

Spark LNG Freight Market Consultation Result: Clarification on impact of expansion of EU ETS to maritime shipping on Spark Freight prices

Date: 17 Oct 2023

The Spark market consultation to clarify the treatment of carbon costs within Spark Freight rates following the expansion of the EU ETS to include maritime shipping was launched on 17 July 2023 [here](#) and has now closed.

What did we propose?

1. The new statutory responsibility to surrender emission allowances will have no impact on owner earnings, and consequently these costs can be omitted from the round trip calculations, and **will have no impact on the Spark25S and Spark30S \$/day benchmark rates.**
2. Given the Spark \$/MMBtu conversions “represent the total cost to charterer in \$/MMBtu of LNG transported”, we propose that the additional carbon costs for acquiring and surrendering the required emission allowances, should be incorporated, at the regulated levels at the time of fixing, into the \$/MMBtu calculation for any route which includes a port call within the EU/EEA.
3. The Spark Neutral FFA \$/day rates, which are calculated on the assumption that 100% of the applicable carbon emissions from round trip voyages from fuel consumption is offset via EUAs, will be replaced with the **Spark Carbon Compliant FFA (CCFFA) \$/day rates** using the carbon costs corresponding to the amount of emission allowances which are required to be surrendered for the forward period based on the phase in schedule between 2024 and 2026 to include shipping in the EU ETS. The carbon price will be the ICE EUA December contract for the relevant contract year (to reflect the most liquid contract during the year).

What did the market say?

All firms who gave feedback were in agreement that the benchmark Spark25S and Spark30S rates should not be impacted by the expansion of EU ETS to maritime shipping.

All firms who gave feedback were in agreement that additional carbon costs associated with the expansion of EU ETS to maritime shipping should be incorporated into the \$/MMBtu calculations, where applicable, at the regulated levels.

All firms who gave feedback were in favour of replacing the Spark Neutral FFA \$/day rates with the Spark Carbon Compliant FFA (CCFFA) \$/day rates.

What happens next?

There is no impact on the Spark30S and Spark25S benchmark \$/day rates, nor on the SparkFFA and SparkFo \$/day forward curves.

From 23th October 2023 onwards the Spark \$/MMBtu freight conversions will be updated with a carbon cost component, in line with the consultation proposals, and the Spark Neutral FFA \$/day rates will be replaced with the Spark Carbon Compliant FFA (CCFFA) \$/day rates.

Thank you to all the firms that engaged on this market consultation.

Carbon Cost component that will be included where applicable in Spark Routes from 23rd October 2023 onwards



