

# Preparing for the EU Emissions Trading System application to shipping

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Climate change is a global concern that needs to be addressed collectively. At the heart of all commercial exchanges, shipping is required to contribute to the global effort to reduce greenhouse gas emissions and is progressively integrated to regional and international legislative frameworks.

CMA CGM's decarbonization journey started years ago, with the pioneer decisions to use biofuels, to order the first LNG biomethane and e-methane ready containerships and to optimize operations, which led to the reduction of CO<sub>2</sub> emissions per container and nautical miles by 50% between 2008 and 2022. Committed to reach Net Zero Carbon by 2050, CMA CGM created the €1.5 billion energy fund PULSE to accelerate its transition, and fully supports the IMO and EU measures for a more sustainable transport and logistics sector.

This customer advisory aims to explain how the European Union Emissions Trading System operates, its application to shipping and how these changes may impact customers.

## What is the EU Emissions Trading System?

Committed to fight global warming, the European Union has adopted a legislative action plan aiming to reach carbon neutrality by 2050 (Green Deal), with the intermediary objective of -55% of greenhouse gas emissions by 2030 (Fit for 55). The EU Emission Trading System is one of the regulations included in that plan.

Set up in 2005, the EU ETS is the world's largest emissions trading system, based on a "cap and trade" scheme:

- A maximum (cap) is set on the total amount of greenhouse gases that can be emitted by companies inside the EU area within a given year
- Companies subject to EU ETS have to buy allowances (quotas) based on the amount of greenhouse gases they emit (1 ton of CO<sub>2</sub> = 1 ETS allowance)

The number of allowances available EU-wide decreases every year, driving the total amount of greenhouse gases emitted down towards the 2030 and 2050 targets.

## How will the EU Emissions Trading System apply to shipping?

**Initially applied to energy-intensive sectors only, the EU ETS will be extended to shipping from January 1st, 2024, as an incentive to reduce the sector's environmental impact and accelerate the use of low carbon fuels.**

EU ETS will apply to all maritime services with at least one call within the EU: 100% of emissions will be considered for legs between 2 EU ports, only 50% of the emissions for legs between EU ports and non-EU ports.

**From January 1st, 2024**, shipping lines will be required to report their emissions and purchase an equivalent amount of allowances on the EU ETS market, according to a progressive schedule:

- in 2024, 40% of reported emissions will have to be converted into allowances
- in 2025, 70% of reported emissions will have to be converted into allowances
- from 2026, 100% of reported emissions will have to be converted into allowances

Some aspects of EU ETS law are yet to be finalized, such as the list of ports considered as transshipment ports that will be published by the end of 2023 and may be reviewed every 2 years.

## How may EU Emissions Trading System impact our customers?

Carbon pricing is a key step to reduce the carbon footprint of shipping, as well as of the whole supply chain, ultimately supporting all customers in their own decarbonization journey.

In order to better deliver value and greater cost transparency, CMA CGM has decided to alert that EU ETS added costs will induce a surcharge applicable for all containers loaded on CMA CGM services impacted by the regulation. The surcharge amount will be shared mid-November and may be reviewed on a quarterly basis, depending on the updated version of the EU ETS regulation and the market value of carbon allowances.

As an illustration, CMA CGM provides below an estimation of the surcharge based on current market value of carbon allowances (~ EUR 90 per ton of CO<sub>2</sub>), for some of the main trades impacted.

Trade	DRY	REEFER
	Surcharge per TEU in EUR	Surcharge per TEU in EUR
Asia to North Europe	25	40
Asia to Mediterranean	20	30
Europe to North America	43	65
Europe to South America West Coast	43	60
North Europe to Mediterranean	25	35
Intra Mediterranean	25	40
Intra North Europe	37	48

For any further information or support, please feel free to reach out to your local CMA CGM sales representative.