KEY TAKEAWAYS

The Poseidon Principles (PP) are a framework for assessing and disclosing the climate alignment of ship finance portfolios. The PP apply to lenders, relevant lessors, and financial guarantors (incl. export credit agencies). Signatories must apply the PPs in all business activities that are:

1. Credit products – including bilateral loans, syndicated loans, club deals, and guarantees – secured by vessel mortgages or finance leases secured by the title over vessel or unmortgaged Export Credit Agency loans tied to a vessel.

2. Where a vessel or vessels fall under the purview of the International Maritime Organization (IMO; e.g., GT 5,000+ ships which have an established PP trajectory whereby the carbon intensity can be measured with input from the IMO's Data Collection System).

A total of 29 banks, jointly representing approximately $185b, have to date committed to the PP (with nine parties joining the initiative in 2021). Out of these, 23 institutions publicly disclose their climate alignment scores against a decarbonisation trajectory in this report (eight more than previously).

Signatories have committed to reporting the climate alignment of their portfolios for each calendar year. Underpinning this portfolio score are individual vessel climate alignment scores for vessels in a bank's portfolio. Climate alignment measures the difference (as a percentage) between a vessel's actual carbon intensity and its ship type/size decarbonisation trajectory value, representing the carbon intensity threshold value for its respective type and size per year.

Revisions to the PP decarbonisation trajectories took into account the revised data from the Fourth IMO GHG Study, among others, significant revisions (up-and-downwards) made to the baseline for some ship types. Overall, changes specific to each ship type/size category are due to assumptions on machinery (aux/boiler) power, specific fuel oil consumption, and some vessels being assigned a different engine type (e.g., slow speed).

Revisions to the global decarbonisation trajectories, used for determining the reduction factor required in each year, took account of baseline revisions and revised transport demand projections. It impacted the steepness of the global cargo decarbonisation trajectory, which can mostly be explained by a lower transport demand projection.

While improvements in the carbon intensity of international shipping have not reduced at the same pace each year, 2020 was an extraordinary year for the maritime sector. Overall, UNCTAD predicts that the coronavirus pandemic caused maritime trade to fall by 4.1% in 2020.

Given that some ship types are thought to have experienced particularly large impacts due to COVID-19, it is expected that banks with high exposure to those ship types will experience a distortion in their overall climate alignment score. Therefore, the results reflect the adverse effects of the pandemic, particularly on some ship types, and should not be read as indicative of a lasting trend change but a short-term disruptive event.

FROM THE POSEIDON PRINCIPLES ANNUAL DISCLOSURE REPORT 2021

While declines in absolute emissions across different sectors provide a respite to an otherwise increasing trend, this represents latent emissions (suppressed by idling and slow steaming). As markets return to pre-pandemic activity levels, emissions will increase rather than decline along the trajectory needed to meet the IMO's Absolute Target (-50% in GHG emissions by 2050 vs 2008) unless further action is taken to transition the fleet to zero-emission vessels.

The results show that 11 portfolios were aligned with the IMO's Initial GHG Strategy (at least a 40% reduction in the carbon intensity of international shipping by 2030 relative to 2008), representing just under half of the results.

This year's climate alignment scores reflect the heterogeneous impacts of both the trajectory revision and COVID-19 induced impacts on shipping both on different ships and ship types. In absolute terms, the results of 2020 show signs they have been impacted by COVID-19. Most Signatories with worse-than-average climate alignment scores cited the cruise and passenger vessel segments as contributing to their misalignment. Many of these services were suspended from carrying passengers for much of 2020 but still consumed energy (hence causing emissions) whilst waiting for the market to return.

Many of these passenger ships are higher value than freight-carrying ships and can be associated with large debt exposure – so even a portfolio with a small number of passenger vessels can be strongly negatively affected overall.

At the end of the second year of the Poseidon Principles, it is clear that Signatories are using their climate alignment scores to have a more fact-based dialogue with their clients and make more informed lending decisions by integrating climate risk into their portfolio risk management. Some Signatories have reported using the information as an opportunity to create innovative financing solutions which help steer their portfolios along the decarbonisation trajectory, either through financing retrofits, modifications or new buildings or through sustainability-linked loans or leases where the interest rate fluctuates according to sustainability criteria such as Annual Efficiency Ratio.

Click the image below to read the whole report, including particular Signatories' scores.