

SEA CARGO CHARTER: THE NEXT PIECE IN THE DECARBONISATION PUZZLE

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WHAT IS THE SEA CARGO CHARTER?

The Sea Cargo Charter was officially launched on the 7 October 2020, supported by some of the world's largest bulk cargo owners, namely ADM, Anglo American, Bunge, Cargill, COFCO International, Dow, Equinor, Gunvor, Klaveness Combination Carriers, Louis Dreyfus Company, Norden, Occidental, Ørsted, Shell, Torvald Klaveness, Total and Trafigura; additional charterers such as Eagle Bulk Shipping and Nova Marine Carriers have since become signatories, with more charterers expected to join them in the near future.

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The purpose of the Sea Cargo Charter is to establish a framework for assessing and disclosing the climate alignment of chartering activities in the bulk sector and is consistent with the policies and ambitions of the International Maritime Organisation ("IMO"), including its ambition for greenhouse gas ("GHG") emissions to peak as soon as possible and to reduce shipping's total annual GHG emissions by at least 50% by 2050¹. In addition to this, it is intended that the Sea Cargo Charter provides support to a number of other sustainable initiatives including the UN's Sustainable Development Goals, the Global Logistics Emissions Council (GLEC) Framework, the Carbon Disclosure Project and the Energy Transitions Commission to name but a few.

Signatories are to apply the Sea Cargo Charter to all of their bulk chartering activities that involve:

1. on time and voyage charters, including contracts of affreightment and parcelling, with a mechanism to allocate emissions from backhaul and ballast voyages;
2. voyages carried out by dry bulk carriers, chemical tankers, oil (crude and product) tankers and liquefied gas carriers; and
3. a vessel or vessels of at least 5,000 gross tonnage which are engaged in international trade.

BROADENING THE SCOPE

However, it is intended that the Sea Cargo Charter will have a wider scope, with it being envisioned to also apply to parties contracting for the sale and purchase of commodities where their counterparties at some point in the contractual chain are expected to become charterers. Examples cited in the technical guidance to the Sea Cargo Charter include FOB sellers and DAP buyers². It is expected that on becoming a signatory to the Sea Cargo Charter, such a party will use its best endeavours to ensure that their counterparties will comply with the Sea Cargo Charter.

FOUR PRINCIPLES TO COMPLY WITH

The Sea Cargo Charter is comprised of four principles, which are to be complied with by signatories:

- 1. Assessment of climate alignment:** Signatories are required on an annual basis to calculate GHG emission intensity and total GHG emissions of their chartering activities and assess their climate alignment by reference to established decarbonisation trajectories;
- 2. Accountability:** Signatories will exclusively use only those data types, data sources and service providers set out in the technical guidance to the Sea Cargo Charter for the purposes of assessing their climate alignment. This is to ensure that there is a homogenous, unbiased benchmark for signatories to follow in respect of the verification mechanisms used under the Sea Cargo Charter;
- 3. Enforcement:** Signatories agree to work with owners, disponent owners and business partners to collect and process information necessary to determine carbon intensity and total GHG emissions and assess climate alignment. Signatories will achieve this through the inclusion of the Sea Cargo Charter Clause in their charterparties³ for all new chartering activities finalised after a party becomes a signatory to the Sea Cargo Charter; and
- 4. Transparency:** Signatories are to publicly acknowledge that they are signatories to the Sea Cargo Charter and agree to publish the results of the climate alignment of their chartering activities on an annual basis in line with the technical guidance to the Sea Cargo Charter. This will consist of reporting the climate alignment of its chartering activities on an annual basis to the Secretariat of the Sea Cargo Charter as well as publishing such climate alignment in its relevant institutional reports.

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WHEN DOES A SIGNATORY'S OBLIGATION TO ASSESS COMMENCE?

The requirement for a party to assess the climate alignment of its chartering activities takes effect in the following calendar year after the calendar year in which that party become a signatory to the Sea Cargo Charter.

SEA CARGO CHARTER AND THE POSEIDON PRINCIPLES

Whilst it is clear that the Sea Cargo Charter shares a number of similarities with the Poseidon Principles there is an obvious distinction to be made between the two; the focus of the Poseidon Principles is on climate alignment in asset finance whereas the focus of the Sea Cargo Charter is on climate alignment in the operational space.

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The alignment of the Sea Cargo Charter with the Poseidon Principles is no coincidence; both are ultimately part of a larger framework to achieve decarbonisation goals and, more widely, deliver on sustainable shipping.

[1] IMO (2018). Resolution MEPC.304 (72) (adopted on 13 April 2018), Initial IMO strategy on reduction of GHG emissions from ships, IMO doc MEPC 72/17/Add. 1, Annex 11.

[2] https://www.seacargocharter.org/wp-content/uploads/2020/10/Sea-Cargo-Charter_Summary-of-requirements-and-implications.pdf

[3] The form of this clause can be found at: <https://www.seacargocharter.org/wp-content/uploads/2020/10/Sea-Cargo-Charter-Clause.pdf>

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