



# Poseidon Principles for 'responsible' ship lending



A group of ship financiers are intent on helping shipping 'do the right thing' on the environment and climate change by prioritising loans for low-carbon vessels, as **Barry Parker** reports from New York.

**A** major transition from fossil fuels to greener (less carbon) forms of energy is now underway across a wide spectrum of businesses, with shipping riding on that same trend. The International Maritime Organization (IMO), which had already implemented energy efficiency standards for newly constructed vessels and energy management plans for existing ones, in April 2018 took the bold step of committing the industry to a longer-term plan for phasing out greenhouse gas emissions (GHG) from vessels.

Organisation theorists can, and often do, debate the questions of 'How do you force change?' One view is that 'exogenous' developments, or actions, can provide more powerful catalysts than good (internal) intentions – especially in conservative businesses driven by inertia with little



appetite for change. The availability of maritime finance (or the lack of same) is one such catalyst that can indeed drive the maritime business in a particular direction.

The eminent shipping banker Michael Parker, Citigroup's global industry head for Shipping, Logistics and Offshore, unveiled a powerful stimulus devised by

an assembled group of shipping banks at a launch event held in New York, in association with Marine Money's 2019 Ship Finance conference, in June.

The Principles are described as 'a framework for integrating climate considerations into lending decisions to promote international shipping's decarbonisation.' Parker said the assembled group of shipping banks' aim was to 'use our influence to help push for sustainable business.'

So far, 11 major shipping banks, with portfolios aggregating approximately \$100bn, have signed on and pledged to ratchet down the GHG in their loan portfolios – in line with the IMO's downward GHG glidepath toward 2050 – by when it has promised a cut of at least 50% in shipping's total emissions compared to 2008 levels, effectively meaning most of the fleet will need to become virtually zero-carbon.

Paul Taylor, Société Générale's top shipping banker, in remarks following those of Citibank's Parker, said it succinctly: 'bank liquidity will be prioritised for those clients supporting IMO target levels.' The banks can wield a heavy cudgel – the 'influence' referred to by Parker represents roughly 20% of outstanding shipping debt. More institutions (including banks and also leasing companies), across continents, are expected to join.

In practical terms, the Principles 'establish a way to assess and disclose whether financial institutions' lending portfolios are in line with adopted climate goals,' explained ship finance lawyers Watson Farley Williams (WFW) in a statement. 'Ship financiers will implement them via internal policies, procedures and standards and will apply them in all credit products secured by ships that fall under the purview of the IMO,' it added.

Echoing SocGen's Taylor, the lawyers point out in a different briefing that 'owners of non-aligned ships might find the pool of possible financiers is reduced as signatories try to ensure that their portfolios consist of ships that comply with the IMO greenhouse gas emissions targets.'

With EU and IMO fuel reporting initiatives now in play or about to be, the clients of the banks are already gathering data on their fuel consumption. The same data being reported to the IMO will also feed the mechanisms for Poseidon signatories to assess 'alignment' of their portfolios, it is recommended.

The decision to draw up the Poseidon Principles, taken at the Global Maritime Forum gathering in Hong Kong last October, builds upon earlier effort the Green Shipping Financing Programme, sometimes more informally called 'Green Ship Finance' – a framework promulgated by the European Investment Bank (EIB), the lending arm of the EU. The EIB had signed agreements with a group of banks (including three Poseidon signatories, ABN Amro, SocGen and ING) which enabled access to funds to support finance of sustainable shipping projects.

WFW partner Toby Royal, a member of the team drafting the text of the Poseidon



Kristin Holth, DNB



Toby Royal, WFW

Principles, explained to Seatrade that they 'don't replace Green Finance, but rather define and amplify one of its essential prongs.'

'Green Finance does not have a single, specific meaning,' he added. 'It is equally concerned with lending or investment in environmentally sustainable projects and new technology as well as encouraging the development of environmentally friendly initiatives, processes and procedures in business and industry.'

Another effort falling under the broad Green Ship Finance umbrella is the Ship Recycling Transparency Initiative, launched in 2018 by the Sustainable Shipping Initiative (SSI), a consortium that includes Maersk, DS Norden, Class LR, and financiers Standard Chartered Bank and Nykredit; there are also Responsible Ship Recycling Standards, with ABN Amro, ING, NIBC and others as members.

Royal also points to emerging technology initiatives such as the recently launched Vessel Technology Advice & Support (VTAS) service, which seeks to independently assess the fuel-efficient technologies available in the market 'so as to inform the debate on such technologies as well as help guide investment decisions.' He also cites the launch of the Green Loan Principles earlier this year by the Loan Market Association, aimed at providing 'a high-level framework of market standards and guidelines which apply a consistent methodology for use across the green loan market.'

Discussions of Green finance often circle back to the role for LNG (Liquefied Natural Gas) as a fuel for vessels, which lowers but does not eliminate GHG emissions. SocGen is closely aligned with use of LNG as a transitional marine fuel and was the first financial institution to join SEA/LNG a multi-sector industry coalition aiming to accelerate the widespread adoption of LNG as a marine fuel. In late 2017 it arranged the



Brittany Ferries' Honfleur will be first newbuild to receive funds under EU 'Green Ship Finance' project

first transaction of the EIB's guarantee program through a financing of Honfleur, the first LNG-powered ferry to be commissioned by Brittany Ferries, and is also banker to CMA CGM, the first line to order a series of LNG-powered mega containerships.

Speaking at the New York Poseidon Principles launch, Euronav ceo Hugo de Stoop stated: 'Some solutions are transitional...for example LNG...but LNG is necessary to get us on the right path.'

What for the future? With all the initiatives, consortia and frameworks – what might we expect? In general, ESG (Environmental, Social and Governance) investing is quietly and quickly finding a path towards shipping, bringing in non-traditional yet high-powered 'influencers'. For example, the SSI group behind the ship recycling initiative was founded by global sustainability non-profit organisation Forum for the Future in conjunction with WWF, the global conservation NGO. The Rocky Mountain Institute – a well-funded clean energy think-tank and solutions provider, which absorbed the Carbon War Room (better known to shipping people), back in 2014, worked alongside the shipping banks in formulating the Principles.

Kristin Holth, DNB's global head of Ocean Industries, offered an important clue of the path ahead when speaking at that New York event. She hinted that other initiatives might be merged into the financiers' manifesto in the future, a point which WFW makes explicit in its briefing by saying that 'the door has been left open for the Poseidon Principles to be amended to reflect further initiatives, particularly as climate change and other environmental issues attract increasing attention.' ●