

PREPARING FOR THE EU ETS

MSC CUSTOMER ADVISORY

Geneva, Switzerland, 3 November 2022

Dear Customers,

As we follow the deliberations around the potential expansion of the European Union Emissions Trading System (EU ETS), we would like to provide an update on how these changes may impact you.

MSC has fully complied with all EU MRV (Monitoring, Reporting, Verification) requirements to date and will fully comply with the new requirements of the EU ETS, once the EU Council, and European Parliament and European Commission come to an agreement on its application.

There are currently at least two paths that policymakers are considering. The European Commission has proposed a phased-in approach for the shipping industry over the next four years, beginning on 1 January 2023. Meanwhile, the Parliament has recommended 100% application from the start. The final start date for coverage has yet to be determined, as the legislative process is still ongoing.

What is an ETS?

An ETS, or Emissions Trading System, typically sets a “cap” on the number of emissions that various industries may produce. This may include factories, retailers or powerplants. Aiming to incentivize decarbonization efforts, the EU ETS requires companies to obtain allowances that equal their emissions above the cap at the end of the year. The price of such allowances may fluctuate depending on supply and demand factors.

How will the EU ETS be applied to shipping?

The extension of the existing system to shipping would include all emissions from ships calling at an EU port for voyages within the EU (intra-EU) as well as 50% of the emissions from voyages starting or ending outside of the EU (extra-EU voyages), and all emissions that occur when ships are at berth in EU ports. Another pending proposal being debated in the EU institutions would extend the geographical scope of the emissions reporting area to ports within 300 nautical miles of EU waters.

As other industries do today, MSC and other ship operators would purchase and surrender ETS emission allowances, or EU Allowances (EUAs), for each ton of CO₂ emissions reported under the scope of the system.

Higher costs

Should the EU fully implement its plans, we anticipate higher operating costs in order to be compliant.

We therefore plan to pass on the cost of compliance, as we have done with other forms of environmental regulatory costs in the past. This will depend on the price of the EUAs and on whether the shipping industry's involvement is phased-in over several years, or required 100% from day one.

MSC will make calculations beginning on the day the system is introduced by the EU and will review them monthly, based on a benchmark public index for EUA prices. Each trade, comprising a number of MSC services, will have its own charging structure for inbound and outbound cargo to compensate for the new costs from the need to acquire these allowances.

Compliance cost examples

As an example, based on an EUA price of EUR90 per ton of CO₂ applied with a 100% obligation, we would envisage adding the cost on our Far East to North Europe trade of EUR69 per TEU for dry containers and EUR208 per FEU for reefer containers. North Europe to Asia, the cost would be EUR37 per dry TEU and EUR110 per reefer FEU.

Indicative EU ETS compliance costs Based on an EUA price of EUR90 per ton of CO₂ applied with a 100% obligation

Trade	EUR est. cost per dry TEU	EUR est. cost per reefer FEU
Intra-Med Short Sea Trade	78	233
North/South Europe – NEU to Greece/Turkey	167	500
USA/Canada to Europe	32	97
Europe to USA/Canada	83	248
S. America (East Coast) to Europe	159	478
Europe to S. America (East Coast)	66	197
S. America (West Coast) to Europe	116	348
Europe to S. America (West coast)	75	226
Far East to Mediterranean/NWC Europe	69	208
Mediterranean/NWC Europe to Far East	37	110

We are closely monitoring as proposed regulations proceed through appropriate legislative mechanisms within the EU regulatory framework and we will provide updates accordingly. You can also review and follow the updates made by the European Commission [on its webpages](#).

Our Journey to Net Zero

Regardless of the developments around the EU ETS, MSC remains committed to its own goal of net zero decarbonization across its ocean fleet by 2050 and we continue to make progress towards that goal through:

- adopting design and technology measures that boost efficiency across the fleet, in newbuild and retrofitted existing vessels;
- ship voyage optimisation to minimise emissions;
- increased use of transitional lower carbon fuels; and
- the future adoption of alternative fuels, once these become available at scale, that will enable us to operate net zero emission ships.

You can read more about these efforts on [msc.com](https://www.msc.com).

Should you have any queries about the EU ETS, please note that some answers are still pending political decisions and ratification. We will do our best to clarify what we can at this stage in order to help you prepare.

MSC Mediterranean Shipping Company