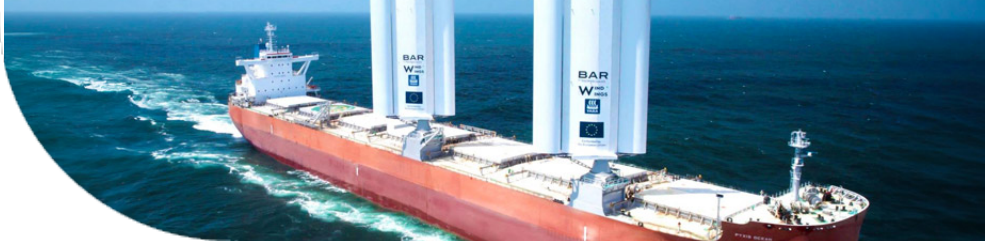

Carbon Brief – The Sustainability Challenge Caused by the Crisis in the Red Sea

AUTHOR / KEY CONTACT

Elisabetta Scanferla
Solicitor

elisabetta.scanferla@LA-law.com
01202 786179

The recent Houthi rebel attacks on commercial ships sailing through the Red Sea have led numerous ships to change their routes on the way to Europe.

As a result, such ships are now being forced to pass around South Africa and through the Cape of Good Hope in order to avoid the Suez Canal.

The Economic and Environmental Costs of Route Diversions

This change of route adds around 9,000 nautical miles, 10 to 14 days, or 80% of the distance sailed to a vessel's journey to Europe from Asia.

These numbers truly highlight The Red Sea shipping line through the Suez Canal as the shortest, cheapest and most effective way to connect Asia and Africa to Europe via the Mediterranean.

However, the current situation in the Red Sea has resulted in shipping companies diverting more than USD 200 billion in trade to the longest route around South Africa, significantly increasing the length of the voyages between Asia, the Middle East and Europe.

Clarksons Research have calculated that container ship transits via the Gulf of Aden to the Mediterranean have dropped 91% from the first half of December, while bunker and crude tanker transits are down by 37% and 31% respectively.

According to a recent report by the technology firm Ocean Score, the route around South Africa via the Cape of Good Hope has tripled a vessel'svessels' bunker consumption due to the longer distance travelled and could have the effect of quadrupling the CO2 emissions emitted from those ships.

One way to reduce the emissions impact of a ship could be to sail by slow-steaming, which could save fuel. However, shipping companies are choosing instead to increase the speed of their vessels, consequently increasing their fuel consumption due to the commercial pressure to avoid any delay in the delivery of the

cargo.

It is a sustainability challenge

The Red Sea crisis not only represents a large setback on the IMO's ambition to cut shipping emissions and achieve climate neutrality in Europe by 2050, but also undermines the wider environmental objectives of the Paris Agreement - a global framework to avoid dangerous climate change by limiting global warming to below 2 degree Celsius and pursuing efforts to limit it to 1.5 degree Celsius.

In January 2024, the EU's Emissions Trading System (EU ETS) was extended to cover CO2 emissions from all large ships (of 5,000 gross tonnage and above) entering EU ports, regardless of the flag they fly.

The EU Emissions Trading System (ETS) is a cap and trade system. A cap is a threshold which defines the total amount of greenhouse gasses that an operator can emit. It is reduced annually, at fixed intervals, in line with the EU's climate targets.

In practice, shipping companies are accordingly required to reduce their carbon emissions incrementally as the cap is reduced each year.

In order to achieve this target, they have to purchase and surrender (use) EU ETS emission allowances for each tonne of reported CO2 (or CO2 equivalent) emissions which fall within the scope of the EU ETS system.

The Increased Cost of Carbon Emissions

The result of the Red Sea crisis is that, for example, in the case of a 14,000 TEU container ship, the number of EU allowances (EUA) or carbon credits necessary to cover emissions will rise from 1800 per voyage to 5200 per voyage.

This represents a significant increase in EUA costs from EUR 98,000 to EUR 285,000 per voyage this year, based on the current carbon price of EUR 55 per tonne of CO2.

Furthermore, the carbon price could also increase, and the cost per voyage could easily double. With the complete phase-in of the EU ETS to 100% of emissions, we could see another 250% increase per voyage.

We do not know how long the crisis in the Red Sea will persist. It seems that the Houthis are determined to continue their attacks on ships in support of Palestinians against Israel.

For the foreseeable future, shipping companies should take into account the higher emissions liabilities.

For the time being, it appears that Shipping companies will have no choice but to increase their carbon emissions, absorbing the increased costs, until the crisis in the Red Sea ends.

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It is a sustainability challenge for which innovative and fresh solutions will be required.

Perhaps, one way to reduce the carbon footprints, could be for more shipping companies to use giant fibreglass sails, like the M/V PYXIS OCEAN did. A 229m bulk carrier, retrofitted with giant sails known as WindWings, achieved a 15 per cent average fuel saving during a six-month voyage. This vessel recently navigated through the Cape of Good Hope.

Contact

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