

How Green is Green?

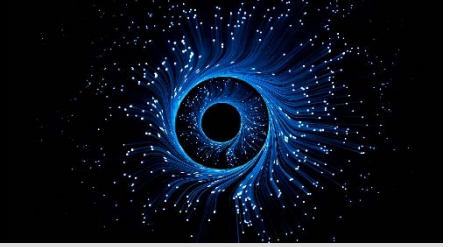
Dora Mace-Kokota
Partner

13 September 2021

Overview

- History and background for shipping and ship finance
- Different shades of 'green' in ship finance
- What does this mean in practice for ship owners and banks?
- What is the impact on loan documentation?
- Current market examples

Why is green finance becoming more important?



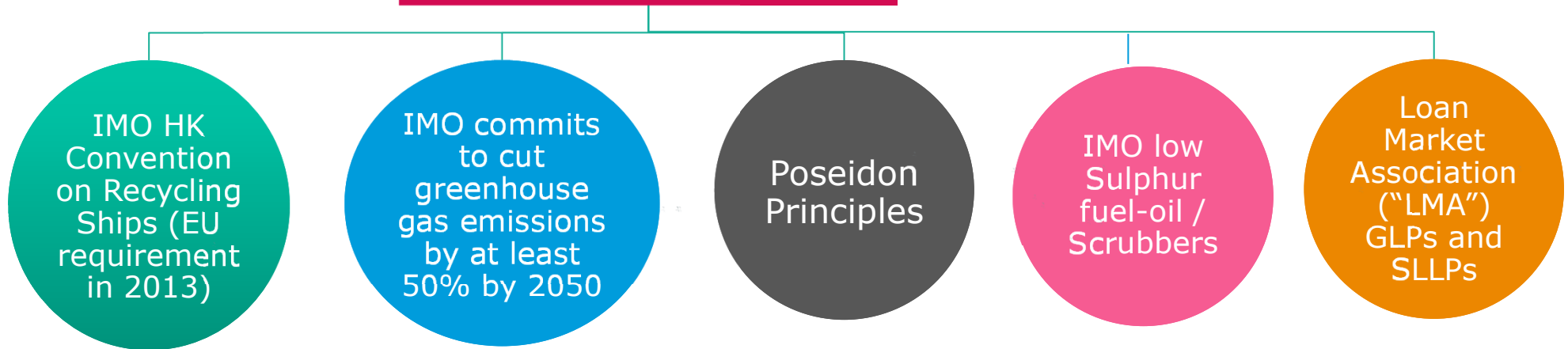
- Financial sector: low direct impact on the environment
- But:
 - increased environmental regulation, especially climate change legislation
 - scientific consensus about the likely results of climate change, despite the ongoing doubts of climate sceptics
 - increased corporate commitments from lenders to reduce environmental impacts, particularly carbon footprints
 - emerging green technologies
 - shifts in consumer behaviour
 - concern about the vulnerability of the financial services sector to climate change

How did we get here?

Key drivers and initiatives

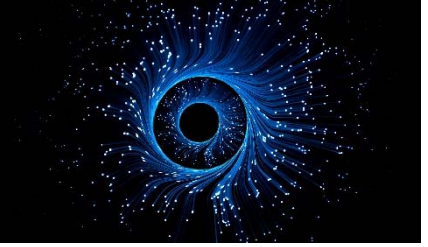


Some of the key drivers / initiatives



Green and sustainable finance options

Overview



'Green' Finance

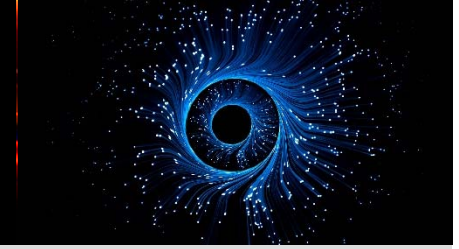
Green Loans

Sustainable Loans

Green Bonds

Sustainable Bonds

For those of you who like definitions / more words!



- No universal definition.
- **Green Finance:** the *"financing of investments that provide environmental benefits in the broader context of environmentally sustainable development"*
- **Sustainable Finance:** financing of investments taking into account environmental, social and governance ("**ESG**") considerations
- **Responsible Investment:** *"an approach to managing assets that sees investors include ESG factors in their decisions about what to invest in and the role they play as owners and creditors"*

Green and sustainable finance

Good things come in fours?



	Green loans	Sustainable loans
LMA/APLMA/LSTA principles	Green Loan Principles (“GLPs”)	Sustainability-Linked Loan Principles (“SLLPs”)
1.	Use of proceeds	Relationship to Borrower’s ESG performance
2.	Process for project evaluation and selection	Target setting
3.	Management of proceeds	Reporting
4.	Reporting	Review
Standard wording?	No	No
3 rd party oversight?	Second party opinion optional	Second party opinion recommended

Green projects

Examples in shipping



Scrubbers

Ballast Water
Treatment

Propeller Cap Fins

'Clean' Fuelled
Vessels (eg
Methanol, LNG*)

R&D Expenses

LNG Bunkering
Vessel*

*NB: Potential effects from methane leakage to be assessed

Green and sustainable finance

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Sustainability Performance Targets ("SPTs")

Examples in shipping



SPTs generally follow the 17 UN Sustainable Goals. Here are four examples relevant to shipping:



Green and sustainable finance

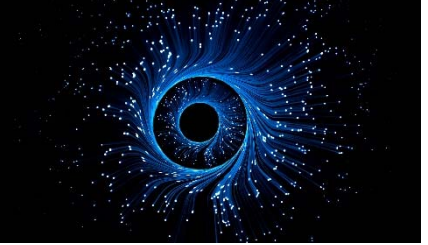
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Green and sustainable finance

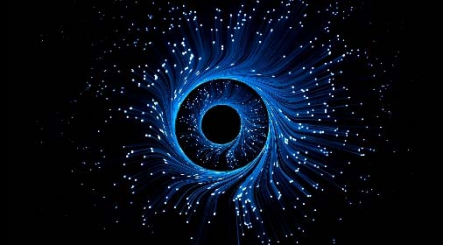
Advantages and disadvantages - Borrowers



	Green loans	Sustainability-linked loans
+	<ul style="list-style-type: none"> • Help demonstrate a commitment to enhancing a company's green credentials. • Better commercial and potentially financial position when expected regulations come into force. 	<ul style="list-style-type: none"> • Can benefit financially, even when it does not have pure green, social or sustainable projects to invest in. • Sends clear signals to the market about its intention to improve its ESG performance. • Pricing discount if green targets are met.
-	<ul style="list-style-type: none"> • Similar all-in pricing to a standard loan. • Not always possible for the purpose to be a Green Project. 	<ul style="list-style-type: none"> • If ESG targets are not met, there could be a margin increase.
	<ul style="list-style-type: none"> • Time commitment and cost increase until standard documents are available. 	

Green and sustainable finance

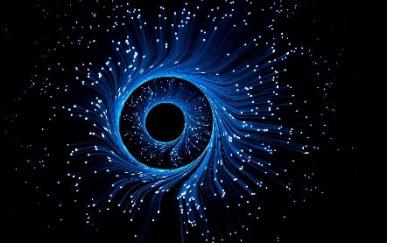
Advantages and disadvantages - Lenders



	Green loans	Sustainability-linked loans
+	<ul style="list-style-type: none">• Help demonstrate that a lender behaves in a socially responsible manner.• Potential reduction of capital requirements.	
-	<ul style="list-style-type: none">• Time commitment and cost increase until standard documents are available.	
	<ul style="list-style-type: none">• If it is later deemed not green, bank loses green rating.	<ul style="list-style-type: none">• Lenders who enforce two-way pricing if their borrowers fail to meet their green targets may be viewed less positively if they are deemed to be profiting from a sustainability failure.

What does this mean in practice?

Green loans and sustainability-linked loans



Loan agreement

Definitions e.g. Margin and Green Tranches

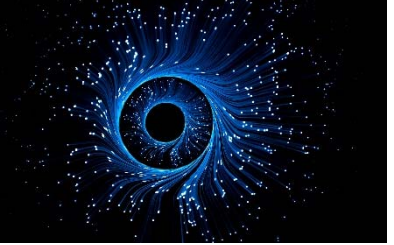
Purpose Clause and Utilisation Clause

Representations, undertakings and events of default

Environment-related CPs

What does this mean in practice?

Green loans and sustainability-linked loans



Loan agreement

Definitions e.g. Margin and Green Tranches

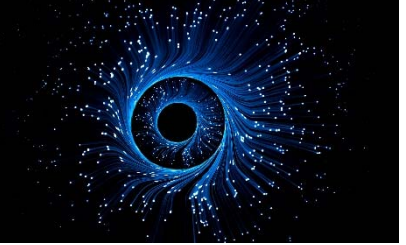
- Margin definition
- Ratchet-up or down depending on goals

The credit margin under the facility will be adjusted based on Maersk's progress to meet its target of reducing CO2 emissions per cargo moved by 60% by 2030, which is significantly more ambitious than the IMO target of 40% by 2030 (all 2008 baseline).

[A.P. Moller - Maersk links new \\$5.0bn revolving credit facility to its CO2 performance](#) (25 February 2020)

What does this mean in practice?

Green loans and sustainability-linked loans



Loan agreement

Purpose Clause and Utilisation Clause

- Purpose clause to be specific to a Green Project

-Outline of Green Loan

Borrower	MOL's wholly owned special purpose company
Lenders	BNPP, CEXIM (Syndicated Loan)
Use of Funds	Finance the construction of 18,600cbm LNG bunkering vessel (Note5)
Organization to evaluate and accredit	Vigeo Eiris

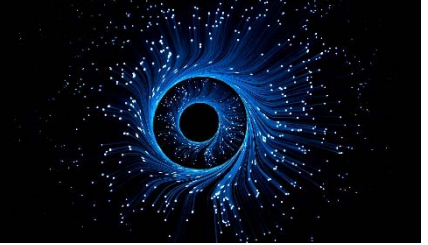
(Note5)

Net proceeds will exclusively finance the construction of a 18,600cbm LNG bunkering vessel, which will be operated in northern Europe to supply LNG as a fuel for LNG-fueled mega Containerships after being delivered from shipyard in early 2020. The vessel will contribute to wider use of LNG as a fuel for merchant vessels and LNG can be used by the vessel as a fuel.

[MOL to raise funds as Green Loan - MOL finances World's Largest LNG bunkering vessel for Total with Green Loan](#) (23 December 2019)

What does this mean in practice?

Green loans and sustainability-linked loans



Loan agreement

Representations, undertakings and events of default

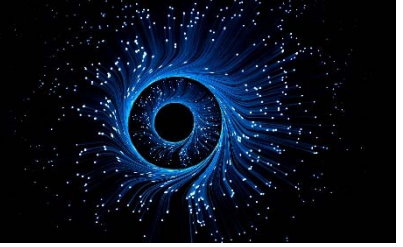
- Maintenance of green-items, e.g., Green Passport, Clean Ship Notation

The new trailing suction hopper dredgers are part of Van Oord's innovative investment programme and fit in with Van Oord's ambition of making its fleet more economical and energy efficient. The vessels will obtain a Green Passport and Clean Ship Notation and by using LNG, van Oord will reduce the emissions of its fleet.

[First Green Loan for Van Oord](#) (29 May 2020)

What does this mean in practice?

Green loans and sustainability-linked loans



Loan agreement

Representations, undertakings and events of default

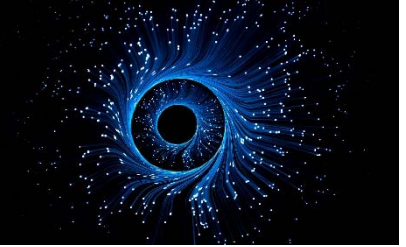
- Reporting covenants

Covenant Clause: The [Owner] shall, upon the request of [any Lender] and at the cost of the [Owner], on or before [31st July] in each calendar year, supply or procure the supply to [the Facility Agent] [such Lender] of all information necessary² in order for [any Lender] to comply with its obligations under the Poseidon Principles in respect of the preceding year, including, without limitation, all ship fuel oil consumption data required to be collected and reported in accordance with Regulation 22A of Annex VI and any Statement of Compliance, in each case relating to the [Vessel] for the preceding calendar year³[provided always that [no Lender] shall publicly disclose such information with the identity of the [Vessel] without the prior written consent of the [Owner]/[.For the avoidance of doubt, such information shall be ["Confidential Information"]["Information"] for the purposes of [Clause [•] (Confidential Information)]] [Section [•] (Treatment of Certain Information; Confidentiality)]] but the [Owner] acknowledges that, in accordance with the Poseidon Principles, such information will form part of the information published regarding the [relevant] [Lender's] portfolio climate alignment.

[Poseidon Principles Standard Covenants Clause](#) (updated January 2020)

What does this mean in practice?

Green loans and sustainability-linked loans



Loan agreement

Environment-related CPs/CSs

- Issuance of second party opinion on alignment with GLP or SLLP with a requisite level of assurance to be reached:

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that the Green Loan Framework of H-Line is aligned with the four core components of the Green Loan Principles 2018.

The Eligible Project to be financed by the Loan (i.e. 2 LNG dual-fuel engines ships) appears to provide a positive contribution to the prevention of air pollution (SO_x, PM, etc.) at the scale of the project. Although Liquid Natural Gas (LNG) fuel does not have the highest reduction potential compared to other alternative fuels and energy, it is one of the best available option for full scale application to avoid or reduce air pollution and GHG emissions in the global shipping industry, especially for long-distance navigation purpose. It is confirmed from Consecutive Voyage Charter contracts that for the Eligible Assets LNG will be used as the main fuel except for occasions such as engine breakdown or delay in LNG supply. H-Line also issued an official statement signed by its Chief Financial Officer in which it commits to use LNG as the main and sole fuel as long as LNG is available during the operation of the two bulk carriers.

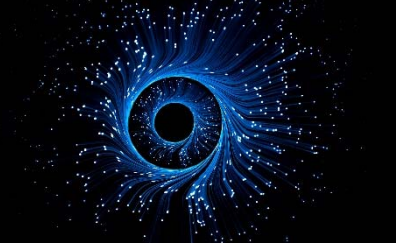
Although LNG is regarded as a transitional fuel by industry experts, the contribution of the Eligible Project to the energy transition and to climate change mitigation is considered limited, given the level of GHG emissions avoidance allowed by the Eligible Project compared with the IMO's 2050 targets on GHG emission reduction for the sector.

We express a moderate assurance⁴ (our medium level of assurance) on the Holding Company's commitments and on the Green Loan' potential contribution to sustainability.

[Vigeo Eiris commissioned to provide an independent Second Party Opinion for the first green loan issued by H-Line Shipping in South Korea](#) (14 January 2020)

Green and sustainable finance

Examples of recent green finance in shipping



Green loans

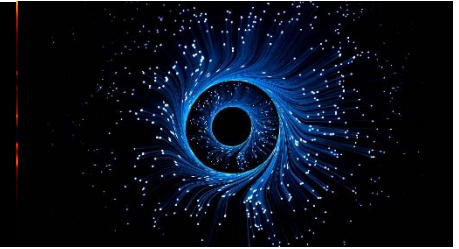
- **May 2020** - Dutch dredging company Van Oord secured a green loan for the construction of 3 LNG-fueled dredges currently under construction at Singaporean yard Keppel
- **February 2019** - EUR€110 million loan from ING and EIB to Spliethoff's Bevrachtingskantoor B.V.
- **December 2018** - US\$72 million loan from KfW-IPEX Bank to Quantum Pacific Shipping
- **October 2018** - first shipping green loan to Star Bulk Carriers Corp

Sustainability-linked loans

- **March 2020** - SCB US\$35 million loan to Oman Shipping Company
- **February 2020** - Maersk US\$5 billion RCF linked to CO2 performance
- **January 2020** - International Seaways US\$390 million facility with a margin ratchet linked to the carbon efficiency of its INSW fleet
- **December 2019** - NYK awarded Japan's first loan related to environmental sustainability, with the loan linked to a score provided by the Carbon Disclosure Project
- **February 2019** - Sustainable RCF to SBM Offshore

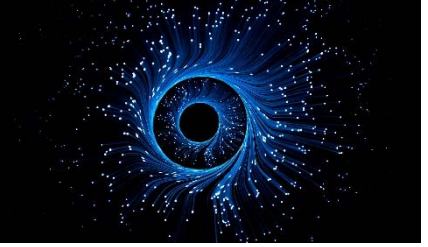
Green and sustainable finance

Examples of recent green finance in shipping



Green and sustainable finance

Future trends and questions

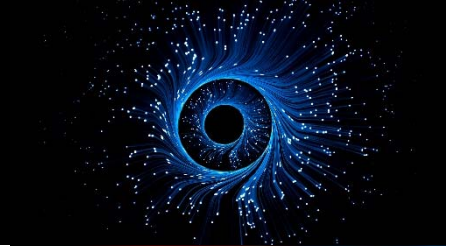


Will there be one or more agreed shades of Green in the future? And if so what will these be?

A market / finance available to / accessible by All?

Zero emissions from 2030?

Any questions?



Contacts



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