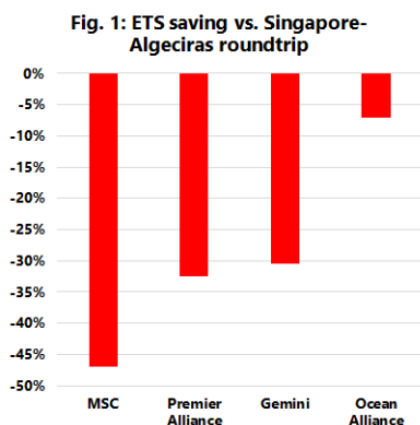


Ocean Alliance: Uncompetitive ETS cost in 2025

ETS (European Union’s Emissions Trading System) is the de-facto carbon taxation for shipping in the EU. All vessels sailing within, or to and from the EU, need to pay a carbon emission tax, which is payable on 100% of their emissions between two EU ports, and on 50% of the emissions between an EU and a non-EU port.

For maximum ETS savings, a vessel needs to call a non-EU port closest to the first/last EU port of call. We can calculate the ETS savings, by comparing that “modified” journey against the shortest possible benchmark when going around Africa, which is the sailing distance from Singapore to Algeciras. This means that a vessel calling a non-EU port between Singapore and Algeciras, for example, will only have to pay ETS on 50% of the emissions from that port to Algeciras, as opposed to a vessel that sails directly from Singapore to Algeciras, which has to pay ETS on 50% of the emissions of a much longer journey.

We mapped the reportable ETS sailing distance from a non-EU to an EU port, for each service in the new alliance networks (including MSC, since it will be as large as an alliance). This is then compared against the notional sailing roundtrip distance between Singapore and Algeciras, to calculate potential ETS savings.



As shown in Figure 1, MSC’s network design leads them to cut the reportable distance between Asia and Europe almost in half. Gemini Cooperation and Premier Alliance will be on an equal competitive footing, whereas Ocean Alliance will only have a marginal 7% reduction in their current network. This means that MSC will have a major cost advantage and Ocean Alliance will have a major cost disadvantage, when it comes to the ETS costs. However, an important caveat, is that Ocean Alliance have not yet published an updated network for 2025.

We expect that we will soon see Ocean Alliance publish a revised Asia-Europe network for 2025, where we assume they will focus more on reducing their ETS cost exposure.

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