MARKET UPDATE

MAY 2022

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OUTLOOK & HEADLINES

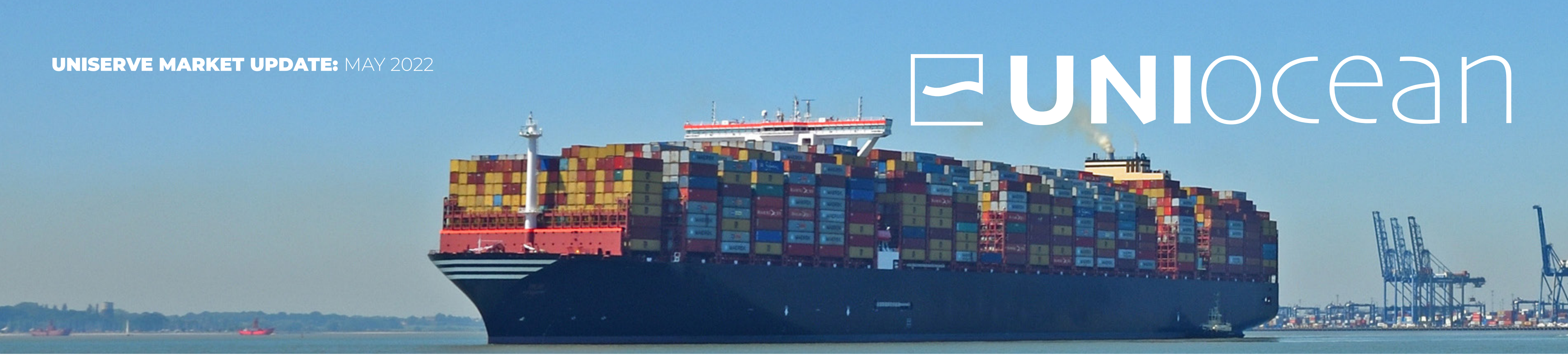
- **MARKET:** It looks like there is respite in the container equipment situation, where we expect that container supply will better keep pace with demand in 2022 due to increased new container production volumes.
- **MARKET:** In a worst-case scenario, the container market will not begin to normalize until sometime in 2024, predicts a new report by McKinsey.
- **MARKET:** The value of the UK's warehousing and logistics sector has jumped around 150% in a single year, with growth outstripping all other industries.
- **MARKET:** Reports continue to come in regarding EU border chaos thanks to the Government's GVMS system being down for a whole week.
- **MARKET:** The Government has postponed its proposed new phytosanitary checks at UK ports until 2023 despite more than £100million invested by terminal authorities to accommodate them.
- **OCEAN:** Test company Veritas Petroleum Services (VPS) confirms that 60 ships have taken delivery of contaminated bunker oil in Singapore. The contaminated bunker has a market value of USD 120m.

OUTLOOK & HEADLINES (CONTINUED)

- **AIR:** China has asked the government to ease the Covid Zero policies, as it was causing “significant disruptions” to logistics and production in supply chains across China.
- **OCEAN:** Reports have reached us that the German retail group Lidl has decided to launch its own shipping firm in an effort to gain more control over the company’s international shipments.
- **AIR:** The end of the ‘preighter’ is insight. The European Union Aviation Safety Agency (EASA) will put a stop to cargo-in-the-cabin flights beyond July 31.
- **OCEAN:** Political unrest across the Indian Sub-continent region, compounded by COVID-19 and fuel shortages in Sri Lanka, continue to impact the shipping market

SUBJECT QUICKLINKS

OCEAN FREIGHT | AIR FREIGHT | WAREHOUSE & DISTRIBUTION | EUROPEAN ROADFREIGHT | ENVIRONMENTAL COMPLIANCE



OCEAN FREIGHT MARKET OVERVIEW

We continue to predict strong export demand from Asia for the rest of the year, particularly in the US and Europe.

KEY TOPICS

- We continue to see a slightly softer market, with slight reductions in freight rates. This is due in part to several factors across the globe, ranging from the war in the Ukraine, inflation and cost of living increases in the west with increased utility prices, and wage hikes that are not matching inflation. That along with China's dynamic zero-COVID strategy, which has effectively seen nearly 400 million people across 45 cities in China under full or partial lockdown. Together they represent 40% or US$7.2 trillion of annual GDP for the world's second-largest economy.
- We are also seeing that the price of crude oil has softened as ongoing Shanghai lockdowns stoke demand fears.
- We continue to predict strong export demand from Asia for the rest of the year, particularly in the US and Europe. In order to mitigate the risk of liner equipment shortages as much as we possibly can, our International Sea Freight Division, UniOcean Lines, has brought over 24,000 branded new containers (HQ's and 20ft GP's) into service from China to Europe and the U.K. We also have introduced a limited supply of brand new 45ft super cube containers. This helps us support all existing carrier contracts. Whilst some carriers close the door on the 3PL community, we continue to push ahead with our continued multi-carrier strategy, seeing new carriers stand shoulder to shoulder with our →

OCEAN FREIGHT MARKET REGIONAL REVIEW

KEY TOPICS

Space issues between the UK and the USA are likely to continue throughout May and June

long-term carrier partners.

- Increasing climate requirements for shipping are making their mark on carriers' orders for new ships, with orders for vessels powered by alternative fuels in the first quarter making up nearly half of ship-builders' total order books. According to a report by Clarksons Research, newbuilds made for alternative fuels made up 48 per cent of orders measured in tonnage.
- Updating UK exports, for the USA, we are hearing that the earlier reported space issues are ongoing and will last throughout May and into June. The only exception is Chicago, where things have eased significantly. Most USA rates received from the carriers are subsequently astronomical. Latin America is not far behind with similar trading conditions. The Mediterranean trade is the next big stress point and running busy. For the Middle East, Indian Subcontinent and the Far East, things are looking good. Equipment, space and pricing are all positive on these routes. In South-East Asia, Singapore port congestion remains an area of slight concern, however, the situation is improving day by day. Finally, things on the Australian and New Zealand trades have also got better, but there remains a little room for improvement.

FAR EAST & SOUTH EAST ASIA

- China's network of delivering everything from electronic parts to raw materials to the

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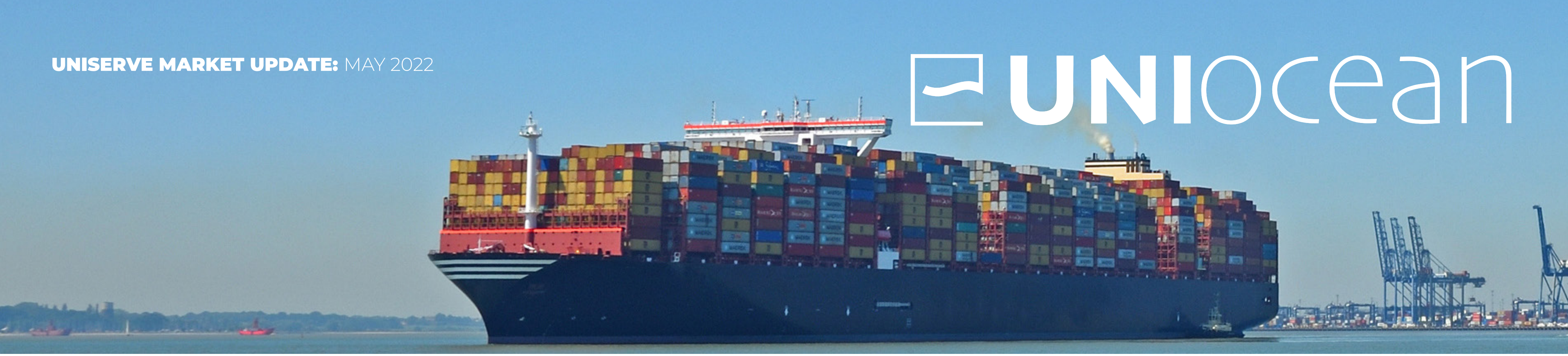

OCEAN FREIGHT MARKET REGIONAL REVIEW & CARRIER OUTLOOK

KEY TOPICS

nation's factories has nearly ground to a halt as Covid-19 restrictions leave hundreds of thousands of truck drivers caught in a web of quarantine controls. The country relies on its 17.3 million truckers to keep store shelves full while also connecting the nation's ports with its manufacturing hubs. The logjam is preventing crucial deliveries from reaching companies, stalling production in key industrial regions, with the impact likely to continue rippling across the economy even as cities move to loosen lockdowns.

- Shanghai is experiencing extended lockdowns due to China's ongoing 'dynamic zero-covid' strategy. Some of the six box terminals in Waigaoqiao port have seen dockside crane operators down their tools during the past week, according to carrier and port sources. The reduction of the workforce has led to reduced handling capacity and longer vessel waiting times.

China's delivery network has nearly ground to a halt due to COVID-19

- The Chinese government has intervened as carriers skip calls at Shanghai port. The country's authorities are demanding that shippers pick up their cargo, including reefer containers, from the ports as soon as possible. But the lockdown disruptions to trucking and warehousing services are posing challenges.
- Whilst now operational at the time of going to press; container traffic in South Africa's big and busy port city Durban continues to be affected after large-scale and destructive floods in the country. More than 440 persons died, and "thousands" were left homeless in the wake of the extreme downpour in South Africa earlier in April, according to Reuters.

OCEAN FREIGHT MARKET CARRIER OUTLOOK

KEY TOPICS

Exporters are rethinking plans to send shipments to Sri Lanka as state-run companies have run out of money and private buyers have cancelled orders.

INDIAN SUB-CONTINENT

- Ongoing political situation and COVID-related delays continue to affect the ISC region. Rising political tensions in Sri Lanka and Pakistan are causing concern for local shippers.
- Equipment remains a limiting factor for loading cargo out of India. Colombo congestion has slightly improved however blank sailings continue into May, thus reducing overall capacity and equipment rebalancing in the region.
- Rates sustained at high levels for May, shipping lines are now insisting on using Liner PDA/ Transportation to release bookings.
- Sri Lanka has implemented measures to ration fuel which is having a direct impact on heavy equipment and trucking capacity. Local rate increases and delays are to be expected.
- Colombo's transshipment services could be diverted to other ports such as those in India due to fuel shortage in the country, particularly those on the eastern and southern coasts of India are expected to see some increase in volume from the diversion of trans-shipment and other shipping activities from Colombo.
- Pakistan - cargo volumes should increase post-mid-May, 2022 and carriers are facing congestion due to the low frequency of vessels.
- Sri Lanka is struggling to stay afloat amid

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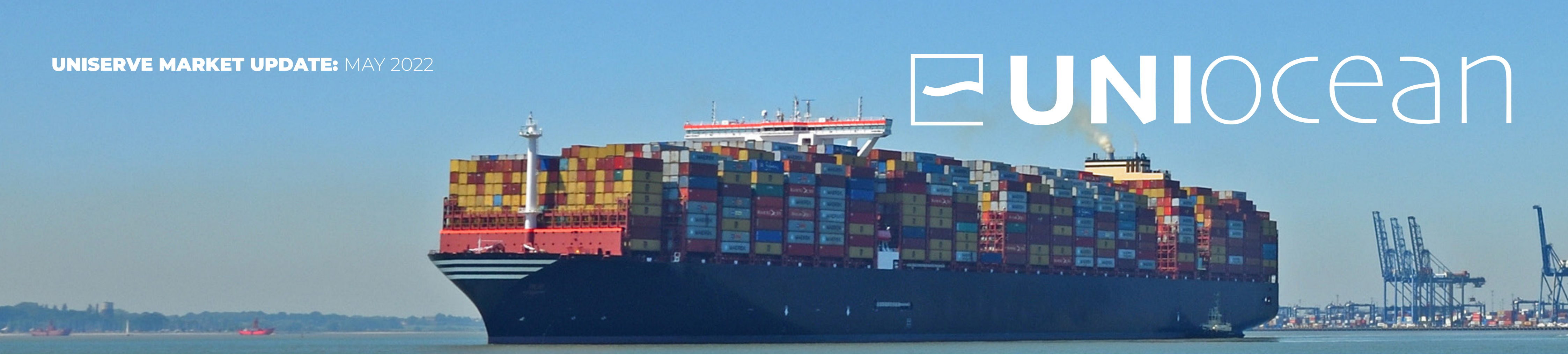

OCEAN FREIGHT MARKET REGIONAL REVIEW & CARRIER OUTLOOK

KEY TOPICS

Pakistan continues to be hit by political turmoil and signs of poor economic health

the deepening economic crisis with the island nation on the brink of bankruptcy, with nearly USD 7 billion of its total USD 25 billion in foreign debt due for repayment this year.

- With the prevalent situation, exporters are rethinking plans to send shipments to Sri Lanka as state-run companies have run out of money and private buyers have cancelled orders. Without assurances from the government, exports to the island nation are set to shrink
- Pakistan continues to be hit by political turmoil and signs of poor economic health. On April 10, cricketer-turned-politician Imran Khan stepped down as Pakistan's prime minister. Khan, who assumed office in 2018, tried to blame an American plot for his fall
- Pakistan's new government is facing the daunting task of managing a stuttering economy with huge deficits, an aide to new Prime Minister Shehbaz Sharif said recently. Sharif, 70, the younger brother of former premier Nawaz Sharif, was elected as prime minister on Monday followed a week-long constitutional crisis after parliament ousted Imran Khan in a no-confidence vote.
- In the World Economic Outlook released in Washington, the IMF projected Pakistan's current account deficit to hit USD 18.5 billion this fiscal year. Previously it had projected a deficit of USD 12.9 billion for FY2022.

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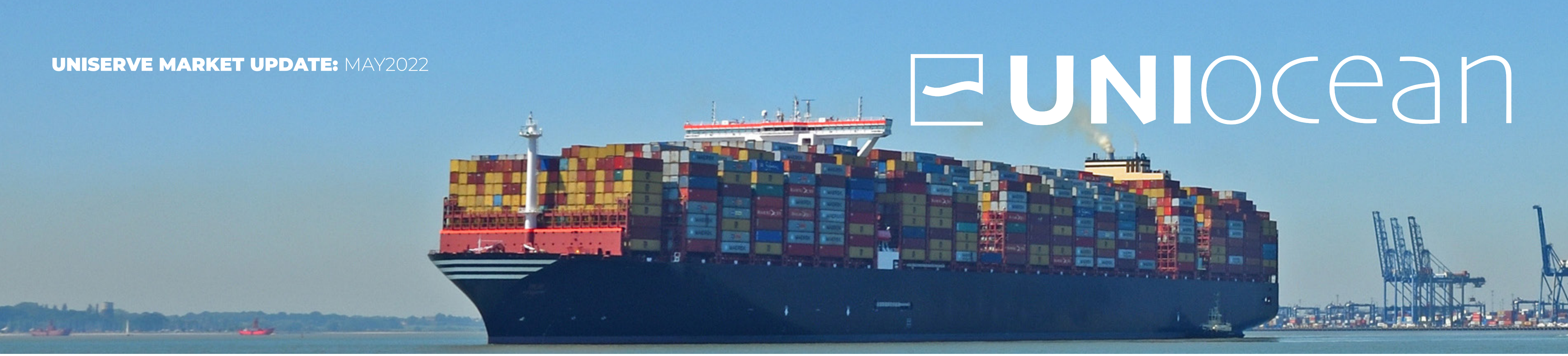
OCEAN FREIGHT MARKET CARRIER OUTLOOK

KEY TOPICS

The season of blanked sailings looks set to continue across major box lines

CARRIER UPDATE

- According to data released by Drury, in the next four weeks (week 13-16), 36 sailings will be cancelled by three major shipping alliances, among which **THE Alliance** will cancel 23 sailings. **2M** will cancel 7 sailings; The **Ocean Alliance** will cancel 6 sailings. Challenges exist around these blank sailings of course, but with our multi-carrier strategy in full swing, we are normally able to work around this.
- The world's largest container carrier, **MSC**, doesn't believe there will be an improvement of the strained container market any time this year. Instead it assesses that the situation could worsen in the coming months. In a somewhat unusual turn, Chief Operating Officer Claudio Bozzo has made statements concerning the company's expectations for the development of the container market, which has been roaring ahead for the past year and a half. Meanwhile it is understood that MSC is behind a significant order of container ships in Asia. All in all, the company has commissioned 20 vessels at yards in China and South Korea, writes analyst firm Clarksons Research in an update.
- **Cosco** continues to bring in massive profits from its container business. In Q1, the Chinese container carrier's operating profit (EBIT) is expected to be USD 6.17bn, according to interim financial figures. The earnings are 98%



OCEAN FREIGHT MARKET REGIONAL REVIEW & CARRIER OUTLOOK

KEY TOPICS

higher than in the first quarter of 2021, and the result is the best Q1 performance ever for the company. The Chinese shipping giant continues the trend from 2021, in which Cosco like so many of its competitors presented record profits.

- **Ellerman City Liners**' product continues to gain traction. Already well-established on routes from Central (Taicang, Ningbo) and Southern (ShenZhen) China into the UK (Tilbury), Ellerman's have increased their port-pair offer by introducing calls ex Ho Chi Minh City, Vietnam (direct call), and Phnom Penh, Cambodia (feeder call), into the UK. Ellerman's has also developed further feeder calls linking Tilbury into Rotterdam, Antwerp and Zeebrugge. Their direct call from Ho Chi Minh to Tilbury is now the fast-est on the market at 24 days of transit time.
- Towering container rates ensured record profit for A.P. Møller Holding. Extreme earnings on the container market in 2021 had a major impact on the holding company controlling the **Maersk** group, which books a profit of more than USD 17bn. As a consequence of the chaotic conditions in the major Chinese city Shanghai, which is shut down due to COVID-19 measures, Maersk has chosen to redirect "several" container ships, thus sailing around the world's largest container port.
- **Hapag-Lloyd** has also told its customers that container vessels on three routes from Asia to the Mediterranean Sea will bypass Shanghai and neighbouring port Ningbo in the upcoming weeks.

Chaotic conditions in Shanghai is driving major lines to temporarily omit the port

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AIR FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

KEY TOPICS

It could take the air cargo market until 2025 to return to pre-COVID levels

- The air cargo market could see its supply-demand balance return to pre-COVID levels in 2025, although that prediction comes with a plethora of caveats. Lufthansa Cargo chief commercial officer Ashwin Bhat said that cargo capacity is expected to reach 2019 levels in around 2023 but in the meantime demand will continue to rise, meaning supply and demand will not come back into balance until around 2025. He said that container port congestion will remain, e-commerce demand will continue to rise and supply chains will face disruption due to missing parts, all of which will favour air cargo.
- Global air cargo demand was up 2.9% in February compared to February 2021 although capacity is still constrained, according to the latest International Air Transport Association (IATA) data. Cargo is tracking above pre-COVID-19 levels said the trade association. Demand, measured in cargo tonne-kilometers (CTKs) rose 2.5% for international operations year on year.
- The end of the 'preighter' is in sight. The European Union Aviation Safety Agency (EASA) will put a stop to cargo-in-the-cabin flights beyond July 31. The use of the passenger cabin for cargo, known as cargo-in-the-cabin flights, has been operating since 2020 after the EASA issued approvals and exemptions for the transport

AIR FREIGHT MARKET OVERVIEW & REGIONAL REVIEW

KEY TOPICS

of cargo in passenger cabins on a case-by-case basis. This will put a further squeeze on capacity, and probably give the airlines another excuse to look at price increases. However, with our continued multi-carrier strategy, we believe we will be able to mitigate the risks posed by this development and continue to offer customers viable air freight solutions.

FAR EAST & SOUTH EAST ASIA

- April volumes ex the Far East were down in the commercial sector, which are reflective of reduced demand from the West, with consumer spending down amongst the fear of an increased cost of living and high inflation, along with China's ongoing 'dynamic zero-Covid' city-wide lockdowns. Fresh COVID-19 outbreaks across the region continue to blight the supply chain. Omicron infiltrated Hong Kong's (strong) defences, however after a period of about one month, cases are now falling. Whilst the Hong Kong Government are easing quarantine restrictions, we are still seeing most carriers delaying the re-commencement of 'business as usual' when it comes to Hong Kong. The return of passenger flights with bellyhold capacity operations for now, remains sluggish. Cross-border trucking capacity is still around 20% of the original capacity, while the ex-Shenzhen market demand is improving but is highly affected by cross-border trucking capacity.
- In a sign of growing unhappiness with these kind of restrictions and lockdowns, European companies in China last week asked the government to eased the Covid Zero policies, saying that it was causing "significant disruptions" to logistics and production

The return of passenger flights with bellyhold capacity operations for now, remains sluggish

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AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW (CONTINUED)

KEY TOPICS

in supply chains across China. The disruptions to business is showing up in various indicators. Factory activity in March in China fell to its worst level since the pandemic's onset two years ago, according to the Caixin Manufacturing Purchasing Managers' Index, a private survey focusing on smaller export-oriented businesses. The official PMI also indicated a contraction in both manufacturing and services sectors in March.

- We continue to manage multiples, craft new carrier partnerships, and our multi-carrier strategy sees new offers pairing up with our long-term solutions.
- Vietnam's first cargo airline is moving closer to becoming operational. The country's transport ministry is seeking approval from the prime minister to issue a licence to IPP Air Cargo. The IPP Air Cargo aviation project has a total investment of 2,400bn VND, about $100m, of which 30% is equity capital. The remaining 70% is mobilised money. In the first year of operation, IPP Air Cargo is expected to fly 115,000 tonnes across five cargo aircraft.
- Airfreight and wider supply chain disruption continues in Shanghai as the city remains under lockdown thru early April. Restrictions were due to end on April 5, but the city's government extended the lockdown, now covering the whole city.
- On a positive development; Factories in the Shanghai area are slowly returning to production in a closed-loop system but supply chain disruption is expected to continue for some time. In April, companies were asked to submit plans to stop of the spread of Covid-19 before they could re-start production. In total, 666 companies have been white listed by →

666 companies have been white listed by authorities to restart production

AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW

KEY TOPICS

authorities to restart production, mainly in the automobile, semiconductor and energy sectors.

- Operations at Shanghai Pudong International Airport (PVG) remain constrained as it largely handles pre-lockdown air cargo and supply chain operations are still limited.
- Air cargo capacity on the northeast Asia-Europe trade lane has dropped 22% since the end of February when the Russian invasion of Ukraine began, according to the latest figures from Accenture's Seabury Consulting. Meanwhile, global international cargo capacity between March 7 and 20 is down 5% compared with the same period in 2019.
- Ground handler dnata has continued its expansion in the UK with the opening of a new facility at Heathrow Airport on behalf of customers Virgin Atlantic Cargo and Delta Cargo. The new dnata City East Phase 2 facility measures 10,500 sq m and will operate in conjunction with the adjacent 22,500 sq m Phase 1 facility that opened in September 2019. The Phase 2 facility will handle import cargo while the Phase 1 facility will take care of exports.
- Hong Kong International Airport is the busiest cargo airport in the world, according to new data. Airports Council International (ACI) World's data shows Hong Kong achieved just over 5m metric tonnes of cargo in 2021, up 12.5% since 2020 and up 4.5% since 2019. Our presence and capabilities within the Hong Kong cargo sector remain world-class.
- Cathay Pacific said its cargo throughput in March dropped nearly 50% compared to 2019 levels due to capacity reductions in response to Covid quarantine requirements. The airline has released its traffic figures for March 2022,

Cathay Pacific said its cargo throughput in March dropped nearly 50%

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AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW

KEY TOPICS

reporting that it carried 97,166 tonnes of cargo last month, an increase of 16.6% compared to March 2021, but a 47.5% decrease compared with the same period in 2019.

- KLM will lodge an objection with the Dutch Trade and Industry Appeals Tribunal (CBb) over Schiphol's plans to hike airline rates.
- The airline will lodge the appeal against Schiphol's plans to increase dues by 9% next year, 12% in 2023 and 12% in 2024 as the airport seeks to offset losses that occurred as a result of the COVID-19 pandemic.

INDIAN SUB-CONTINENT

- INDIA: Six Indian and 60 foreign airlines from 40 countries but none from China started operating 3,249 weekly flights to and from India.
- Current capacity from India has increased, and the expectation was that the fares would fall considerably but this has not happened because of Russia's war on Ukraine pushing up oil prices.

Capacity from India has increased but with no resultant fall in fares

- Indigo (300 plane strong) is targetting maximum frequency on Gulf & SE Asia routes. Indigo's medium haul will begin in mid-2024 when it inducts the single-aisle Airbus A321 XLRs that will fly non-stop to Europe.
- Air India might add US flights as United has suspended Delhi-San Francisco & Mumbai-Newark flights as US carriers do not fly Russian airspace but AI does so can take shortest possible routes.
- EK will operate 170 weekly flights between Dubai and nine Indian cities, as well as five daily flights to Mumbai and four to Delhi.

AIR FREIGHT MARKET UPDATE – REGIONAL REVIEW

KEY TOPICS

- VS will start second daily service between London Heathrow and Delhi from 1st June, 2022. Along with Mumbai VS, will offer 3 daily flights from IN.
- Airlines are holding rates; the current geopolitical situation is leading to fuel prices going northwards which could result in fresh rate hikes or additional surcharges. With the start of Mango Season now mainly from West-India and robust demand from USA this year space could be tight for the coming month.
- BANGLADESH: May 2022 will be a slow month specially in the first half due to EID vacations as cargo demand is low.
- PAKISTAN: We anticipate a spike in rates as Mango season will start after EID holidays (post 7th May 2022) so preference will be given as this is a high yield cargo for the airlines. VS is going to reduce its flight operations by 50% after EID holidays & BA is reducing their flight frequency which will also have an impact on the rates for UK.
- SRI-LANKA: Carriers such as EK, QR, SQ, TK are reducing their frequencies. However, there is no backlog for space as the demand is also moderate due to the current economic situation. Air rates have not changed, and all shipments are being moved on spot rates with carriers.
- The transporters association has notified the shipping and freight forwarding industry that the transport costs have increased by 60% owing to the acute shortage of fuel in the country.

Acute fuel shortages in Sri Lanka have driven transport costs up 60% according to the country's transport association.

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WAREHOUSING & DISTRIBUTION UPDATE

The value of the warehouse and logistics sector jumped more than 150% last year

KEY TOPICS

Warehousing

- The cost of building warehouses is set to increase as the cost of labour and materials rising due to the ongoing impact of the pandemic across supply chains. With warehouse capacity already stretched across the UK, this comes as a deterrent to many looking to build new facilities to accommodate demand. The higher build costs will be passed on to occupier driving up prices.
- New research from the Office of National Statistics (ONS) shows during the pandemic, growth in demand for warehousing and logistics property has risen by 21% since 2019. In 2021, the warehouse and logistics industry was valued at £5.59bn, a record peak in the sector since records began in 1985 and constituting an increase of nearly 150% on the previous year. This is four times the rate of any other industry and has seen more than £5bn worth of orders being placed for warehouse construction. The ONS argues that we're seeing a new "golden logistics triangle", stretching from Birmingham across to Northamptonshire and up into Yorkshire, with the East Midlands alone accounting for 20% of spending on new warehouses. It is anticipated that the sector will continue to grow, with the boom expected to continue into 2023.

Transport

- In an attempt to address the continuing shortage of HGV drivers, the government has released £20m in funding to improve roadside services such as security, lighting, shower rooms and

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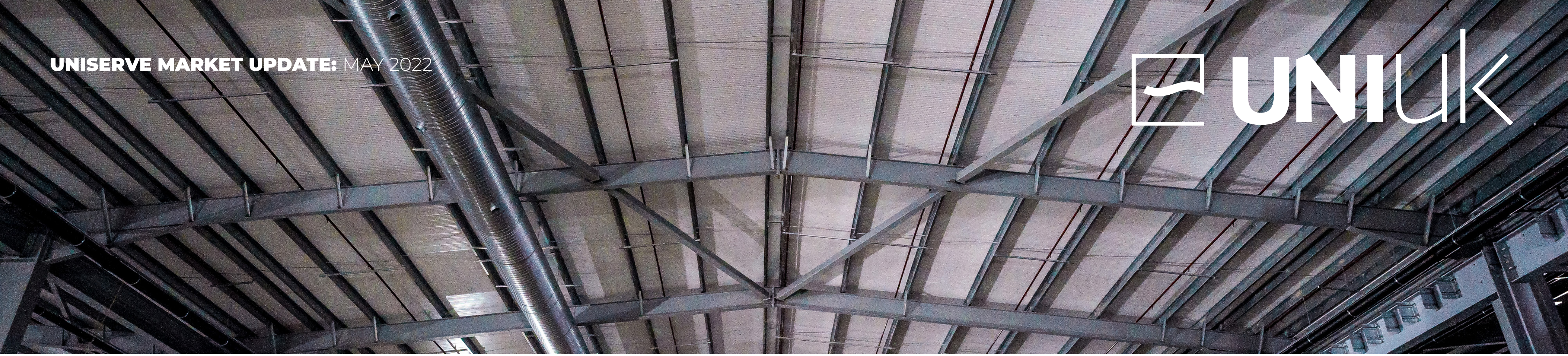

WAREHOUSING & DISTRIBUTION UPDATE

KEY TOPICS

eating facilities.

- A number of issues facing drivers were highlighted during the pandemic when facilities such as McDonalds and service stations were closed or access to facilities were restricted. With HGV drivers playing a crucial role in ensuring goods continue to move through supply chains, the investment comes as a welcome news to continue to support attraction of drivers into the industry.

Logistics Skills

- In a report released by industry body Logistics UK, figures show the highest ever number of vacancies in transport and storage, with 52,000 unfilled positions, with 93% of logistics businesses struggling to recruit staff.
- The logistics sector struggles with poor perception and very few people are aware its function and a general lack of understanding of what the industry provides. With the impact of the pandemic and Brexit, this has raised the focus around logistics and the supply chain. With the skills shortage an ongoing issue there is an increasing need to attract talent into the industry. As the reliance upon e-commerce and international trade continues to grow and logistics technology developing the skill sets needed within the sector will need to evolve.

The logistics industry continues to suffer from a poor perception as an employer of choice

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EUROPEAN FREIGHT TRANSPORT MARKET UPDATE

KEY TOPICS

GVMS

- Last month saw chaos as a result of the Goods Vehicle Movement System ("GVMS") being down for a whole week, with hauliers and forwarders unable to obtain a Goods Movement Reference ("GMR") for their incoming shipments. After a total lack of communication from HMRC on any attempted resolutions and delays incurred through key crossings, goods were finally allowed to come into the UK without a GMR needing to be shown.
- Further issues have also been reported with the system, as cases came to light of some importer's exploitations of the system, due to a lack of safety and security declaration checks. Some hauliers have also been caught checking the 'empty truck' criteria when transporting goods through crossings, thus avoiding uploading any declaration numbers. This could infer serious implications as uncleared goods arrive into the UK under the radar, whilst inspections at the borders could also cause delays to groupage shipments should logistic providers not compile the GMR correctly.

Phytosanitary Checks

- The Government has come under additional scrutiny for its import regulations, as Jacob-Rees Mogg announced that the phased plant health controls (phytosanitary checks) will no longer be introduced next month, being postponed to 2023 at the earliest. UK ports have already spent over £100m on preparing new facilities to enforce these new controls, which will now be made redundant after the announcement. Operators have urged subsidies and financial support from the government, but it's likely that this will be another cost and surcharge that will have to be passed on to importers.

Brittany Ferries

- Brittany Ferries has announced a new rail freight 'motorway' service for unaccompanied trailers, to come into play in 2024. The new line will be running between Cherbourg and Bayonne in France with an aim to link freight markets in the UK, Ireland and Spain. The 'railfreight' motorway service already has the backing from the French state and the EU as it targets to reduce the number of trailers →

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EUROPEAN FREIGHT TRANSPORT MARKET UPDATE

KEY TOPICS

transiting through France via road by 25,000 per year. The service would operate with two trains, completing one round-trip journey every six days, with the potential of reduced fuel costs for logistic parties, with the foreseeability of dual-mode locomotives as part of their long-term plan.

Bilateral Ferry Deals

- After the P&O scandal which saw employees sacked for agency workers, European governments are negotiating bilateral agreements with the intention of formalising pay and working conditions onboard ferries. UK trade unions have also been in discussion with the Department for Transport, which may see Collective Bargaining Agreements ("CBA") come into play for key routes out of the UK, for ferry operators who do not rely solely on agency workers, such as DFDS and Stena. With further rights looking to be afforded to employees, and preferential agreements being handed to ferry lines who enact this, it may lead to intensifications of costs, as ferry operators have to pass on their wage rises to customers.

Container and Pallet Shortages

- Similar issues which faced the supply chain throughout last year seem to be persistent within 2022. Vessel lines are struggling to meet demand, with container absences being largely evident within Southern Europe, Spain and Italy especially. It is likely that this will cause longer and more expensive transit times for shipments, as collections are delayed and demand far outweighs supply.
- A similar issue has also occurred as an unforeseen consequence of the Ukraine war, which has seen the costs of wooden pallets soar, rising from €7 to €29. It has been reported that in some states, 25% of pallets are sourced from Russia, Ukraine and Belarus, thus causing pallets to become difficult to find as the prices of raw materials become ever more expensive. The shortage of pallets has also highlighted a lack of optimisation too, as breakages, losses and long retentions have helped cause greater deficits within the supply chain.

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COMPLY DIRECT OVERVIEW

Carbon & Energy Reporting Legislation - A chance to make real business efficiency improvements

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KEY TOPICS

ESOS and SECR Explained

- The Energy Savings Opportunity Scheme (ESOS) and Streamlined Energy & Carbon Reporting (SECR) regulations are mandatory requirements of large UK businesses but are far more valuable than a tick box exercise. ESOS and SECR present a real opportunity for businesses to improve energy and fuel efficiency, reduce carbon emissions and subsequently, reap financial benefits.
- ESOS runs in phases of 4 years, and we are currently in phase 3; obligated companies must undertake energy audits and report back to the Environment Agency by the compliance deadline of each phase. On the other hand, SECR obligates affected companies to annually report on their energy consumption and associated greenhouse gas emissions within their financial reporting for Companies House.

Check if your business is obligated for ESOS and/or SECR

- The thresholds are different for ESOS and SECR, but many companies are obligated under both.

ESOS

- ESOS is a mandatory energy assessment scheme for large organisations in the UK that meet ONE of the below →

COMPLY DIRECT OVERVIEW

KEY TOPICS

qualification criteria on the qualification date*:

- employs 250 or more people, OR has an annual turnover in excess of £44,000,000, and an annual balance sheet total in excess of £38,000,000, OR
- an overseas company with the UK registered establishment which has 250 or more UK employees (paying income tax in the UK)

***The qualification date for phase 3 is 31 December 2022; the deadline for compliance is 5 December 2023.**

SECR

- SECR applies to all quoted companies, largely limited liability partnerships and the large UK incorporated unquoted companies*. Limited liability partnerships and the UK incorporated unquoted companies are considered to be large and must comply with the legislation if they meet two or more of the qualification criteria below:
  - 250 or more employees
  - Turnover in excess of £36 million Balance sheet in excess of £18 million

**** Organisations using less than 40,000 kWh per annum will not be required to report.***

Benefits of ESOS and SECR for businesses

- Both processes to achieve compliance can help businesses achieve energy and cost savings. The energy audit route to ESOS compliance involves calculating a business' total energy consumption for a 12-month period identifying the most significant areas, and at least 90% of the total energy consumption will be subject to ESOS compliant energy audits. The audits feed into a report of tailored recommendations setting out costed energy, fuel-saving opportunities and good practices which would assist the company to make financial savings.
- For example, savings demonstrated for some of Comply Direct's ESOS customers (against total energy and fuel costs) include; Beiersdorf (14.2%), Regatta (20%), Vivid Imaginations (20.6%), and Sysmex (62.7%), Similarly, the SECR compliance process quantifies a company's energy use and emissions in line with the Greenhouse Gas Protocol standard

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COMPLY DIRECT OVERVIEW

KEY TOPICS

and requires energy efficiency actions to be identified for making savings, as well as disclosing a comparison to the previous years' figures. Therefore, as with ESOS, SECR is also a golden opportunity to make energy reductions, save the business money, improve overall environmental impact, and also act as an environmental KPI tracking system year on year.

Want to make energy reductions and save costs for your business?

- If you need support ensuring ESOS and/or SECR compliance for your business, or just want to identify opportunities for reducing carbon emissions and improving environmental impact, Comply Direct provide a fully managed service delivered by a team of environmental and carbon experts. They have a proven track record of producing consistent compliant reports for their customers since both the ESOS and SECR legislation came into force.

Contact Comply Direct's team for more information, who will be able to fulfil these requirements to the utmost quality:

carbon@complydirect.com or **01756 794 951** or at **https://www.complydirect.com/carbon/**

For more insights about ESOS, join Comply Direct's **free ESOS Phase 3 webinar here** – choose from *22 June at 2pm* or **6 September at 10am**.

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