

Container freight rates jump on Red Sea attacks, EU ETS start



As the EU Emissions Trading System (EU ETS) became enforceable from 1 January conflict in the Red Sea has seen many vessels divert to the much longer route around the Cape of Good Hope, both impacting container freight rates.

Nick Savvides | Jan 03, 2024

Recent attacks in the Bab al-Mandeb Strait on the Maersk Hangzhou, which saw US naval support sink three Houthi boats with the loss of ten lives, has led the Danish carrier to resume diversions around the African Cape.

As a result of this incident [Maersk](#), which announced it would resume Suez transits on 24 December, had again diverted its vessels around the Cape a week

later and on Tuesday the line announced it was pausing transits through the Red Sea for a further 48 hours.

Related: [Maersk extends Red Sea transit pause](#)

Vessel diversions around the Cape have now reached 262 ships, 3.4 million teu or 12% of the global fleet, according to analyst Linerlytica, whose latest statistics do not include the latest diversions by Maersk.

Many analysts are expecting the Red Sea conflict and the Panama Canal water level crisis to cause a spike in rates as capacity is swallowed up by the much longer African Cape route. The Shanghai Containerized Freight Index jumped 40% for the week ended 29 December 2023 to stand at 1759.57 points.

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Some of these increases will have been as a result of the introduction of the EU ETS as vessels travelling into Europe will now need to pay a carbon tax based on the distance between the last port of call outside of the EU, excluding UK, Tangier and Port Said, and the first call into the EU.

Paul Canessa, VP at SeaRoutes, has calculated that THE Alliance's FE2 service on the 2023 routing for a dry 40ft container, from Singapore-Le Havre emissions would be 1.16 tonnes CO₂e, costing EUR87 per feu at the current rate.

However, THEA has added a call in Saudi Arabia, reducing the distance from the last call outside of Europe.

"The new set up with the stop in Jeddah would bring it down to EUR41 per feu. Pretty neat right?" said Canessa. Before adding: "But going the long route around Africa from Singapore brings the number up to EUR121 per feu."

For the Maersk Hangzhou, if it was loaded with 14,000 teu the difference in the EU ETS would be from EUR609,000 to EUR847,000, this being the cost of

allowances for 40% of emissions, rising to 70% in 2026 or EUR1,482,250 and 100% in 2027, or EUR2,117,500, at today's prices for allowances.

Adding a port call outside of the EU ETS range will serve to reduce carbon costs, as Canessa points out: "This is probably what THE Alliance had in mind when adding Damietta as a call on FP1 (latest non-EU call before was Singapore), Jeddah on FE2 and Colombo on FE4. No wonder their forecast charges on this trade for 2024 were among the lowest compared to other global carriers."

Canessa also points out that the trade on the Atlantic will be much harder to reduce the costs, "It is hard to hack this system on Atlantic or Europe-Africa trades," he said.

Moreover, the EU ETS charges are based on 50% of vessel emissions, that is half the journey from a non-EU country into and out of the EU. There is an expectation that other non-EU nations will be following the EU's lead in the coming years.

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