

ESG in shipping: important early steps

The increasing importance of environmental, social and corporate governance criteria marks a radical shift for commercial shipping. A report from international law firm Watson Farley & Williams (WFW) examines the shipping world's views on ESG

The report seeks to define the gap between ambitions and actions on ESG, between what various stakeholders want to achieve and what they are willing to risk and contribute. It examines the interplay between ship operators and finance, and how this is likely to change as ESG gains traction. Besides a survey of 545 executives and senior managers, further investigation was conducted via ten in-depth interviews with senior figures from shipowning companies, chartering companies, financial institutions and a leading IACS member classification society. WFW's key findings are:

- Reducing shipping's carbon footprint is the main and most immediate challenge. Trade tensions, COVID-19 and access to finance are also flagged, but respondents across all regions and stakeholder groups are most concerned about emissions.
- There is a big divide in the importance that operators and financiers attach to

sustainability. Almost a third of shipowners say that ESG criteria barely influence their investment decisions, whereas nearly 90% of financiers regard ESG as having some or even crucial importance.

- Financing remains a sticking point. Despite a commitment to sustainability, traditional ship finance banks seem to have limited appetite to fund new clean-technology upgrades themselves or to accommodate their financing by others on ships financed by them.
- Decarbonisation looks set to drive greater cooperation among industry participants. Almost two thirds of shipowners suggest they would form joint ventures to invest in innovation over the next five years and they lean towards teaming up with other industry participants rather than »outsiders«.
- The industry looks to governments to lead funding of clean technology and fuel research. Almost half of our res-

pondents take this view, roughly four times more than those that prioritise other options such as private investment or a carbon levy.

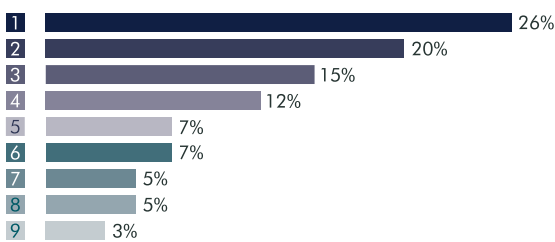
- Shipowners are wary of committing to many new green technologies. Over half do not contemplate using a non-hydrocarbon fuel in the next ten years and a similar number do not contemplate installing fuel efficiency hardware in the next five years.

The results of the survey show a clear recognition within the industry that we are on the cusp of a new era and while there is an understandable reluctance to being the first mover, especially when it comes to new technologies, that recognition itself suggests we are likely to see significant changes in the coming years that will reshape the industry.

HANSA can only present a choice of the survey's results. For the full report please visit <https://www.wfw.com/reports/the-sustainability-imperative/>

Q1

In your view, what are the biggest challenges for the maritime industry in the next five years? (Top three; first rank shown)

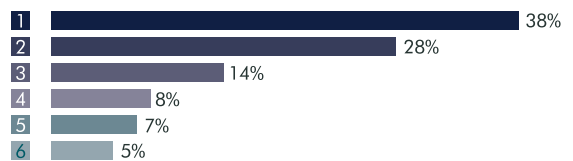


- 1 Reducing emissions/carbon footprint
- 2 International trade tensions (including sanctions)
- 3 Impact of COVID-19/similar unknown 'black swan' events
- 4 New technological requirements and developments
- 5 Regulatory (IMO, health & safety, environmental regulation, crew welfare)
- 6 Regulatory (tax, governance, disclosure & transparency requirements)
- 7 Access to financing (pricing)
- 8 Access to financing (availability of providers)
- 9 Military conflict/political instability

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Q2

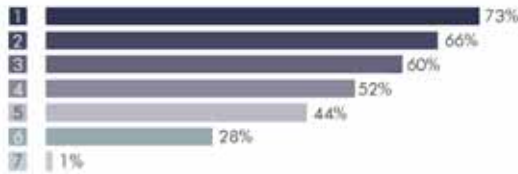
Please rank your top three ESG priorities in order of importance for your decision making (First rank shown)



- 1 Environmental targets-efficiency/emissions & carbon reduction
- 2 Environmental targets - end of life assets/ship recycling
- 3 Diversity targets/board constitution
- 4 Social/crew welfare
- 5 Financial reporting
- 6 Pressure on offshore jurisdictions/onshoring of operations

Q3

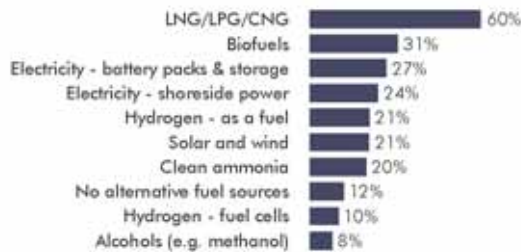
What technologies are you considering supporting/deploying over the next five years? (Select all that apply; shipowners/operators only)



- 1 Performance monitoring systems (e.g. fuel optimisation /emission reduction/equipment performance)
- 2 Technology-vessel design (e.g. hull/engine design /economies of scale/more efficient equipment)
- 3 Artificial intelligence/big data (e.g. route planning/just in time arrival planning/weather & ocean conditions data)
- 4 Technology-fuel technology/R&D investment
- 5 Technology-add-on equipment (e.g. 'scrubbers'/flettner rotors/kite sails)
- 6 Distributed-ledger technologies (e.g. bills of lading)
- 7 Other

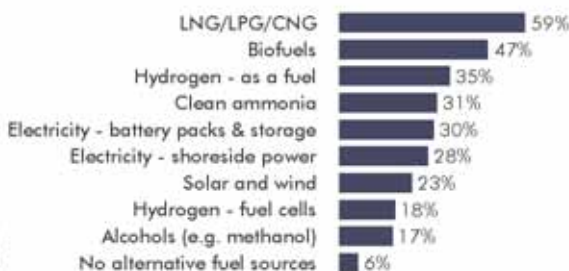
Q4

Within the next five years: What types of alternative fuel sources are you considering using in the future? (Select all that apply; shipowners/operators only)



Q5

Within the next ten years: What types of alternative fuel sources are you considering using in the future? (Select all that apply; shipowners/operators only)



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EEXI – ENERGY EFFICIENCY
EXISTING SHIP INDEX

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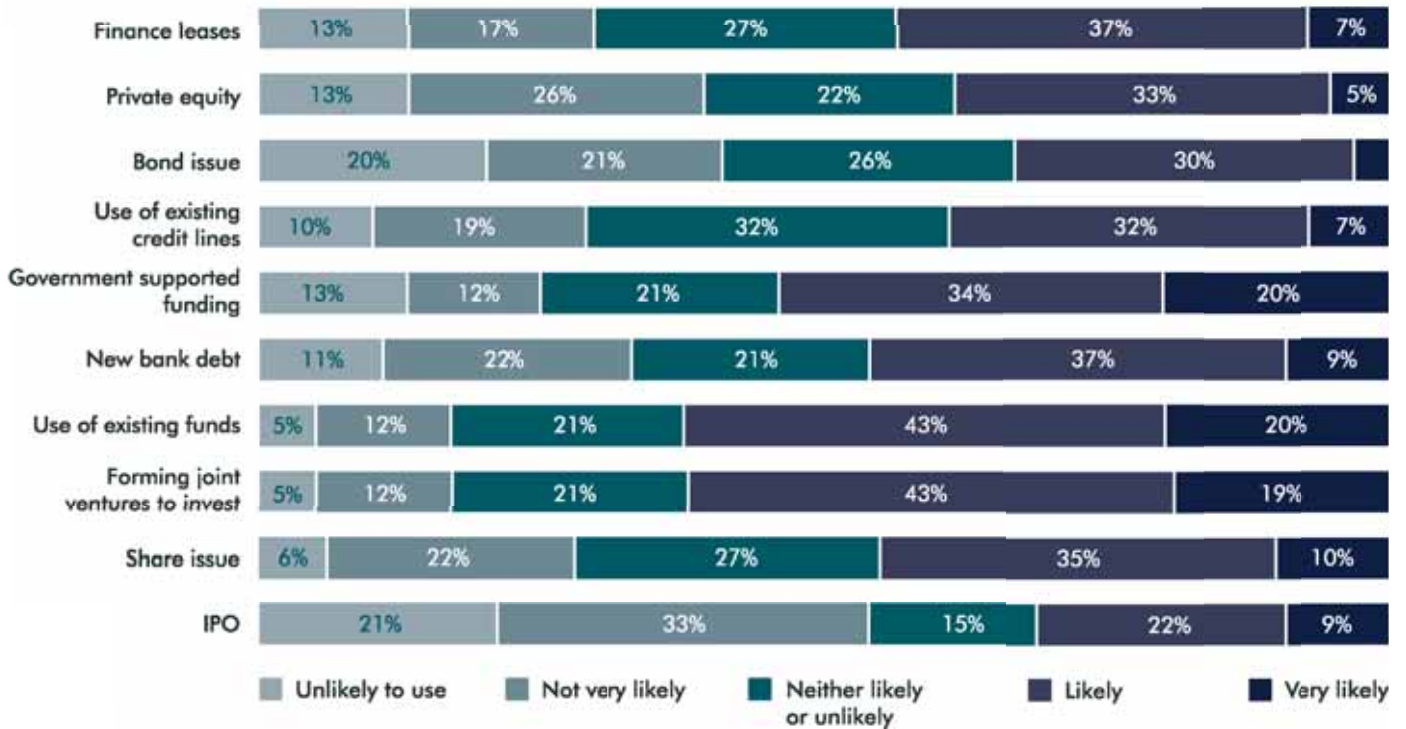
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Q10

What sources of finance will you use to fund innovation and required technological changes within the next five years? (Shipowners/operators only)



Q11

Who are you most likely to form JVs with? (Shipowners likely/very likely to form JVs only)



»Financiers are not policemen«

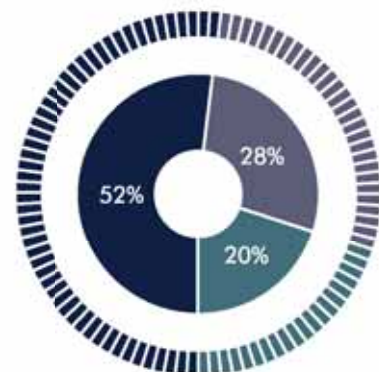
The WFW survey shows that most financiers would reconsider backing shipping companies that didn't comply with environmental regulations or policies. And although only 29% demand more than minimum environmental standards from their counterparties, the additional compliance most commonly required is for emissions targeting and monitoring.

This suggests a push on shipowners to improve, although financiers appear to disagree on their role in improving shipping's environmental credentials.

»Financiers are not policemen. We are not here to police the shipping industry or the way people do business,« says Christos Tsakonas, Global Head of Shipping, DNB Bank, who acted as one of the independent experts for the report, although he adds that »it would be very difficult for us to justify a project which does not fit our ESG strategy.«

Q14

How will changes to the shape of the shipping industry over the next 5-10 years impact reliance on asset security in financings (whether by way of leasing or mortgaging)? (Financiers only)



- Reliance on asset security will be more important
- Reliance on asset security will be less important
- No change

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