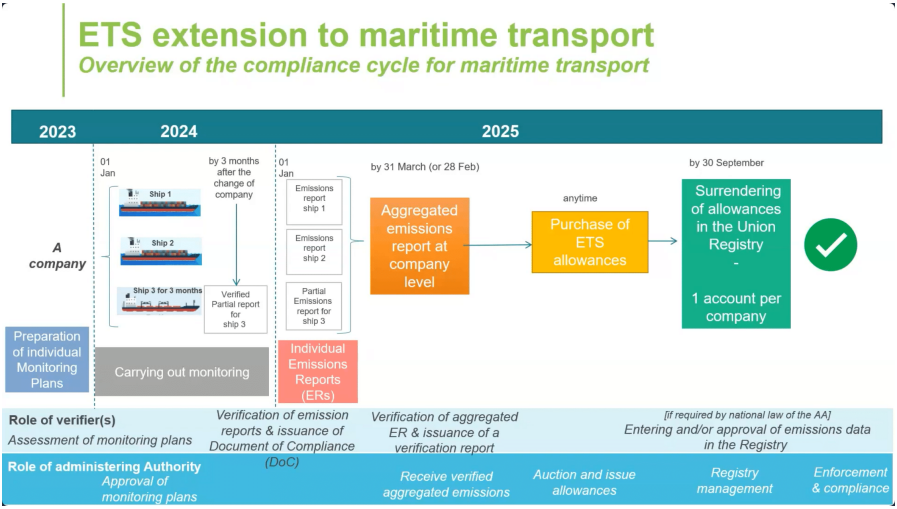
Maritime Firms Signal 2024 Price Surge, No Flag for EU ETS By: Kleber Ofume

As part of the European Union Emission Trading System (ETS) extension to maritime transport. Maritime transport companies will monitor their emissions and buy and forfeit ETS emission allowances for each tonne of GHG emissions to be reported under the European Union Emission Trading System (ETS).



Maersk and Hapag-Lloyd among others have stated international shipping costs between the thirty (30) countries in the European Economic Area (EEA) and the European Free Trade Association (EFTA) are set to rise next month as the EU Emission Trading System (ETS) becomes effective on January 1, 2024.

The additional costs incurred in compliance with the EU ETS will be billed to the company only for bookings where the loading and/or discharge ports are within the EU or EEA. For instance, if a

cargo is shipped from a loading port in Malaysia to a delivery port in Switzerland, the Emissions Surge will be applied as follows:

- **If the discharge port (ocean) of booking is Switzerland (Netherlands), an EU and EEA country, an emissions surcharge will be applied.**
- **If the discharge port (ocean) of booking is Turkey, a non-EU/ EEA country, the emissions surcharge will not be levied.**

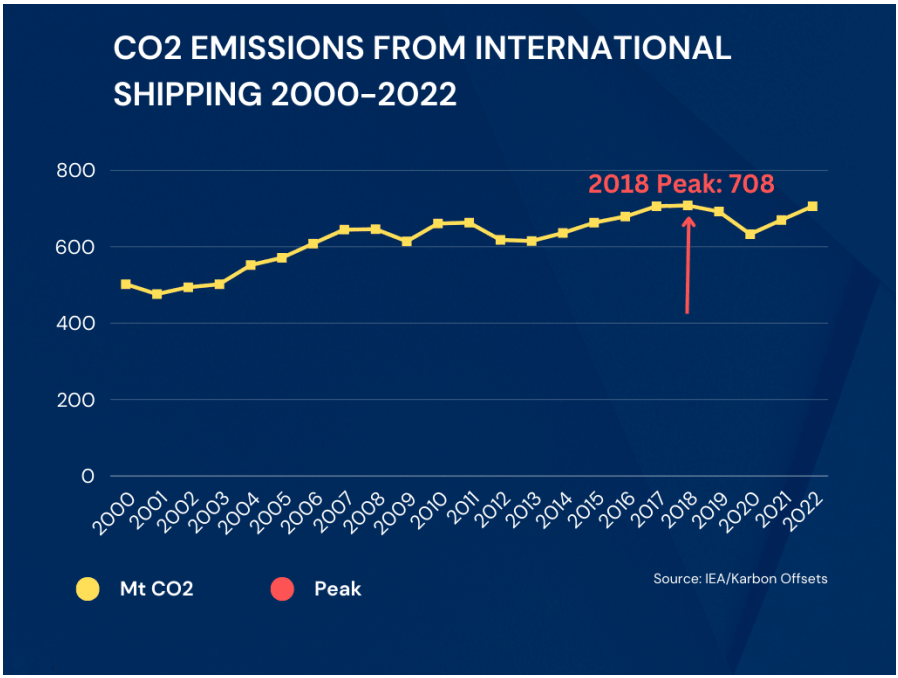
As per Maersk, they've noted, surcharge codes will be presented as EMS on invoices for bookings under contracts with a validity exceeding 31 days and presented as ESS (Emission for surcharge on spot bookings and contracts with validity less than or equal to 1 month).

The emissions surcharge will be charged on top of the contracted rates and updated every quarter to ensure invoices

are correctly processed, and the required payments are made on time.

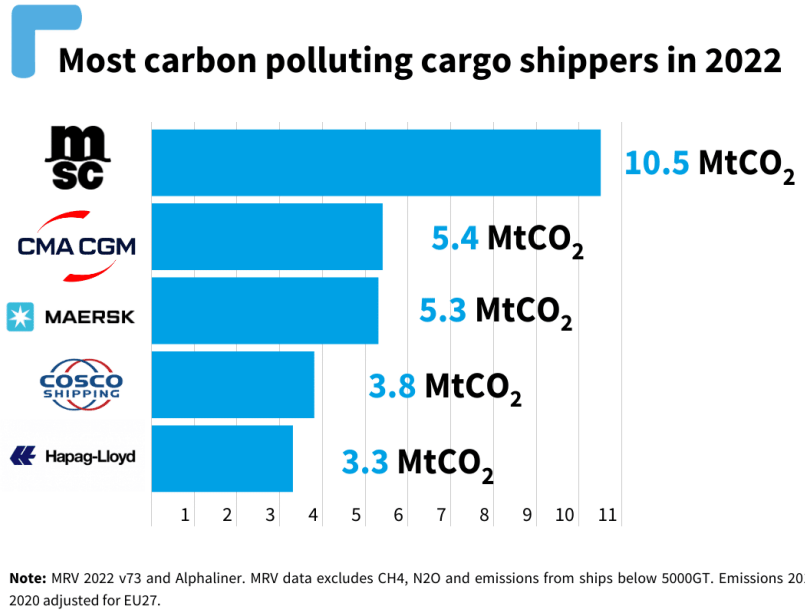
As the first major global carbon market, ETS is designed to help promote clean shipping while helping the EU achieve its net zero goals by 2050.

The new CO2 reduction initiative comes when global regulators are doubling down on emission reduction policies to reduce shipping emissions following a 5% increase in 2022, making IMO's GHG reduction targets more ambitious.



Although the system is set to reduce the cap on emissions every year, it does not warrant emission reduction but aims to create a CO2 pricing market to incentivize CO2 emission reduction. According to the ETS system, companies involved will pay 40% of their total CO2 emission during 2024 in 2025, 70% of emissions released in 2025 in 2026, and 100% of the company's emissions from 2027 onwards.

According to data published by Transport & Environment, MSC, CMA CGM, MAERK, COSCO, and Hapag-Lloyd are responsible for the bulk of GHG emissions in maritime shipping, with MSC taking the lead.



Source: Transport & Environment

With the shipping companies expected to pay sufficient allowances per ton of CO2 emitted to cover 100% of their emissions between EEA and EFTA ports and 50% of

their emissions between a non-EEA/EFTA port and an EEA/EFTA port, the allowance acquisition may potentially increase shipping costs for customers, with shipping companies already sending advisory to their customers.

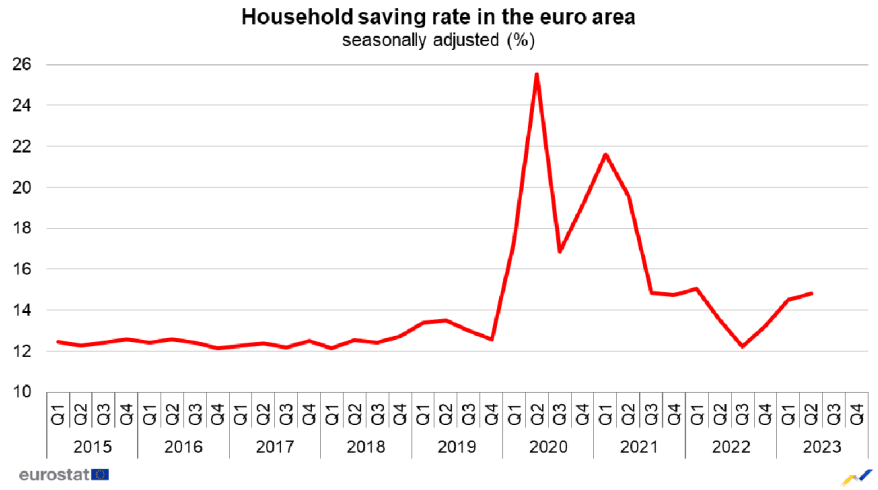
“Hapag-Lloyd welcomes the addition and views it as a key step towards setting uniform standards that will help both the environment and people. We aim to set up a customer-friendly solution that enables a calculation of costs for our customers that is causal, transparent and easy to understand – and that clearly displays the EU ETS added costs’ levels,” Hapag-Lloyd stated in a newsletter published on September 22, 2023.

A.P. Moller–Maersk also published an advisory for its customers on December 1, informing them that shipping will be included in the EU ETS, putting a price on the company’s GHG emissions.

“The additional cost incurred to comply with the EU ETS directive will be applied to bookings under the EU ETS scope as a standalone surcharge, known as “Emissions surcharge,’ defined on a trade basis,” the company added.

Recently, CMA CGM notified its customers of the surcharges beginning next month, when the EU ETS will become effective, mandating the company to pay for its emissions.

Although this measure is hailed as one of the ways to help achieve net-zero goals by 2050, with growing geopolitical risks in the Middle East and the household saving rate in the European Union up 14.8% in the second quarter of 2023 from 14.5% in the first quarter of 2023, customers in the European Union may stand to bear the brunt of the company’s emissions by paying for cost recoveries.



By: Kleber Ofume

Carbon Border Adjustment Mechanism (CBAM)

kicks into gear today, October 1, 2023 By: Kleber Ofume

Key takeaways:

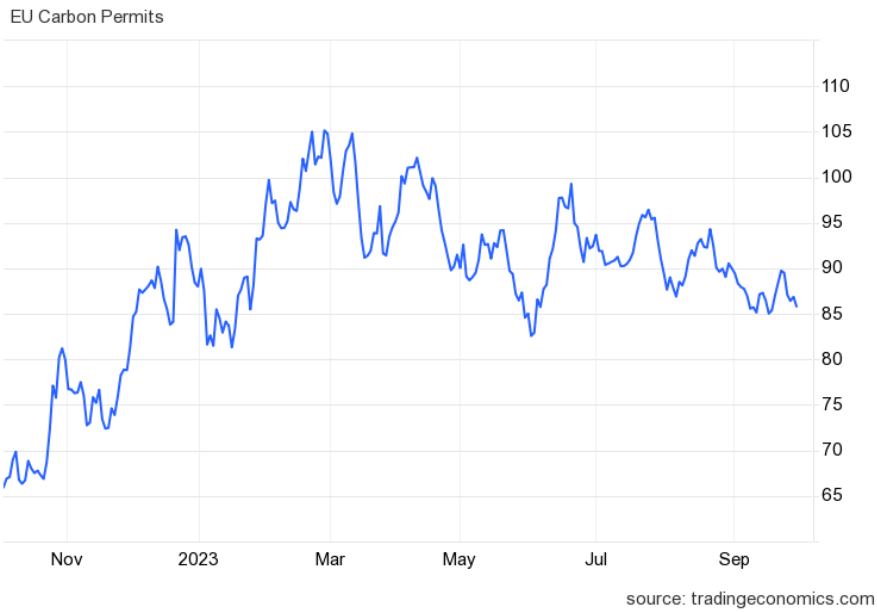
- **CBAM is part of the “Fit for 55” Green New Deal, aiming to transform a $500 billion industry and help Europe reduce greenhouse gas emissions by 55% by 2030 and ultimately achieve a 100% reduction by 2050.**
- **There’s concern that CBAM transition costs may lead to higher consumer prices in the European Union, affecting economic sentiment and**

employment expectations.

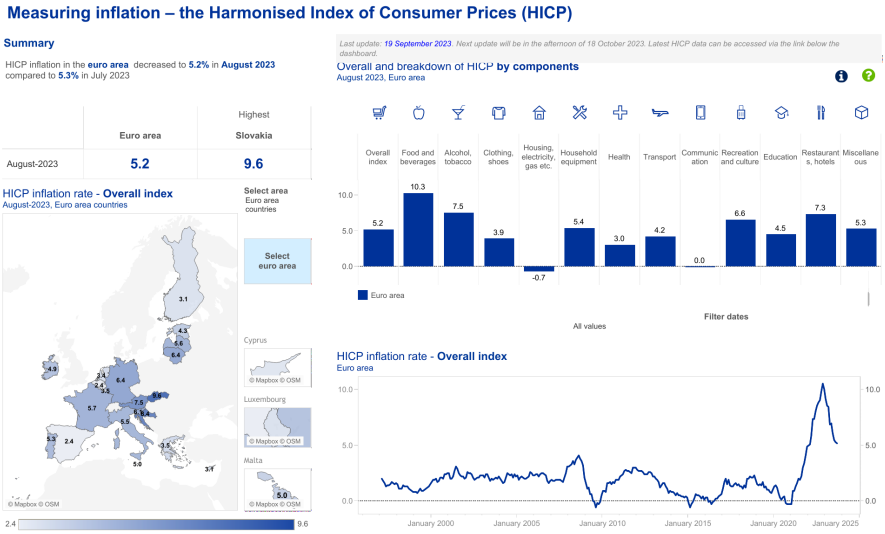
- **Non-EU manufacturing entities should explore carbon offset options**

An estimated $500 billion industry faces a significant transformation today with the European Commission's proposed Carbon Border Adjustment Mechanism (CBAM). This initiative, designed as part of the "Fit for 55" Green New Deal, aims to help Europe achieve its 55% reduction in greenhouse gas emissions (GHG) by 2030 and ultimately achieve a 100% reduction in emissions by 2050.

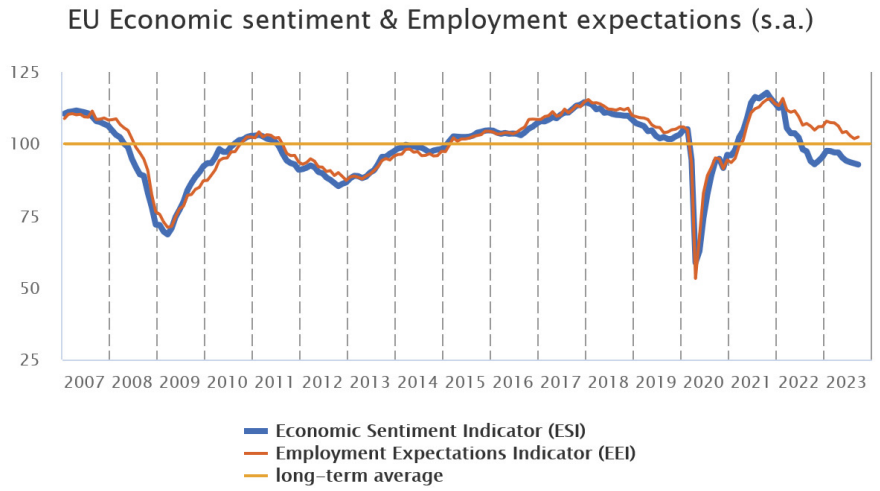
All eyes are still on the EU Emissions Trading System (EU ETS). Countries without mandatory carbon pricing mechanisms risk fines for inadequate accounting of their carbon footprint associated with imported goods into the European Union, and also leads to taxation through allowances.



The question that lingers is whether companies will pass on the implementation transition costs of CBAM to European Union entities. This could potentially lead to a surge in the Harmonized Index of Consumer Prices (HICP), also known as the Consumer Price Index, reminiscent of its previous peak in October 2022 at 10.6% annually.



The European Union’s economic sentiment and employment expectations as of September 2023 are already showing a decline of -0.4 points to 92.8. Is CBAM a harbinger of higher and longer-lasting global interest rates? This is a question that remains unanswered by this policy.



source: European Commission services
To zoom in, please select a period by clicking in the graph and moving the cursor.

SO, WHAT HAPPENS DURING TODAY'S CARBON BORDER ADJUSTMENT MECHANISM (CBAM) TRANSITIONAL PERIOD?

Entities outside the European Union that import items such as cement, aluminum, fertilizer, electricity, hydrogen, iron & steel, and other downstream goods will be required to meet specific reporting obligations for CBAM. These obligations

will include:

1. Reporting the total quantity of imported items into the European Union, the carbon footprint of these items, and the financial liabilities associated with their carbon footprint.
2. The initial reporting deadline is January 31, 2024, for items imported from October to December 2023, with the final reporting obligation due on January 31, 2026, for items imported from October to December 2025.
3. Failure to adhere to the proper carbon footprint calculation rules for imported items may result in substantial fines.
4. A secure database will store all private data of the reporting entities, accessible only to designated individuals involved in the reporting process.
5. Further details and rules can be

found in the Official Journal of the European Union under *COMMISSION IMPLEMENTING REGULATION (EU) 2023/1773* AND *GUIDANCE DOCUMENT ON CBAM IMPLEMENTATION FOR IMPORTERS OF GOODS INTO THE EU* AND *GUIDANCE DOCUMENT ON CBAM IMPLEMENTATION FOR INSTALLATION OPERATORS OUTSIDE THE EU*.

In summary, these four points represent the major aspects of the transitional period concerning emissions reporting.

Non-EU manufacturing entities should immediately focus on these simple steps if they intend to continue trading with the European Union:

1. Understand CBAM Requirements Early
2. Budget for Transition Costs
3. Start Carbon Footprint Assessment
4. Implement Carbon Accounting Systems
5. Gather Necessary Data
6. Secure Data Handling
7. Monitor EU Policy Changes

8. Advocate for Global Carbon Pricing
9. Explore Carbon Offset Options

WHAT COMES AFTER TODAY?

Starting from January 1, 2026, payment requirements for CBAM will be implemented in phases, leading to a gradual reduction in the free allowances granted to EU manufacturing entities, continuing until 2034. The scale-back of free allowances will follow this timeline:

- 2026: 2.5%
- 2027: 5%
- 2028: 10%
- 2029: 22.5%
- 2030: 48.5%
- 2031: 61%
- 2032: 73.5%
- 2033: 86%
- 2034: 100%

The Carbon Border Adjustment Mechanism

(CBAM) of the European Commission is a significant step in the direction of lowering greenhouse gas emissions and finally setting a price on carbon globally. However, because businesses may have to pass on the changeover expenses to consumers, prices may rise for electric vehicles, food, building materials and so on. While this legislation intends to restructure a $500 billion business in line with European climate goals, its financial effects are still unknown. Is this the beginning of another trade war to lead the global south and global north populous into dismay or is the green transition truly here to stay and meet the average target for the globe to achieve 100% reduction in emissions by 2050.

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