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Tightening Europe decarbonization measures will raise shipper costs: carriers

CMA CGM is expecting an increase of about 75% in its current ETS surcharge amounts next year. Photo credit: CMA CGM.

Greg Knowler, Senior Editor Europe | Nov 26, 2024, 11:32 AM EST

Carriers are warning shippers to expect significant increases in their Emissions Trading System (ETS) surcharges in 2025 as the European Union carbon tax is expanded to cover 70% of all carrier emissions.

The rise in ETS surcharges will come on top of the new fuel intensity regulation FuelEU Maritime that from Jan. 1 will force carriers to increase their use of more costly lower-emission fuels.

“We expect the ETS surcharge to roughly double due to regulatory updates,” Hapag-Lloyd told customers in an advisory Tuesday. “We will expand our existing ETS surcharge to cover the ETS enhancement as well as the costs arising from fuel bunkering for FuelEU Maritime."

CMA CGM is expecting an increase of about 75% in its current ETS surcharge amounts and will publish its revised ETS surcharges on Dec. 1.

"Starting in 2025, the ETS regulation will evolve to account for 70% of our emissions, compared to the current 40% in 2024," the carrier said in a recent customer advisory. "This substantial increase in the percentage of emissions covered by the ETS will have a direct impact on our cost structure."

Maersk noted in a recent advisory that the cost of complying with Europe's regulatory requirements was expected to rise significantly with the phased implementation of ETS, Fuel EU and other potential regulations from various jurisdictions in the coming years.

"We expect the [ETS] emission surcharge in 2025 to be nearly double that of 2024," Maersk said. "The actual surcharge for Q1 2025 will be published in December, about 30 days before it takes effect."

Maersk also noted that the price of European allowances was expected to increase due to supply cuts.

'Cap-and-trade' principle

Shipping was included in the ETS from 2024 and under the "cap-and-trade" principle in which ship operators are required to buy and surrender ETS emission allowances, known as EU Allowances, for each ton of CO_2 emissions reported under the scope of the system, with penalties levied for noncompliance.

The ETS covers CO_2 emissions of journeys starting and ending in the EU and the intra-Europe trade. Voyages that start and end at ports in the EU will be required to pay for 100% of emissions, with journeys either starting or ending in the EU required to pay for 50% of emissions. Carriers will pay for 40% of emissions in 2024, 70% in 2025 and 100% from 2026 onward.

"This regulation's costs will roughly increase by 75% from this year to next, depending on the price of emission allowances," Hapag-Lloyd said.

FuelEU Maritime is part of the EU's Green Deal environmental policy that has set an intermediate green objective of cutting at least 55% of greenhouse gas (GHG) emissions by 2030, also known as "Fit for 55."

From Jan. 1, ships trading in the European Union or European Economic Area (EEA) will need to reduce the annual average GHG intensity of energy used on board by 2% relative to a 2020 baseline, increasing gradually every five years to 80% by 2050.

The regulation will apply to 100% of energy used on voyages and port calls within the EU or EEA and 50% of voyages into and out of the bloc. Vessels will be hit with a penalty of €2,400 per metric ton of fuel that fails to meet the initial 2% target in 2025.

“To achieve this target, we must use fuels with a lower emission footprint than traditional marine fuel, such as biofuels, within EU waters,” Hapag-Lloyd noted in the advisory.

Several carriers offer services operating on biofuel, and although they are priced at premium levels, the lower emissions allow carriers to exempt shippers from ETS surcharges.

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