

**An Update on Developments in Green Ship
Financing**

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Green Financing

Introduction



- Amidst a global pandemic, it is easy to forget another disaster which slowly brews in the background - **climate change**
- Universal issues that will effect every industry and person and therefore a solution needs to be found together
- One such solution is the transition to a green economy
- There are also increased environmental regulations on ship owners and operators
- Green projects and energy efficient practices need a lot of **initial and ongoing expenditure**



Support from Lenders – Green Financing

Green Financing

What is a green loan?



- Green loans are not new – loans that require the borrower to use proceeds for a “green” purpose
- March 2018 - the LMA published **green loan principles (GLP)**



Any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible “Green Projects”

Green Financing

Components for understanding the characteristics of Green Loans



Sustainability-Linked Financing

What is a sustainability linked loan?



- Sustainability linked loans are not characterised by the borrower's use of proceeds



Enable lenders to incentivise improvements in the borrower's sustainability profile by aligning the loan terms to the borrower's achievement of pre-determined sustainability performance targets

- Attractive to borrowers who do not operate in the green sector or have the resources/appetite to invest in green projects but are beginning to introduce sustainability targets and policies

Green and Sustainable Finance Regulations



- EU Commission adopted the Regulation on the Establishment of a Framework to Facilitate Sustainable Investment + Non Financial Reporting Directive
- EU wide classification system of environmentally sustainable activities – will require certain financial services firms and large public interest entities to perform an analysis of their economic activities and disclose additional information in their non-financial statements on how these activities are associated with environmentally sustainable targets

Green and Sustainable Lending in Shipping

Some Examples



- Market drivers have been European financiers and in Asia Japanese banks

Green Financing

Green tranches, financing particular piece of kit for a vessel

Sustainability linked financing

Working capital, revolving credit facilities

Green Sustainable Bonds

Green bonds in the New York markets

Poseidon Principles

Framework for disclosing the climate alignment of ship finance portfolios which can be measured against the IMO'S emission targets

Green Shipping

USD 750 million project launched in 2016 by European Investment Bank

Recycling of Ships

Different laws and regulations for recycling such as Hong Kong Convention and EU Ship Recycling Regulations

Green and Sustainable Lending in Shipping

Upcoming Initiatives



Climate Bonds Shipping Criteria

Part of Climate Bonds Standard – assessment process on low carbon and climate resilient credentials of shipping projects and assets

IFC-GEF Greener Shipping Investment Platform Joint Venture for the Decarbonisation of Maritime Transportation

First global financing platform focussed on decarbonizing the shipping industry

Greenhouse gas tax suggestion for ships

Trafigura has proposed a global fuel levy of USD 250 to USD 300 per tonne of carbon dioxide equivalent on shipping fuel – the revenue raised would be used to subsidise and incentivise low and zero carbon fuels and to fund research and development

Ship Lenders

Impact on lenders and next steps



Current Scenario

- Banks increasingly required to justify their investment choices based on the environment
- Lenders expected to be increasingly inclined to finance customers that would further this objective and improve the bank's carbon ratings etc.
- Currently no regulations in force that would oblige banks to provide a minimum percentage of green/sustainable finance

Proposed next steps

- Expect regulations at European level/national level on minimum percentage perhaps through granting of financial incentives, reduced capital charges etc
- More ECA support for domestic yards building eco-ships
- Help develop a commonly accepted concept of green/sustainable finance
- Ability to extend the availability of green and sustainability linked finance to smaller shipping companies with the help of the government



Questions?

THANK YOU



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Having worked in region since 2005, Nijoe brings a wealth of regional experience and insight when advising his clients. Nijoe advises regional and international financial institutions and corporates on secured lending transactions with particular expertise in trade finance, shipping finance and aviation finance on both a conventional finance and Islamic finance basis. Clients really value his dedication to delivering the highest levels of client service.

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