

IMMEDIATE RISKS TO THE MALTESE MARITIME INDUSTRY & THE WIDER ECONOMY PURSUANT TO THE EU ETS DIRECTIVE TRANSHIPMENT RULE

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AGENDA

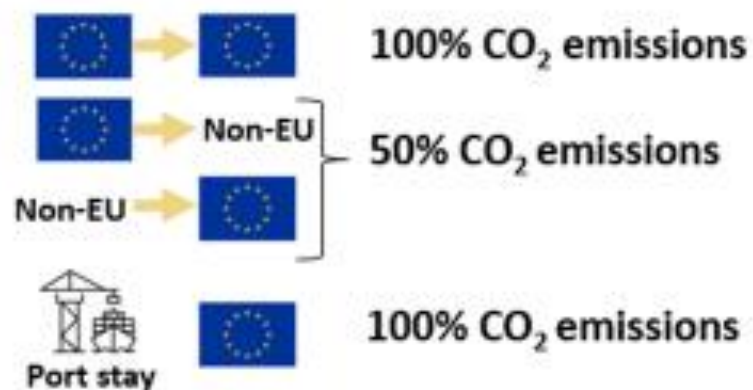
1. Context of the EU ETS Directive and implemented through the Draft Regulation
2. The Risks arising out of the Directive and the "Transshipment Rule"
3. The Consequences of Business and Carbon leakages arising from the Directive
4. Policy Recommendations for Corrective Measures
5. Final Conclusions

CONTEXT

- The European Emissions Trading System (EU ETS) requires shipping companies to surrender a quantity of EU Allowances (EUAs) equivalent to their greenhouse gas emissions.
- EUAs apply to all companies irrespective of country of incorporation or flag registration of vessel.
- The surrendering of such allowances is meant as a means of compensation for the emissions generated in the previous year.

CONTEXT

General framework



Per vessel / Per year

Year	% of total verified emissions
2024	40%
2025	70%
2026	100%



CONTEXT

The Directive recognised the “risks of transfer of transhipment activities outside the EU” due to the absence of a global market-based measure.

It introduced a “corrective” measure by way of the Transhipment Rule to discourage evasive port calls.

The Transhipment Rule states that
“Neighbouring Ports” located outside the

Transhipment ports are defined as such if they satisfy “the criteria laid down by the Directive.

EU shall not be considered as a “port of call” in the counting of the ETS charges.

CONTEXT

Commission held a public consultation on the Transshipment clause which closed on 18 September.

The process was met with forceful objections from Governments, Authorities and Industry Associations in EU Mediterranean MS.

Empirical studies show that the Transshipment Rule is ineffective to fulfil its intended purpose of protecting EU container transshipment ports.

It creates an unfair level playing field between EU and non-EU ports and will lead to both business and carbon leakage to non-EU hubs.

The proposed timing for implementation reviews and updating of the list is deemed too long.

TRANSHIPMENT RULE

The identification of Tangier Med and East Port Said as major neighbouring transshipment ports is a positive step.

However, it is certainly not be enough to avoid harmful evasion.

Several terminals in N Africa are attracting major investment by major shipping companies as part of their vertical integration strategies building up transshipment capacity.

Directive should not only look at current volumes, but also consider the transshipment capacity in other different EU neighbouring ports.

TRANSHIPMENT RULE

The Transhipment Rule is deemed ineffective because, even if the call at a non-EU transhipment port is subject to the special regime, it will still be prohibitively more costly for ships to call at an EU port relative to a non-EU port.

When ships call at an EU transhipment port, the last leg between the transhipment port and any other EU port is subject to ETS charges for 100% of the journey.

On the other hand, if the ships call at a non-EU transhipment port, only 50% of the journey is accounted for.

TRANSHIPMENT RULE

Scenario 1: Singapore (non-EU) → Marsaxlokk (EU) → Rotterdam (EU)

50%



100%

Leg	Total Distance (Miles)	CO2	ETS Level	ETS CO2	Cost
1	6010	5573	50%	2786	€ 250'776
2	2424	2254	100%	2254	€ 202'896
	8434	7827		5041	€ 453'672

Annual cost: € 23'590'944

100%

Marsaxlokk

50%

Non-EU

Singapore

TRANSHIPMENT RULE

Scenario 2: Singapore (non-EU) → Port Said (Neighbouring Port) → Rotterdam (EU)

50%



50%

50%

Leg	Total Distance (Miles)	CO2	ETS Level	ETS CO2	Cost
1	5073	4704	50%	2352 €	211'680
2	3340	3104	50%	1552 €	139'671
		8413	7808	3904 €	351'351

50%

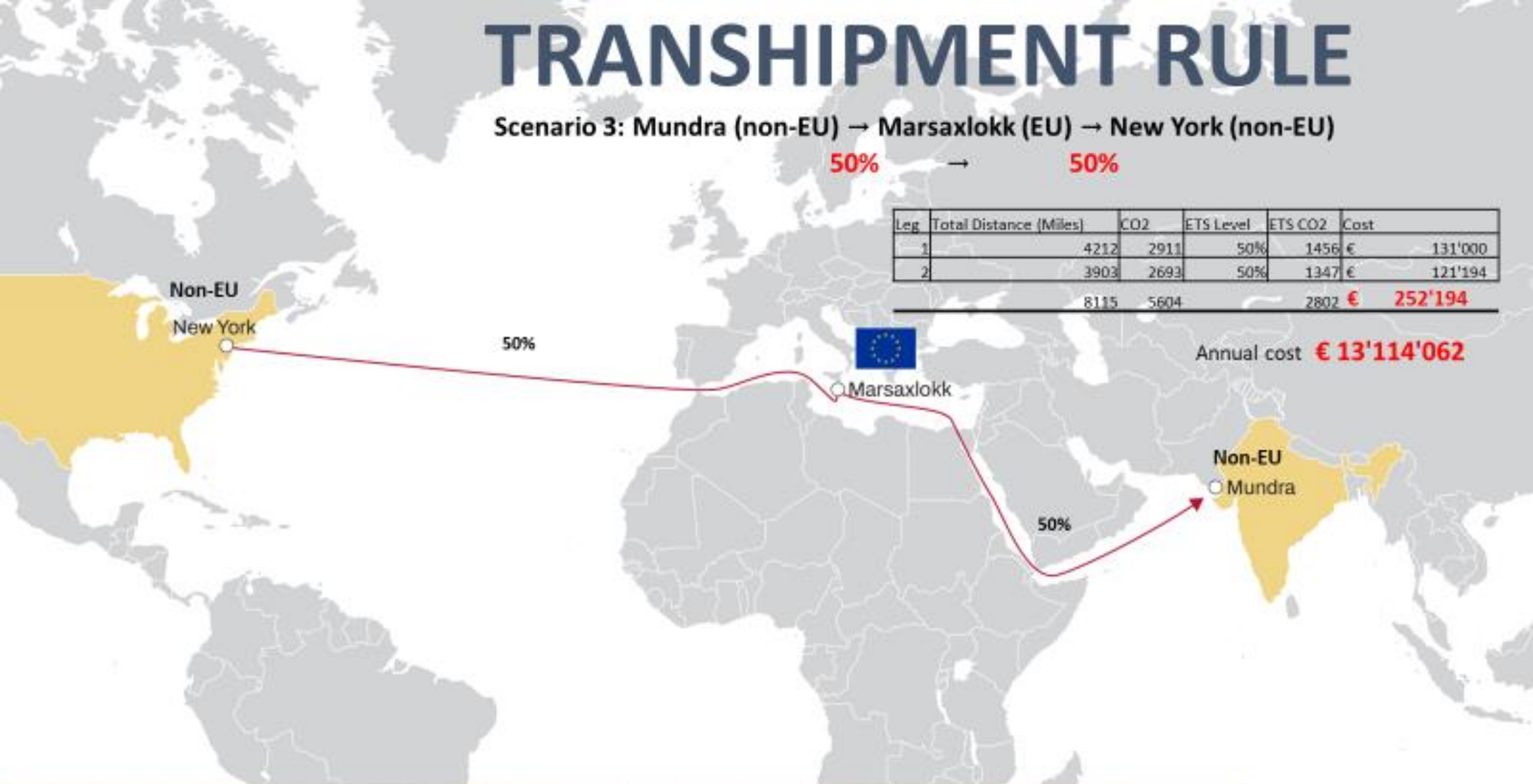
TRANSHIPMENT RULE

Scenario 3: Mundra (non-EU) → Marsaxlokk (EU) → New York (non-EU)

50% → 50%

Leg	Total Distance (Miles)	CO2	ETS Level	ETS CO2	Cost
1	4212	2911	50%	1456	€ 131'000
2	3903	2693	50%	1347	€ 121'194
				2802	€ 252'194

Annual cost **€ 13'114'062**



TRANSHIPMENT RULE

Scenario 4: Mundra (non-EU) → Port Said (Neighbouring Port) → New York (non-EU)

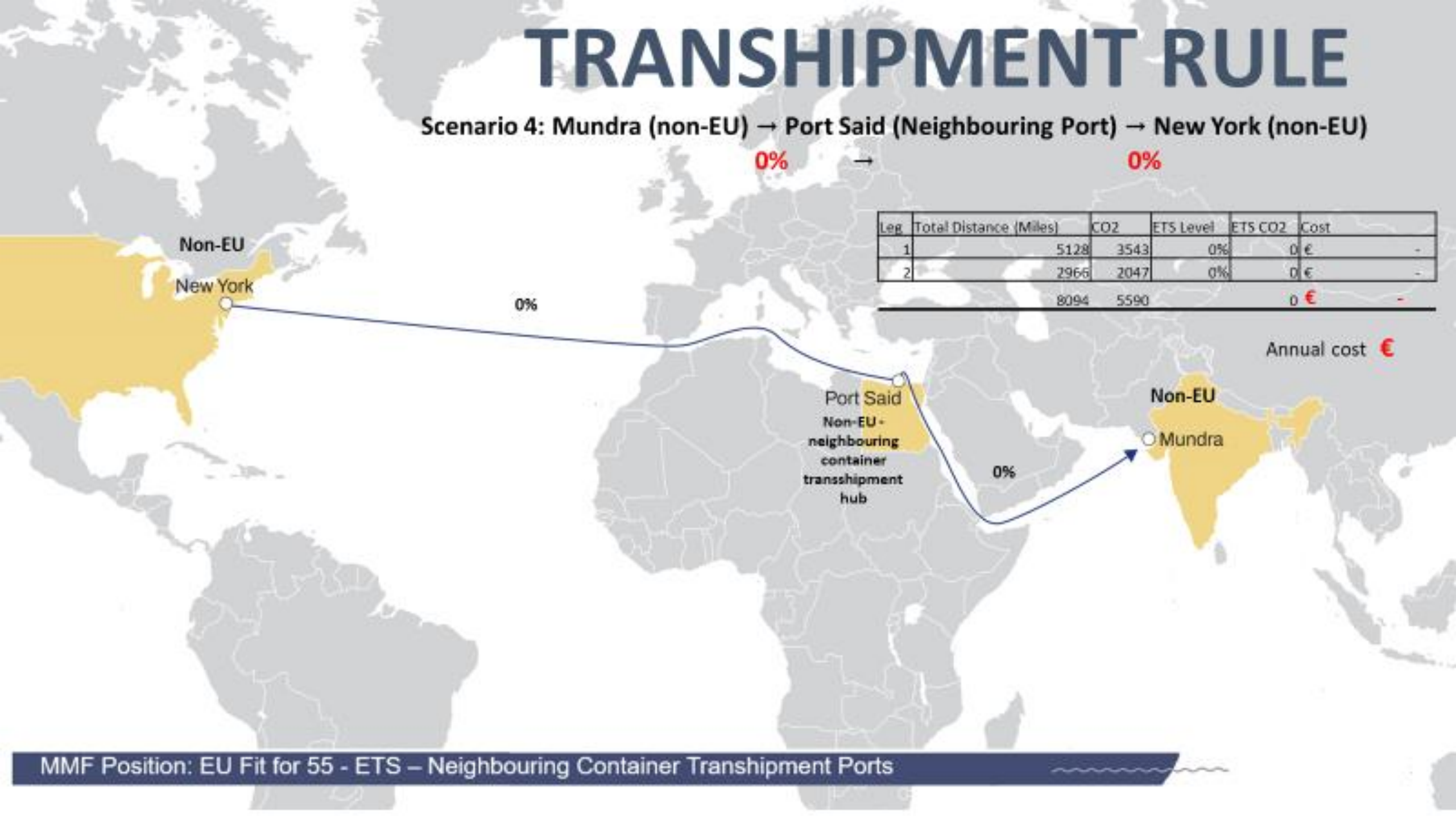
0%



0%

Leg	Total Distance (Miles)	CO2	ETS Level	ETS CO2	Cost
1	5128	3543	0%	0 €	-
2	2966	2047	0%	0 €	-
					0 €

Annual cost €





Ocean Alliance Service from Far East to Malta - Mediterranean Express Service 1 (MEX1)

ROTATION: QINGDAO – BUSAN – SHANGHAI – NINGBO – XIAMEN – NANSHA – SHEKOU – SINGAPORE - MALTA(FREEPORT) – VALENCIA – BARCELONA - FOS SUR MER – GENOA - MALTA(FREEPORT) – BEIRUT – JEDDAH - JEBEL ALI - PORT KLANG - QINGDAO

Transit Times

From	VALENCIA	BARCELONA	BEIRUT	JEDDAH	JEBEL ALI	PORT KLANG	SINGAPORE	SHEKOU	NANSHA	XIAMEN	NINGBO	SHANGHAI	BUSAN, KOREA	QINGDAO
BARCELONA	-	14	51	3	8	27	20	10	83	62	57	35	49	54
BEIRUT	75	-	37	78	81	13	6	85	69	48	43	24	35	46
BUSAN, KOREA	18	52	-	41	44	65	58	48	32	11	6	76	82	3
FOS SUR MER	86	11	48	-	3	24	17	7	80	59	54	35	46	51
GENOA	63	8	45	86	-	21	14	4	77	56	51	32	43	48
JEBEL ALI	42	76	24	65	48	-	82	72	56	35	38	11	22	27
JEDDAH	69	83	31	72	75	7	-	79	63	42	37	18	29	34
MALTA(FREEPORT) (EB)	79	4	41	82	85	17	10	-	73	52	47	28	39	44
MALTA(FREEPORT) (WB)	6	20	57	9	12	33	26	16	-	68	63	44	55	60
NANSHA	27	41	78	30	33	54	47	37	21	-	84	65	76	81
NINGBO	52	46	83	35	38	59	52	42	26	5	-	70	81	86
PORT KLANG	51	65	13	54	57	78	71	61	45	24	19	-	11	16
QINGDAO	48	54	2	43	46	67	60	50	34	13	8	78	-	5
SHANGHAI	55	49	86	38	41	62	55	45	29	8	3	73	84	-
SHEKOU	26	40	77	29	32	53	46	36	20	88	83	64	75	80
SINGAPORE	22	36	73	25	28	49	42	32	16	84	79	60	71	76
VALENCIA	2	16	53	5	8	29	22	12	85	64	59	40	51	56
XIAMEN	29	43	80	32	35	56	49	39	23	2	86	67	78	83

Services from Egypt to Malta

SSLMED WEMED Service 2 (WEMED2) –
Operated by CMA CGM

Rotation: MERSIN – ISKENDERUN – TRIPOLI –
BEIRUT - PORT SAID – DAMIETTA – ALEXANDRIA -
MALTA(FREEPORT) – ALGER - MALTA(FREEPORT)
– MERSIN

T/times:

Alexandria / Malta 2 days

Damietta / Malta 3 days

Port Said / Malta 6 days



Services from Egypt to Malta

L82 Service – Operated by Maersk Sealand

Rotation: MALTA(FREEPORT) – PORT SAID –
VADO LIGURE - MALTA(FREEPORT)

T/times:

Port Said / Malta 11 days

Transit Times

FE / MALTA				FE / MALTA VIA ALEXANDRIA							
POL	POD	T/TIME		POL 1	POD 1	T/TIME	T/S ALEX*	POD 2	POD 2	T/TIME	TOTAL T/TIME
SHANGHAI	MALTA	29 DAYS		SHANGHAI	ALEXANDRIA	29 DAYS	5 DAYS	ALEXANDRIA	MALTA	2 DAYS	36 DAYS
NINGBO	MALTA	26 DAYS		NINGBO	ALEXANDRIA	28 DAYS	5 DAYS	ALEXANDRIA	MALTA	2 DAYS	35 DAYS
BUSAN	MALTA	32 DAYS		BUSAN	ALEXANDRIA	26 DAYS	5 DAYS	ALEXANDRIA	MALTA	2 DAYS	33 DAYS
SHEKOU	MALTA	20 DAYS		SHEKOU	ALEXANDRIA	22 DAYS	5 DAYS	ALEXANDRIA	MALTA	2 DAYS	29 DAYS
SINGAPORE	MALTA	16 DAYS		SINGAPORE	ALEXANDRIA	16 DAYS	5 DAYS	ALEXANDRIA	MALTA	2 DAYS	23 DAYS

*5 Days is being taken into consideration for connection time in Alexandria



Ocean Alliance Service from Far East to Alexandria - Phoenician Express Service (BEX2)

ROTATION: SHANGHAI - NINGBO – BUSAN – SHEKOU – SINGAPORE –
ALEXANDRIA - KOPER – TRIESTE - RIJEKA - PORT SAID - JEDDAH - PORT
KLANG – SHEKOU - SHANGHAI

Transit Times

From \ To													
	ALEXANDRIA	BUSAN, KOREA	JEDDAH	KOPER	NINGBO	PORT KLANG	PORT SAID	RIJEKA	SHANGHAI	SHEKOU (EB)	SHEKOU (WB)	SINGAPORE	TRIESTE
ALEXANDRIA	-	43	19	5	41	30	14	9	40	36	47	53	7
BUSAN, KOREA	26	-	45	31	67	56	40	35	66	62	4	10	33
JEDDAH	50	24	-	55	22	11	64	59	21	17	28	34	57
KOPER	64	38	14	-	36	25	9	4	35	31	42	48	2
NINGBO	28	2	47	33	-	58	42	37	68	64	6	12	35
PORT KLANG	39	13	58	44	11	-	53	48	10	6	17	23	46
PORT SAID	55	29	5	60	27	16	-	64	26	22	33	39	62
RIJEKA	60	34	10	65	32	21	5	-	31	27	38	44	67
SHANGHAI	29	3	48	34	1	59	43	38	-	65	7	13	36
SHEKOU (EB)	33	7	52	38	5	63	47	42	4	-	11	17	40
SHEKOU (WB)	22	65	41	27	63	52	36	31	62	58	-	6	29
SINGAPORE	16	59	35	21	57	46	30	25	56	52	63	-	23
TRIESTE	62	36	12	67	34	23	7	2	33	29	40	46	-

CONSEQUENCES BUSINESS LEAKAGE

- Neighbouring ports in other continents already enjoy more competitive labour costs and state-aid arrangements
- The cost of Emission Unit Allowances is too large for EU Med ports to absorb in terms of efficiency and other advantages they enjoy over neighbouring ports.
- The different treatment of EUAs is therefore prohibitive forcing major shipping lines to shift their transshipment hubs to non-EU ports to avoid being priced out by competition.
- This is discouraging further new investment in EU transshipment terminals with catastrophic economic repercussions which have been described as leading to a “desertification” of transshipment terminals within EU Member states.

CONSEQUENCES

BUSINESS LEAKAGE - MFT

- The average annual volume of containers transhipped at MFT amounts to 3 million TEUs.
- Of this only 134,000 TEUs (excl trailers) is domestic cargo.
- These volumes do not economically justify a stop-over at MFT using mega carrier.
- Malta stands to lose direct connections to 165 ports worldwide provided by the world's top 5 container carriers calling at MFT.
- This translates into a loss of 11 Mainline Services per week could potentially be impacted with the introduction of ETS.

CONSEQUENCES

BUSINESS LEAKAGE - MFT

- MFT will lose business equivalent to €138.8 m per year
- Instead of an av. 1,700 vessels calling at MFT every year, ship calls could be reduced to a small number of feeder vessels which will be employed to ship the domestic cargo from the non-EU transshipment hub to Malta.
- Risk of Relocation of Mainline Services from Malta Freeport - MFT is an essential hub for both the international and local commercial community so besides the direct global connections, Malta stands to lose also all the indirect connections through the network of the major shipping lines calling Malta.

CONSEQUENCES

BUSINESS LEAKAGE - MFT

- Loss of connectivity assumes far more serious consequences for a small island MS like Malta whose economic survival and success depends solely on export-led activity, generated, not least by the logistics sector and the manufacturing industry.
- Malta-based factories will be hit by :
 - Higher freight costs (15-20% due to additional feeder leg)
 - Longer transit times (by as much as 8-10 days)
 - Irregular and unpredictable service (dependent on efficiency of N African transshipment hubs).

CONSEQUENCES CARBON LEAKAGE

This catastrophic business leakage and major economic disruption will still generate a commensurate carbon leakage because the ships that will be kept out of EU ports will still transit the Mediterranean.

It may be argued that carbon emissions would be higher because:

- a) the mega-carrier ships will need to deviate from the most efficient navigation course to call at North African ports instead of central Med terminals located in the EU (Malta and Gioia Tauro)
- b) ships may need to increase power under sail to compensate for deviation delays
- c) extra voyages required by feeder ships to transport EU-destined cargo from N African transshipment hubs to southern EU ports

CONSEQUENCES

SOCIO-ECONOMIC

- Further fuelling of inflationary pressures augmenting the effects of COVID-19 and the war in Ukraine.
- Significant job losses in maritime industry and other industries where shipping and logistics are a prime enabler (eg manufacturing).
- Undue risks on supply chains and loss of tracking/enforcement control systems as a result of new dependencies on North African transshipment hubs.
- Backward step to an integrated multi-modal system in countries like Italy and Spain.

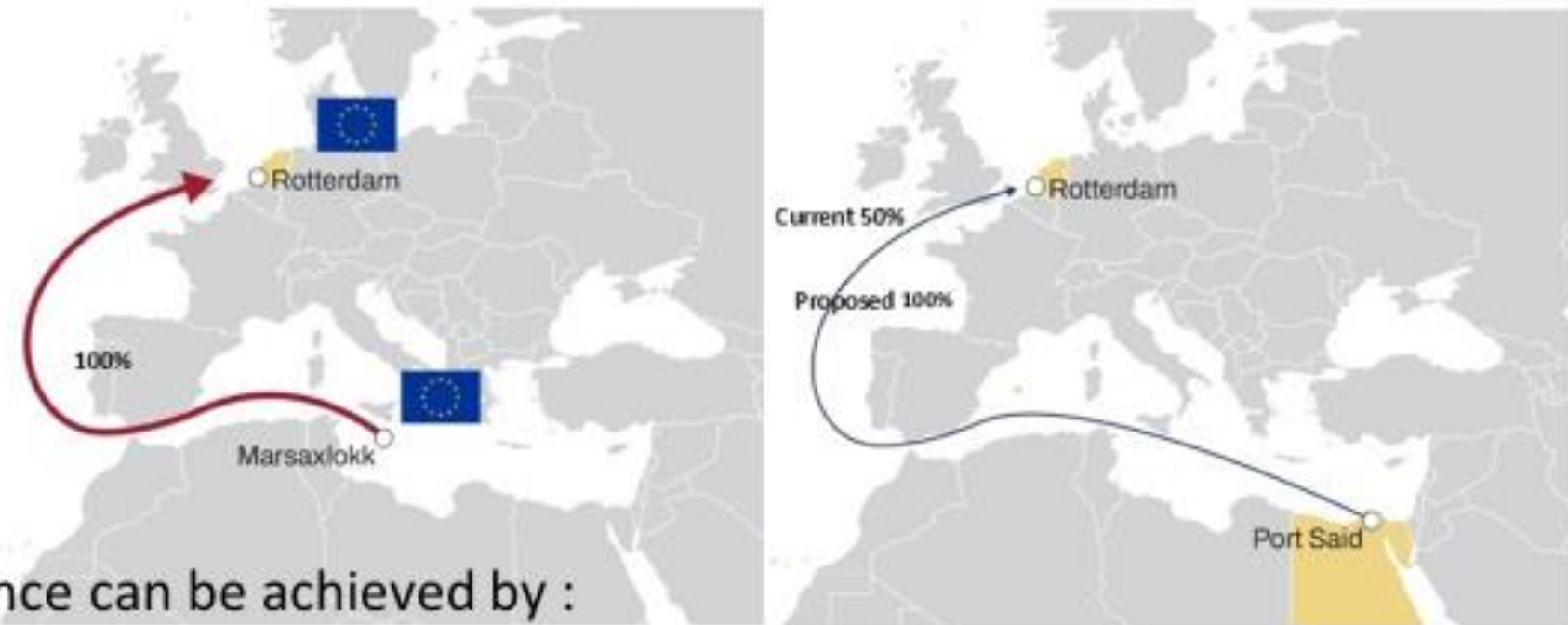
POLICY RECOMMENDATIONS & CORRECTIVE MEASURES

- Europe cannot afford to run the risk of losing its strategic cargo transshipment activities to other continents.
- Therefore, pending the adoption of global market-based measures suited to the cross-border nature of the sector, preventive measures are required to establish “at an early stage” equal treatment between EU and non-EU ports.
- The European Commission is urged to initiate with great urgency a process aimed at accelerating the review of the functioning of the Directive as set out in Article 3gg, paragraph 3.
- It is worth noting that the Directive itself expressly binds the Commission to prevent “at an early stage” the recognized risks of carbon and business leakage.

POLICY RECOMMENDATIONS & CORRECTIVE MEASURES

- Meanwhile, the EC is urged to **temporarily suspend** the application of the Directive on certain EU ports for container transshipment destined to third countries and originating from Non-EU ports **pending proper *ex ante* risk assessment of business and carbon leakages.**
- Ensure **equivalence in application of Emission Unit Allowances (EUAs)** that results in equal incentives for the reduction of GHG emissions while sailing to non-EU ports **with interim measures** applying until 2030 or such time that:
 - a) IMO adopts its global market-based measures, or
 - b) equivalent measures are applied in EU competing ports.

POLICY RECOMMENDATIONS



Equivalence can be achieved by :

- Extension of **100%** emissions coverage (applicable to intra-EU journeys) to journeys between EU ports and neighbouring non-EU transshipment hubs (opposed to the current **50%** coverage), or
- Allocation of free allowances to the EU ports that compete directly with non-EU neighbouring ports.

POLICY RECOMMENDATIONS



and by :

- Extension of **50%** emissions coverage (applicable to non-EU to non-EU journeys with stop-overs EU ports) to similar services with stop-overs in neighbouring non-EU transshipment hubs, or by
- Allocation of free allowances to the EU ports that compete directly with non-EU neighbouring ports.

CONCLUSIONS

- The objectives of the ETS Directive are essentially positive.
- Its application presently risks causing unfair distortions in the fair competitive conditions between EU and Neighbouring non-EU ports in the Mediterranean.
- The risks of irreversible Business and Carbon Leakage must be solved before implementation stage of the Directive.
- The socio-economic risks from loss of direct connectivity for Malta as a small Island Member State are too catastrophic to contemplate.
- Effective interim and commensurate corrective measures are available and must be applied to ensure Just Transition and solidarity amongst all EU operators and Member States in the implementation of the Directive.

THANK YOU



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