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SUSTAINABILITY IN YACHTING - SUSTAINABLE FUELS

The yachting industry is seeking to find new fuels in an effort to become more sustainable. There are industry-wide initiatives pushing for the production and use of low-carbon alternatives for yachts. Naturally, any decisions around fuelling are likely to have a substantial impact on a yacht's operational budget, especially given the current geopolitical situation in the Middle East which has caused bunker prices to surge in recent months.

We spoke to Ben Mahy, Technical Director at the Guernsey based Bachmann Group, to gain more insight into the new energy sources that are currently available within the yachting industry and whether these sustainable solutions have the potential to achieve real change. Around a decade ago, there was a shift away from the highest polluting fossil fuels to cleaner fossil fuels, and the industry is now seeking to move away fossil fuels altogether to find a long-term sustainable solution.

To achieve a genuine change in attitude, Ben considers that there needs to be a consistent drive by a cross-section of the key actors in the yachting industry, together with availability of an alternative solution that has the potential to be widely adopted.

Certain established names have been tasked with promoting sustainability through deployment of alternative products, such as the Yacht Club de Monaco's SEA Index and Yachts for Science.

One fuel that could be the catalyst for change is hydrotreated vegetable oil ("**HVO**"), as Ben identifies HVO as a "miracle product" for the yachting industry. HVO can be derived from vegetable oil, animal fats and other waste from the food processing industry and is produced through 'hydrotreating' (where hydrogen is used to remove oxygen from the fatty acids in vegetable oils and animal fats). It is claimed that, when calculated on a well-to-wheel lifecycle basis, HVO can result in (up to) 90% lower net CO2 emissions in comparison to fossil diesel. This figure is a life-cycle calculation, which factors in the energy and emissions used to collect the waste, refine the fuel and transport it to the pump.

HVO is readily available within the United States and South America, and its European distribution chain is expanding. Sweden is one of the pioneers in the use of HVO and, since 2015, HVO has become a leading biofuel within the Swedish transportation industry (for cars, lorries and other methods of transport, including maritime transport). Sweden even offers tax incentives to HVO users, to encourage and promote its use.

Whilst the distribution chain of HVO remains in progress, HVO clearly has many benefits over other alternatives. A high proportion of alternative fuels (such as biodiesels) cannot be easily adopted by yacht owners, as these alternatives bring with them safety issues and bunkering issues; some fuels even require an alteration in the design of a yacht itself (such as changing the layout of the engine room). If yacht owners are required to re-design or retrofit their yacht simply to enable the use of a particular fuel, it seems unlikely that there will be widespread adoption.

Whereas, in principle, it is straightforward for a yacht owner to use HVO. There is no need to change any technology onboard and a yacht's engine does not require cleaning before or after the use of HVO. This is because HVO is a paraffinic synthetic fuel, which means that HVO has a chemical structure that is nearly identical to mineral diesel. As a result, a yacht owner does not need to commit to only using HVO and can simply use HVO where it is available and switch to another source of energy if HVO cannot be obtained. HVO is also non-toxic and biodegradable, meaning that it is (in principle) safer to transport.

However, there are of course cost implications for yacht owners, as HVO is more expensive than traditional fuels. To mitigate this cost implication, Ben believes that an emphasis should be put on the education of captains and yacht owners in terms of the positive impacts that using a high-quality fuel can have on their yacht. HVO has been endorsed by engine representatives in the superyacht industry as being beneficial for a yacht's engines, as its cleanliness reduces wear on the engine components (possibly improving an engine's lifespan) and makes the engine more efficient.

A key difference between the commercial shipping industry and the yachting industry is that commercial shipping is governed by profit margins, business requirements and stakeholder pressures. Ultimately, a commercial shipping business needs to balance the cost of sustainable fuels with the profitability of their ships.

Whereas yacht owners are more likely to be willing to pay a premium given that yachts are often bespoke constructions that are built to the highest levels of quality to accommodate their owner's specific tastes. However, given the current geopolitical climate and the uncertainty regarding energy prices in the short-term, a captain's fuel strategy now has the ability to save a yacht owner substantial amounts of money each season. Therefore, the impact that the current geopolitical climate may have on the adoption of HVO (or other alternative fuels) remains to be seen.

Against this backdrop, the yachting industry does seem to be moving towards the adoption of more sustainable energy but, to date, there has not been a clear and concerted move towards one particular fuel as the "sustainable" choice. It is possible that HVO may be the key to accelerating this change, but this is, naturally, dependent on its international chain of supply and distribution becoming well-established and HVO becoming easily accessible in key yachting locations. As Ben highlights, it is also dependent on increasing awareness within the industry regarding HVO's benefits and, of course, captains and yacht owners being willing to pay a premium for this fuel.

Against this evolving landscape, navigating the transition to sustainable energy requires not only technical understanding but also careful consideration of regulatory frameworks, contractual arrangements, financing structures and risk allocation.

Stephenson Harwood is well placed to support yacht owners, managers, financiers and shipyards in addressing these challenges, from advising on fuel supply and infrastructure agreements to assessing compliance with emerging environmental regulations and ESG requirements. As the industry continues to evaluate options such as HVO and other alternative fuels, having clear, commercially focused legal guidance will be key to enabling informed decision-making and facilitating a practical, sustainable transition.

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