Customer NEWS

Hapag-Lloyd

Your business, the EU (European Union) Emission Trading System and container shipping

Dear Mathieu,

In the past years, we have been able to reach some key milestones on the path towards more sustainable container shipping. Our clean shipping goal combines our corporate sustainability strategy and efforts with our industry's regulations and requirements.

The EU Emission Trading System (ETS) is a key tool of the EU's policy for reducing greenhouse gas (GHG) emissions. As the world's first major carbon market, it is part of a series of legislative proposals with the main goal of achieving the EU's climate neutrality by 2050.

The parties involved have decided to gradually add shipping emissions to its carbon market from 2024 onwards.

- In 2025, pay for 40% of emissions released in 2024
- In 2026, pay for 70% of emissions released in 2025
- From 2027, pay for 100% of emissions released in 2026 and onwards

What's in it for your business?

The work towards finding sustainable solutions for our industry requires resources to support research and development. Environmental taxation is critical for research and development focused on boosting decarbonization options.

A large share of emissions is generated from air, land and sea transport modes which are the core of transporting goods from the source to the final consumer. Therefore, your supply chain is not isolated from GHG emissions.

What is the Emission Trading System?

ETS operates in the European Economic Area (EEA) and European Free Trade Association (EFTA) countries. This means that the trading system governance stretches to 100% of emissions from voyages in and between EEA/EFTA ports and 50% of emissions from voyages sailing between a non-EEA/EFTA port and an EEA/EFTA port. Furthermore, in the fourth quarter of 2023, the EU will supply a list of ports that will not count as ports of call.

It is based on a cap-and-trade system, where the cap limits an entity's GHG emissions, and within this cap, an entity can buy emission allowances. Shipping companies are expected to surrender enough allowances to cover all their emissions in connection with the EEA and EFTA ports.

The purpose of the cap-and-trade system is to decrease the cap every year to ensure emissions reduction. However, the system does not warrant emissions reduction, but rather a CO2 pricing market mechanism to incentivize CO2 emissions reduction. The allowance acquisition will trigger an added cost for shipping companies, that is going to be applied as a separate surcharge for cost recovery purposes to all applicable shipments, including Quick Quotes Spot and contracts. Therefore, it is important to note that the EU ETS is not a sustainable product offered by Hapag-Lloyd.

How does it apply to container shipping?

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. The ETS charge will be re-calculated quarterly.

The ETS surcharge amount will be displayed separately* from the sea freight value. The charge will be based on a formula that combines EU ETS relevant CO2 emissions with market prices for EU Allowances (EUA) as follows:

- EU ETS-relevant CO2 emissions per TEU are based on the industry-aligned Clean Cargo methodology for CO2 calculation and consider the ETS regulatory framework condition. These are then multiplied by the market price for EUAs sourced from the ICEDEU3 Index using a three-month average. This results in the ETS surcharge amount per TEU which is updated quarterly.

The impact of the new regulation will be visible from January 1, 2024, to retroactively pay for 40% of emissions in September 2025.

In the simplest terms, the applied ETS values will depend on the port-pair combination. In the table below, we have outlined a couple of guiding examples based on our teams' estimations within a cost-recovery framework. Here is a note of caution – these figures should be used as a reference because ETS surcharge, including its methodologies and estimated prices per EUA, are estimates, and subject to change. Therefore, we present these figures with the aim of helping you envision the potential impact on your supply chain in 2024, which is the first year of the EU ETS implementation.

Sub relation	Price per TEU DRY	Price per TEU REEFER
East Asia – North Europe	12 EUR	31 EUR
East Asia – South Europe	7 EUR	16 EUR
North Europe – North Am East Coast incl. MX East Coast	9 EUR	16 EUR
North Europe – South America West Coast	12 EUR	21 EUR
Europe – West Africa	17 EUR	29 EUR
North Europe – Middle East	12 EUR	22 EUR

How is this related to your Ship Green shipments?

If you have already added Ship Green to your quote or shipment, you are already avoiding 25, 50 or 100% of the CO_2e emissions. Therefore, we will ensure that we credit 25%, 50%, or 100% of the ETS surcharge in the sea freight invoice of each shipment**. If you would like to add Ship Green to your shipments, please visit our website here and get started on your green journey.

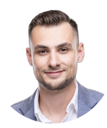
What are the scopes of implementation?

The emissions accounting will start in 2024, and the first ETS allowances are to be surrendered in September 2025. In 2027, ships will pay for 100% of the emissions released in 2026.

We are looking forward to keeping you updated with the latest developments concerning ETS. You can visit our website here to learn more about our sustainability strategy.

Best regards,

Maria-Fernanda



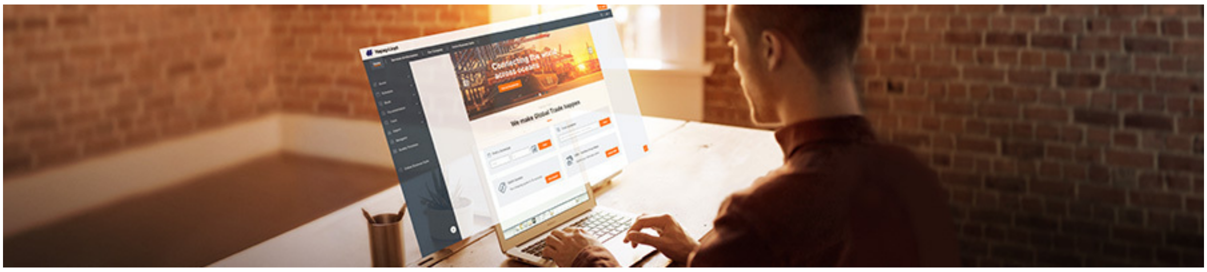
Niklas Jan

from our Customer Communications Team

from our Customer Communications Team

*For bookings to and from China & Taiwan (PRC), EU ETS costs will be considered as part of the sea freight.
**China & Taiwan (PRC) will be out of scope.

Your entire shipping process in one place



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