



Inclusion of Maritime Emissions in the EU Emissions Trading System

Inclusion of Carbon Cost in Tanker Voyage Route Assessments

Consultation

Confidential

February 2024

Responses by

29 March 2024

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Responding to this Consultation Paper

The Baltic Exchange (“**Baltic**”) invites comments on this consultation paper.

Please send your responses through any of the following means:

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Mail: The Baltic Exchange
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Attn: Matthew Cox

Responses should include a summary and reasoned explanations of the major points of feedback being provided, together with an explanation of your interest in the consultation. Please also include your full name and the organisation you are representing, as well as your email address or contact number so that we may contact you for any clarification. Anonymous responses may be disregarded.

The Baltic may make public all or part of any response provided and may disclose your identity. You may request confidential treatment for any part of the response, which is proprietary, confidential, or commercially sensitive, by clearly marking such information. You may request not to be specifically identified.

The outcome of this consultation may be subject to regulatory concurrence. For this purpose, you should note that notwithstanding any confidentiality request, we may share your response with the relevant regulator.

Members should please treat this consultation paper and its contents as confidential.

By sending a response, you are deemed to have consented to the collection, use and disclosure of personal data that is provided to us for the purpose of this consultation paper.

The Baltic requests all feedback by COB 29 March 2024.

1. INTRODUCTION

1.1 The maritime industry was included in the European Emissions Trading Scheme from 1 January 2024. The legislation requires shipping companies, performing cargo voyages into and out of the EU, to buy and surrender EUA allowances based upon their annual carbon emissions.

1.2 The EU ETS works using a 'cap-and-trade' principle. A cap (limit) is set on the total amount of greenhouse gas emissions that can be emitted by factories, power plants, ships and other entities that are included. Over time, this cap is reduced, resulting in a gradual reduction of total emissions. Within the cap, the different entities buy allowances, which they can trade between themselves. At the end of each year, all entities must submit allowances, called EU Allowances (EUA's), equal to their emissions. In this, each allowance counts for one tonne of CO₂. Since both greenhouse gas emissions allowed in the cap and the greenhouse gas emissions from entities are not fixed numbers, the price per allowance is not fixed. It fluctuates according to market demand and supply of emission allowances.

1.3 To ensure a smooth transition, shipping companies¹ only have to surrender allowances for a portion of their emissions during an initial phase-in period:

2025: 40% of their emissions reported in 2024;
2026; 70% of their emissions reported in 2025;
2027 onwards 100% of their reported emissions.

1.4 Shipping companies will have an obligation to surrender their first EUAs by 30 September 2025, in respect of the period January – December 2024, based upon the verified company emission report submitted to the administering authority by March 2025.

1.5 The calibration of carbon emissions is based on the quantity of fuel consumed by the vessel in transporting the cargo. A multiplier is applied to the fuel consumed to calculate the carbon exposure, from this the required EUAs are derived.

1.6 The shipping company will expect to be reimbursed by the charterer or cargo owners for the cost of the EUAs either as an addition to the freight or the EUAs transferred directly.

1.7 The Baltic's initial consultation for tankers resulted in the Baltic issuing Circular ID: MA/All/202309/20/N on 26 September 2023, notifying the market that the Baltic Exchange would not be including the cost of EU ETS in tanker voyage assessments for 2024

1.8 During the last days of December 2023 and January 2024, the Baltic has been made aware of tanker fixtures that have been concluded where the cost for EUAs have been included in the freight rate and that charter party clauses have been developed to consider this trend.

1.9 With current tanker market practice seeming to run contrary to the results of past consultations, the Baltic is now conducting a further consultation to establish if the market's view has changed and that the cost of carbon (EUAs) in tanker freight assessments should now be included.

¹ As defined in the final legislation, a "shipping Company" means the shipowner or any other organisation or person, such as the manager or the bareboat charterer, that has assumed the responsibility for the operation of the vessel from the shipowner and that, on assuming such responsibility, has agreed to take over all the duties and responsibilities imposed by the International Management Code for the Safe Operation of Ships and for the Pollution and Prevention, set out in Annex 1 to Regulation (EC) No 336/2006 of the European Parliament and of the Council.

1.10 As a supplement to the feedback the Baltic has received, including through the Baltic Advisory Councils and user discussions, the Baltic now invites further feedback through written responses to this consultation paper.

2. Impacted Baltic Routes

2.1 Baltic Tanker Routes are assessed on a voyage basis and reported in Worldscale points, US\$ per metric ton or on a US\$ basis.

2.2 The Baltic routes that load or discharge in Europe and are impacted by EU ETS are contained in Table 1

2.3 The Baltic routes impacted by EU ETS and the listed contracts are shown in Table 1, with an indication as to the Open Interest.

Short Code	Unit	Short Description	Open Interest (OI)	Long Description
TC2_37	Worldscale	Clean 37K Cont. to US Atlantic coast	OI out to Dec' 25	37,000mt CPP/UNL. Continent to US Atlantic coast (Rotterdam to New York). Laydays/cancelling 10/14 days from index date. Age max 15 yrs. 3.75% total commission.
TC6	Worldscale	Clean 30K Algeria to European Mediterranean	OI out to Dec' 24	30,000mt CPP/UNL. Algeria to European Mediterranean (Skikda to Lavera). Laydays cancelling 7/14 days from index date. Age max 15 yrs. 3.75% total commission.
TC8	\$/mt	Clean 65K Middle East Gulf to UK-Cont.	Not Listed	65,000mt CPP/UNL middle distillate. Middle East Gulf to UK-Cont (Jubail to Rotterdam). Laydays/cancelling 20/30 days from index date. Double hull, age max 15 yrs. This route to be reported as US\$ per mt. 3.75% total commission.
TC9	Worldscale	Clean 30K Baltic to UK-Cont.	Not Listed	30,000mt CPP/UNL/ULSD middle distillate. Baltic to UK-Cont (Primorsk to Le Havre). Laydays/cancelling 5/10 days from index date. Double hull, age max 15 yrs. 3.75% total commission.
TC14	Worldscale	Clean 38K US Gulf to Cont.	OI out to Dec' 25	38,000mt CPP/UNL/diesel. US Gulf to Continent (Houston to Amsterdam). Laydays/cancelling 6/12 days from index date. Age max 15 yrs. 3.75% total commission.

TC15	\$	Clean 80K Mediterranean to Far East	No OI	80,000mt naphtha. Mediterranean to Far East (Skikda to Chiba). Laydays/cancelling 15/25 days from index date. This route to be reported on a US\$ lumpsum basis. Age max 15 yrs. 3.75% total commission.
TC16	Worldscale	Clean 60K Cont. to West Africa	Not Listed	60,000mt CPP. A-R-A to West Africa (Amsterdam to offshore Lome). Laydays/cancelling 10/14 days from index date. Age max 15 years, 3.75% total commission.
TC19	Worldscale	Clean 37K Amsterdam to Lagos	Not Listed	37,000mt CPP, A-R-A to West Africa (Amsterdam to Lagos). Laydays/cancelling 5/10 days from Index date. Age max 15 years. 3.75% total commission.
TC20	\$ / ton	Clean 90k Middle East Gulf to UK-Cont	OI out to Sep' 24	90,000mt CPP/UNL middle distillate. Middle East Gulf to UK-Cont (Jubail to Rotterdam). Laydays/cancelling 15/20 days from index date. Double hull, age max 15 yrs. 3.75% total commission.
TC23	Worldscale	Clean 30k UK - Cont	No OI	30,000mt CPP/UNL/ULSD. UK to Continent (Antwerp, Rotterdam, Amsterdam range to Le Havre) Laydays/cancelling 5/10 days from index date. Age Max 15 years. Total commission 3.75%
TD6	Worldscale	Dirty 135K Black Sea to Mediterranean	Not Listed	135,000mt. Black Sea to Mediterranean (CPC to Augusta). Laydays/cancelling 10/15 days from index date. Age max 15 yrs. 3.75% total commission.
TD7	Worldscale	Dirty 80K North Sea to Cont.	No OI	80,000mt. North Sea to Continent (Hound Point to Wilhelmshaven). Laydays/cancelling 7/14 days from index date. Age max 15 yrs. 3.75% total commission.
TD18	Worldscale	Dirty 30K Baltic to UK-Cont.	Not Listed	30,000mt fuel oil. Baltic to UK-Cont (Tallinn to Amsterdam). Laydays/cancelling 10/15 days from index date. Double hull, age max 15 yrs. 3.75% total commission.
TD19	Worldscale	Dirty 130K Cross Mediterranean	No OI	80,000mt. Cross Mediterranean (Ceyhan to Lavera). Laydays/cancelling 10/15 days from index date. Age max 15 yrs. 3.75% total commission.

TD20	Worldscale	Dirty 130K West Africa to UK-Cont.	OI out to Dec' 25	130,000mt. West Africa to UK-Continent (offshore terminal Bony to Rotterdam). Laydays/cancelling 15-20 days from the index date. Age max 15 years. 82,000grt. 3.75% total commission.
TD23	Worldscale	Dirty 140K Middle East Gulf to Mediterranean	Not Listed	140,000mt. AG/Med (Basrah to Lavera). Laydays/cancelling 20/30 days from Index date, 3.75% total commission.
TD25	Worldscale	Dirty 70K US Gulf to Antwerp – Rotterdam - Amsterdam	No OI	70,000mt. USG to Amsterdam-Rotterdam-Antwerp range (Houston to Rotterdam). Laydays/cancelling 10/20 days from Index date. 3.75% total commission.
BLPG2	\$/mt	LPG USG to Cont.	OI out to Mar '24	44,000mt, 5% more or less in owner's option, 1 to 2 grades, fully refrigerated liquefied petroleum gas, Laydays/cancelling 15-40 days from index date. US Gulf to Continent (Houston to Flushing). Laytime 96 hrs total. Age max 20 yrs. 1.25% total commission.

Table 1

3.0 TANKER FFA OPEN INTEREST

3.1 As shown in Fig. 1 below, of the impacted routes shown in Table 1, most of the open interest on Baltic settled routes is on two routes, TD20 and TC2.

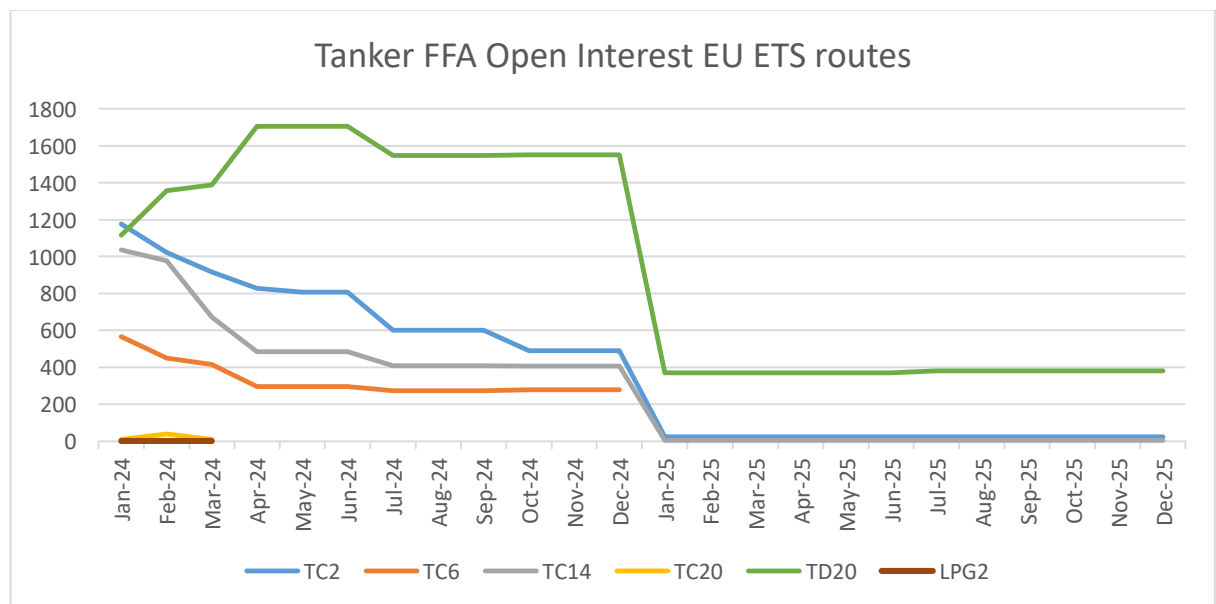


Fig 1.

3.2 Open interest added to 2024 after the 26 September and up to 31 January was:

TD20	+6,481
TC2	+7,128
TC14	+4,438
TC6	+3,480
TC20	+ 26

4. MARKET ENGAGEMENT

4.1 The Baltic engaged with market participants from January 2024 following feedback that carbon cost was included in tanker voyage freight agreements.

4.2 The market engagement comprised meetings with users, direct contact with Owners, Charterers and traders and day-to-day interaction with Panellists. The recent February Tanker Advisory Councils in Europe and Asia also discussed the topic.

4.3 The Central Clearing Parties (CCP) listing these products have been informed about the potential changes to indices because of this consultation. Further consultation will be required with the CCP to address the impact on the Open Interest.

5. MARKET FEEDBACK

5.1 The initial feedback was that the Baltic should react quickly to the actual practice in the physical market and move to include the cost of EUAs in the voyage assessments. This raised the practical issue of dealing with FFA contracts that had been traded after the announcement that the cost of carbon would not be included in the freight. Sufficient notice would be required for any change.

5.2 Feedback on why the market was operating differently to original feedback centered on issues Owners encountered in setting up compliance accounts in the EU. A compliance account is required to hold EUAs. The delays in establishing a compliance account resulted in owners accepting cash (included in the freight) as they could not accept EUAs.

5.3 Feedback from the Advisory councils was that the position was not yet fully clear; there were indications of agreements being negotiated where transferring EUAs covered the carbon exposure, and the cost was excluded from the freight. The Baltic should consult further with the market and not rush into a decision.

5.4 There was no consensus in the feedback on whether the carbon should be included in the freight. There was support for both leaving the position as is and changing it to include carbon in the freight.

5. CONSULTATION QUESTIONS

Question 1: Market practice?

Do you agree that more time is required to observe if the inclusion of carbon cost in the freight is now the norm?

If you don't agree please provide your view

Question 2: Time required?

Thinking about your answer to Question 1, what do you consider is sufficient time to monitor?

- a) 9 months
- b) 6 months
- c) 3 months
- d) None, change as soon as possible
- e) Other

Please provide your view to support your answer

Question 3: Carbon as an element of freight?

If physical market practice is to both include and exclude carbon in the freight. Do you agree that the Baltic indices should exclude the cost of carbon from freight?

If you don't agree please provide your view