



EU ETS CIRCULAR 'NAVIGATING TOWARDS A GREENER FUTURE'

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What is the EU ETS?

The EU ETS is an emissions cap-and-trade system that aims to reduce greenhouse gas (GHG) emissions by setting a limit, or cap, on GHG emissions for certain sectors of the economy.

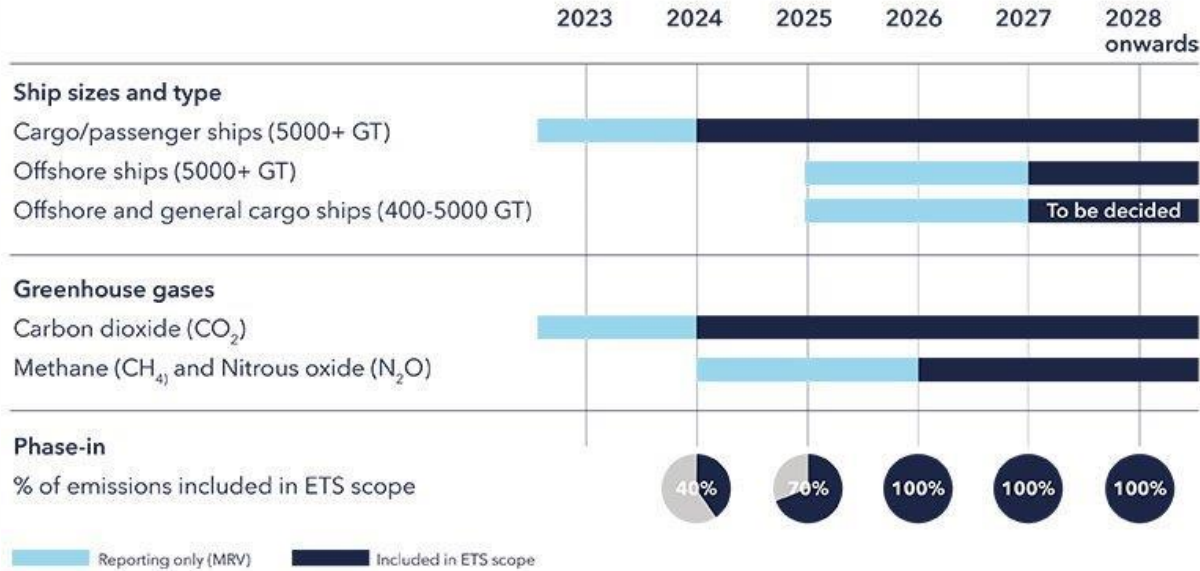
Each year, a limited number of EU Allowances (EUAs) is made available for trading in the market, and this is reduced yearly in order for the EU to meet its target of a 55% reduction in GHG emissions by 2030 relative to 1990, and net zero by 2050.

Each EUA gives companies a right to emit GHG emissions equivalent to the global warming potential of one tonne of CO2 equivalent.

The implementation timeline for shipping

The EU’s legislative bodies have adopted a revision of the EU ETS directive to include shipping from 2024.

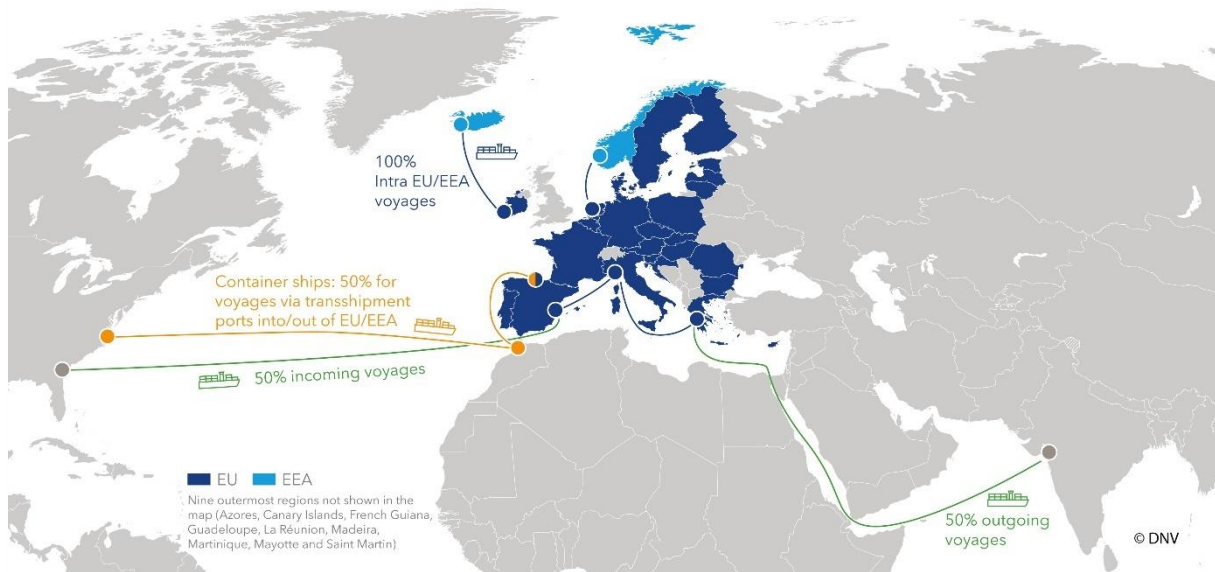
EU ETS introduction timeline



EU ETS introduction timeline

This entails a three-year phase-in period, increasing in scope from 40% of emissions in 2024 to 70% in 2025 and 100% in 2026. It applies to cargo and passenger ships above 5000 GT from 2024 and offshore ships above 5000 GT from 2027. The EU ETS will initially cover carbon dioxide emissions and be widened to include methane and nitrous oxide from 2026. Offshore ships and general cargo ships between 400 and 5000 GT will also be required to report emissions and may be included in the EU ETS at a later stage.

The scope of the EU ETS for shipping



EU ETS based on percentage of emissions on voyages

All 100% of emissions on voyages and port calls within the EU/EEA, and 50% of emissions on voyages into or out of the EU/EEA, are subject to the EU ETS. To avoid evasive behaviour, container ships stopping in transshipment ports outside the EU/EEA but less than 300 nm from an EU/EEA port, need to include 50% of the emissions for the voyage to that port as well, rather than only the short leg from the transshipment port. The EU so far only indicated Tanger and Port Said as transshipment ports for container ships.

Shipping companies with ships operating to or from ports in the EU or EEA will be required to hold sufficient EUAs for the GHG emissions from ships under their control and surrender these allowances to the authorities each year. Shipping companies are required to monitor, report and verify the GHG emissions on an annual basis under the EU MRV regulation and this information is used to determine the allowances they need to surrender.

How is the ETS Surcharge calculated?

$$\text{ETS} = \frac{\text{Fuel consumption}^{(1)} * \text{CO}_2 \text{ factor}^{(2)} * \text{year-rate}^{(3)}}{\text{Trading within or from/to Europe}^{(4)}} * \text{ice class discount}^{(5)} * \text{CO}_2 \text{ price}^{(6)}$$

(1) Fuel consumption is determined by the average speed of a vessel (kts), the total distance between loading port and discharging port and the fuel consumption of a vessel per day.

(2) CO₂ emission factor
 1 mton HFO = 3,114 mton CO₂
 1 mton VLSFO = 3,206 mton CO₂
 1 mton MGO = 3,206 mton CO₂

(3) Phased introduction
 2024: 40%
 2025: 70%
 2026: 100%

(4) Trade
 Within EU: 100%
 From/to EU: 50%

(5) Discount
 Ice class: 5%

Price developments EUA's

EU carbon permit prices fell below €70 per tonne, the lowest in over one year, driven by reduced demand for permits amid a sluggish manufacturing sector and declining natural gas prices. The latest S&P PMI showed the Eurozone's manufacturing sector contracted for the seventeenth consecutive month in November, with six out of eight surveyed nations in contraction territory. Austria, Germany, and France were the weakest performers, though they recorded milder rates of decline. The Netherlands and Spain also saw softer contractions. Conversely, Italy's manufacturing downturn intensified. Furthermore, European natural gas prices hit a two-month low, falling below €40/MWh, as persistent low demand allowed the region to maintain healthy gas reserves



Dated: 12-12-2023

Source: <https://tradingeconomics.com/commodity/carbon>

Universal Africa Lines ETS Surcharge

EUR 35 per TEU and EUR 4 WM for break bulk.

The above mentioned surcharges will be applicable for all liner bookings with a BL date from January 1 to March 31, 2024.

Since the EUA's are traded on an open market, the surcharge will be re-evaluated and possibly adjusted on a quarterly basis.