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Carriers adjust to rules requiring ETS surcharge to be included in China exports base rate

Carriers will start to add per-container surcharges to European trade lanes from the first quarter of 2024. Photo credit: Port of Hamburg Marketing.

Greg Knowler, Senior Editor Europe | Dec 7, 2023, 11:18 AM EST

Ocean carriers say they are adjusting to Chinese regulations requiring that the costs associated with the European Union's emissions trading system (ETS) be included within the base freight rate of all China to Europe container bookings rather than levying the carbon tax as an additional surcharge.

While the preferred approach by carriers is to calculate exposure to the ETS and recover costs per container in a separate surcharge on top of the base rate, that will not be possible for Chinese exports to Europe.

"In line with the Shanghai Shipping Exchange regulation, the EU ETS must be included in the freight rate only for exports from China," a spokesperson for Hapag-Lloyd told the *Journal of Commerce* Thursday, adding that Chinese imports did not fall under the regulation.

It is understood that surcharges are regarded by the Shanghai Shipping Exchange — established by the Chinese Ministry of Transport in 1996 to promote fair competition in the industry — as being temporary to cover additional increases in costs and not meant to be a permanent charge.

Maersk has also informed customers of changes in the way the ETS surcharge will be applied to Chinese cargo compared with other origins of European imports.

"For all bookings from China — Hong Kong and Taiwan not included — we will add the EU ETS cost to base freight rates instead of as an additional surcharge for regulatory reasons," the carrier said in an advisory this week.

However, there does not appear to be much clarity around the issue. A Maersk spokesperson told the *Journal of Commerce* Thursday the carrier was "in dialogue with the authorities in China" on the issue, but declined to elaborate.

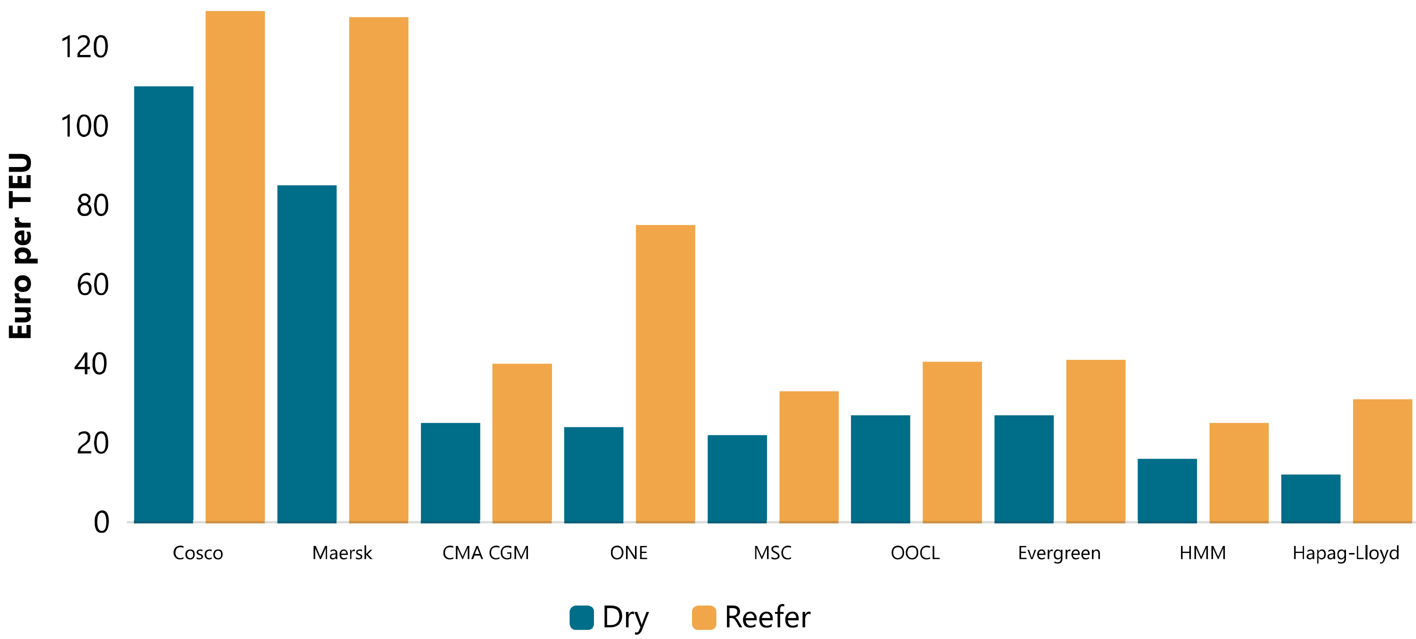
Tax on fossil fuels

Carriers will start to add per-container surcharges to European trade lanes where the ETS is applicable from the first quarter following the European Commission's move to include shipping in its cap-and-trade carbon-charging system from Jan. 1, 2024.

The base rate will be adjusted quarterly to reflect the changing cost of the ETS that will be based on the prevailing quarterly price of carbon credits, known as European Union Allowances (EUAs), and allocated across the value chain in line with the "polluter pays" principle.

Wide variance in Asia-North Europe ETS emissions surcharges

Estimated the Emissions Trading System (ETS) surcharges EUR per TEU



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greenhouse gas (GHG) emissions by setting an annual absolute limit and requiring carriers to purchase allowances per ton of carbon emitted. Shipowners will need to buy and surrender EUAs to cover their annual emissions for voyages both within the European Union and while at port in the EU, as well as on 50% of voyages beginning or ending in Europe.

The measure will be phased in from Jan. 1 with 40% of emissions covered in 2024, rising to 70% in 2025 and 100% from 2026.

Most of the major carriers have been updating their ETS surcharges with the cost of EUAs on the carbon markets becoming clearer, although there remains a wide variance in the charges per container.

Forwarders preparing surcharges

Collecting the ETS surcharges will not be exclusive to carriers, with several forwarders calculating their own surcharges.

Markus Panhauser, head of ocean freight for Europe at DHL Global Forwarding, said the ETS would remain a separate charge for most trade lanes because of its three-year phased-in approach.

“Our customers say the ETS is being offered as a separate charge and whether it could be rolled into the bunker charge at a certain point could happen, but I expect not until 2025 because of the phased-in approach with the percentages increasing over years,” Panhauser told a DHL Global Forwarding webinar this week.

"It will not make sense for carriers to include it in the base rate and then next year come with another surcharge or ETS tool," he added.

Panhauser said DHL has defined its own fixed ETS charge, while other forwarders were doing the same or applying pass-through surcharges.

"We believe the fixed charge is the better way because a customer could never know which carrier was being used, and that's why a pass-through is an administrative monster," he said. "We have lots of customers where we have EDI [electronic data interchange] invoicing, and you cannot do that if you have ever-changing ETS charges."

Vanguard Logistics is another forwarder calculating its own ETS surcharges that will be passed on to customers beginning in January.

"We now have an overview of the additional ETS costs from the majority of the larger carriers," Vanguard noted in a customer advisory this week. "We will use a weighted average amount for the complete region rather than a specific rate per trade pair. This will be reviewed quarterly."

The wide range of prices given per container by ocean carriers has prompted some surprise among shippers, especially as calculation methods behind the levies have not been disclosed, Alphaliner noted in its latest weekly newsletter.

The analyst said ministers from seven EU countries, including Spain and Italy, have written to the European Commission, calling for the option to pause plans to include shipping in the ETS, arguing that the move risks driving business away from European ports while offering limited environmental benefits.

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