



# EU climate action and ports

## How to optimise the ETS for container cargos

February 2024

### Summary

2023 was a pivotal year for the shipping industry. EU policy-makers agreed on a plan to make shipping companies pay for their pollution for the first time. From 1 January 2024, maritime transport has been included in the EU's Emissions Trading System (ETS), finally charting a course towards zero-emission shipping.

Some stakeholders have argued that the shipping ETS will lead to a loss of business for European seaports. While studies from the European Commission and others have not substantiated these claims of 'leakage', it may be pertinent to consider potential technical fixes to assuage perceived risks.

This briefing makes the case that a limited adjustment in the methodology of the ETS by calculating ETS costs on the basis of the origin of the *container cargo* - rather than the last leg of the voyages - for vessels that come from selected non-EU transshipment ports would both improve the climate ambition of the policy and deal with ports' concerns. The proposed adjustment in the methodology need not to impact the rest of the maritime ETS or other cargo types; only the traffic in a limited-number of non-EU transshipment ports.

### 1. Context

The European Commission's Impact Assessment (IA) on the ETS demonstrated that the risk of 'port evasion' is negligible.<sup>1</sup> It also argued that in the case of transshipment, competition between ports was based on a broad number of economic elements of which added environmental costs would be one among many. Importantly, the European Commission's IA (and others, including T&E<sup>2</sup>) showed the limited extra cost of the ETS on the container or final product would be negligible to shippers and the final consumer.

<sup>1</sup> European Commission. (July 2021). Commission Staff Working Document Impact Assessment Report. Retrieved from

[https://eur-lex.europa.eu/resource.html?uri=cellar:7b89687a-eec6-11eb-a71c-01aa75ed71a1.0001.01/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:7b89687a-eec6-11eb-a71c-01aa75ed71a1.0001.01/DOC_1&format=PDF)

<sup>2</sup> Transport & Environment. (June 2022). The Small Price to Pay to Clean Up Shipping. Retrieved from <https://www.transportenvironment.org/discover/the-small-price-to-pay-to-clean-up-shipping/>

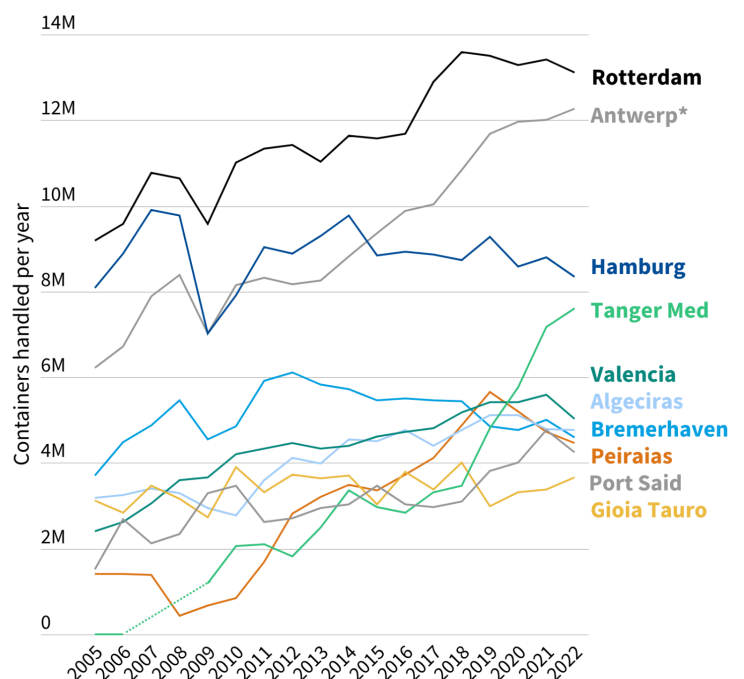
All major European carriers have announced their decision to pass on ETS costs through surcharges.<sup>3</sup> Shippers and freight forwarders will therefore pay extra fees to the carriers if their container passes through Europe. These announcements validate the European Commission's conclusion: that carriers will pass the costs of the ETS on to consumers rather than change their business behaviour. Moreover, forthcoming analysis from T&E has shown that these surcharges will in fact earn windfall profits for the carriers, incentivising the use of European ports rather than the contrary.

Despite this, some European Mediterranean transshipment ports have suggested that they may lose business to competitors in North Africa. In particular, they suggest that their transshipment activities will be affected. Transshipment activity is when a ship drops off a container and the container is held in the port for a short period of time before a different ship takes the container to its next location. Given that this type of activity requires a marginal additional amount of labour and is less economically lucrative as a port activity than other trades, commentators have suggested it is more sensitive to increased costs.<sup>4</sup> That is, increased costs for calling in EU ports from the ETS or FuelEU Maritime would incentivise carriers to move this activity to non-European ports. This would apply in particular to cases where neither the origin nor the final destination of the container is in Europe.

Ports in the South of Europe have expressed concern in the context of large investments since the 2000s in the port of Tanger Med. As the graph to the right shows, the Tanger Med Port began operations in 2007. With sustained financial support from the Moroccan government, it grew to become the biggest port in the Mediterranean region by 2020, a full 3 years before the EU's shipping climate regulations were agreed. **The use of public funds - for example those produced by the shipping ETS itself - are therefore key in the development of each country's port industry.**

Graph 1 to the right also demonstrates that container trade volumes in the Port of

## No correlation between EU climate measures and port growth



Source: Eurostat, AAPA and Tanger Med annual reports (Tanger Med data unavailable for 2007 and 2008). \*The Port of Antwerp merged with the Port of Bruges in 2022.

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<sup>3</sup> See [MSC](#), [Maersk](#) and [CMA CGM](#)

<sup>4</sup> Hercules Haralambides. (April 2017). Globalization, public sector reform, and the role of ports in international supply chains. Retrieved at <https://link.springer.com/article/10.1057/s41278-017-0068-6>. 'In comparison to the economic impacts of domestic traffic, transshipment creates relatively less (local) value added.'

Hamburg have decreased since their 2014 peak. This is of note because Hamburg Port took a strategic decision in 2012 to deprioritise container transshipment activities in favour of other port activities with greater added economic value to the port and surrounding area.<sup>5</sup>

## 2. Expanding scope to cargo

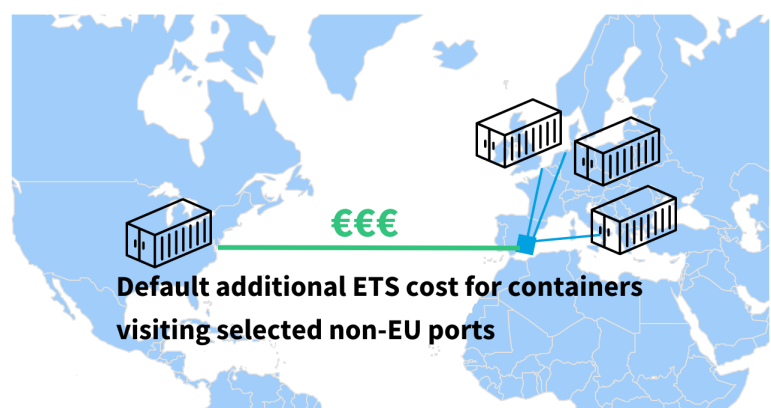
The issue some stakeholders see in competition in Mediterranean transshipment ports is that the vessels arriving in those ports do not necessarily visit EEA ports. Instead, other, often smaller, ships take the containers to their final port location (the vast majority of traffic from these Mediterranean ports go to European ports while a small minority go to African ports).

The ETS cannot regulate ships that do not call in European ports (i.e. the ships that leave containers in non-EU transshipment ports ) because the ETS is levied on vessels according to their last voyage. However, the EU is able to reflect full pollution costs by applying a policy measure to the vessels that travel between European ports and certain non-European transshipment ports.

This can be done through adding a default emission cost to these vessels on the basis of the region of final destination/origin of its containers (e.g. West Coast of South America, Far East, Oceania...). This charge would be additional to the normal vessel-specific ETS charge for vessels on voyages between the European and the non-European ports. The fundamental logic of the ETS, based on voyages, would therefore remain the same.

The burden of proof would be on shipping companies to declare the numbers of containers on each ship coming from each region. Container companies must already hand over this information to customs authorities. They also already share it in private fora like the Clean Cargo Working Group<sup>6</sup> and

### Reflect the true cost of pollution by charging ETS to full container journey



This would apply to selected non-EU ports even if the containers arrive in those ports from ships that do not call in Europe

<sup>5</sup> Hamburg Port Authority. (October 2012). Der Hafenentwicklungsplan bis 2025 (The Port Development Plan until 2025). Retrieved from <https://www.hafen-hamburg.de/site/assets/files/164584/hep-7.pdf> p.34

<sup>6</sup> Hapag-Lloyd is the only carrier that has publicly shared the methodology they have used to estimate the ETS surcharge. The methodology was agreed in the private forum the Clean Cargo Working group, which includes 90% of the container shipping industry. It ascribes emissions values to individual containers, even if the container is transhipped between the port of origin and destination. Hapag-Lloyd. (October 2023). Your business, the EU Emission Trading System and container shipping. Retrieved from

some companies have used it to calculate their ETS surcharges. The measure would only apply to voyages to/from ports selected by the European Commission (currently the Commission identifies non-EEA ports within 300 nm of European ports with a rate of transshipment over 65%).<sup>7</sup> The policy would address competition concerns from European ports, making these more competitive vis a vis non-EEA transshipment ports for European trade.

The policy would be limited to container shipping given that the fear of evasion is not present in other shipping segments. This is because in other shipping segments, a vessel's voyage is almost always the same as the cargo's end-to-end journey. There is therefore an additional justification for applying the suggested methodology to containerised cargo: to harmonise with other shipping segments so that emissions related to cargo are in effect regulated in all shipping segments.

### 3. Conclusions

While it is unlikely that port business will be lost as a result of the ETS - and in any case any potential losses are vastly outweighed by new ETS revenues in each Member State - a technical policy solution like the one explained above may be considered in the mid/long-term to assuage policy fears. It also has the important added value of expanding the scope of the shipping ETS, thereby accelerating the maritime shipping's already-delayed green transition.

The policy has the benefit of building on information that is freely available to carriers, namely the origins and destination of each container they carry. More concrete information on trade flows would also aid understanding of the issue, so an additional solution would be for container companies and ports to hand over all the information they have on container voyages and trade flows so the Commission can properly evaluate the situation.

### Further information

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<https://www.hapag-lloyd.com/en/services-information/news/2023/09/ets-european-trading-system-carbon-emissions.html> Other carriers may well be using the same methodology, but have declined to share their methodology.

<sup>7</sup> European Commission. (October 2023). Neighbouring container transshipment ports. Retrieved from [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13867-EU-Emissions-Trading-System-ETS-neighbouring-container-transshipment-ports\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13867-EU-Emissions-Trading-System-ETS-neighbouring-container-transshipment-ports_en)