BOX 1: INSIGHTS ON THE POTENTIAL IMPACT OF THE INCLUSION OF MARITIME TRANSPORT INTO THE EUROPEAN UNION'S EMISSION TRADING SCHEME ON FIRMS' OPERATIONS[1]

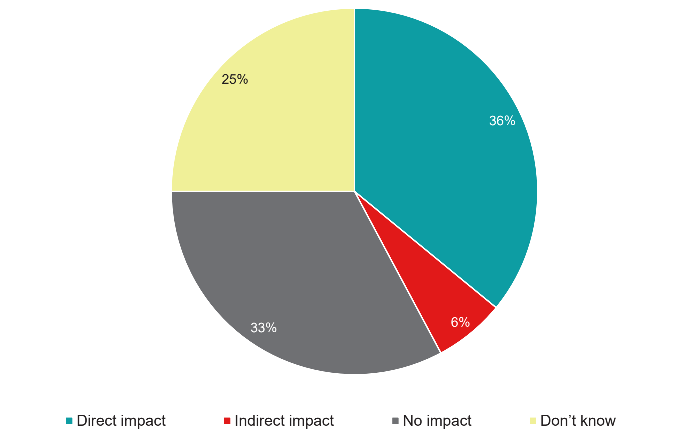
Set up in 2005, the European Union Emission Trading Scheme (EU ETS) is the world's first international emissions trading system, whereby companies must buy or receive allowances corresponding to their CO_2 emissions, making power production from burning coal and other fossil fuels more expensive, and clean power sources comparably more attractive. It covers greenhouse gas emissions from the energy sector and manufacturing industry, as well as aircraft operators flying within the European Union and departing to Switzerland and the United Kingdom.

As from 1 January 2024, the EU ETS also started to cover emissions from maritime transport. It covers 50% of emissions from voyages starting or ending outside of the European Union, and 100% of emissions from voyages between two EU ports and when ships are within EU ports. The inclusion of maritime transport into the scheme has brought with it fears of supply disruptions, particularly route availabilities due to operators potentially shortening voyages to lower their emissions related costs or shipping price increases, as operators can simply pass on the increase in their costs to their clients. Nevertheless, there may be other potential indirect impacts on non-importing firms.

As such, in an effort to analyse the potential impact this may have on local firms, this survey round obtained initial insights on the matter. We asked firm representatives how they expect this change to impact their firm's operations either directly or indirectly.

Around 36% of firms contacted during the first quarter of 2024 expect a direct impact on their operations (see Chart 1). Such firms are not expecting an impact on traffic towards Maltese ports or on activity in general, but rather on shipping costs. Consequently, firms have said that these higher costs will eventually lead to higher selling prices. In fact, some firms are already aware that transport costs will increase but are unsure about the magnitude, while others are still uncertain whether

Chart 1
EXPECTED IMPACT OF THE MARITIME TRANSPORT EU ETS
(percentage of firms)



Source: Central Bank of Malta Business Dialogue.

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this will indeed result in cost increases. Some firms claimed that they have already started to note increases in transport costs. Out of those expecting a direct impact, only 4% anticipate a positive impact. This is because as import costs increase, the demand for imports will fall and firms will prefer to source goods and services locally.

A 6% share of firms expect an indirect impact on their operations. They expressed concerns that their clients' confidence will fall and that their finances will be negatively impacted. This could possibly have a ripple effect on the demand for other services. Around a third of firms do not expect any impact from the inclusion of maritime transport into the scheme as yet, while a quarter of firms are not yet aware of the potential impact. These mostly include services firms that do not trade actively with other countries.

It is important to note that the shipping industry has recently been hit with many disruptions due to geo-political tensions in the East. Ships are not able to access the Red Sea and are therefore not entering the Mediterranean Sea from the East. This led to the re-routing of many voyages around the African continent causing longer voyages, increased transit time and consequently higher freight charges. However, such increases have started to reverse amid weakening global demand and improving port capacity. Therefore, it could be very challenging for firms to distinguish between the impact of the maritime transport inclusion into the EU ETS from that related to the Israel-Gaza war.