

# Licence to operate

by Przemysław Myszk

A shipping line may be past the whys of going green, entering now the even more critical part of putting its finger on the hows of decarbonising the company's operations. To help chart the environmental-social-governance (ESG) challenges & opportunities, Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping and the Boston Consulting Group (BCG) have developed the **ESG Playbook for Shipping**. We asked the Centre's Anne Katrine Bjerregaard to tell us what's in this toolbox, the different attitudes & approaches towards ESG, and why these issues somewhat force shipping to stick its head out of the industry's silo (and why that's a good thing).



❑ *Could you introduce the Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping: why it has been set up, as well as what are its main goals and the tools it wants to tick them off with?*

The Centre was established in 2020 because there was a need for industry-wide collaboration on decarbonisation. It is just too big of a challenge for anybody to solve alone: the entire value chain has to be engaged. A lot of the work ahead of us can still be regarded as pre-competitive, so something everybody can have interest in working around. Greening the shipping business must be done collectively. The Centre was thus set up to facilitate cooperation between various stakeholders to perform on the decarbonising challenge. Today, the Centre is almost 100-people strong, out of which

over half are seated here in Copenhagen. Additionally, our partnership model dictates that all the Strategic Partners (24, currently) send their people to Denmark's capital for some time so that we can work together on specific issues face-to-face. It is one of the Centre's core strengths: people from all parts of the supply chain contributing their expertise – persons fully committed to the mission and with their sleeves rolled up to get the job done. The people visiting us are also invaluable in that they directly link the Centre with their organisations, connecting the dots further up & down the value chain. Times are such that the green transition can no longer be just a side gig. **It would be excellent for this to be the dominant approach across the board.**

The beginning was challenging, if nothing else. The coronavirus pandemic capsized how we used to work without much warning. We were gearing towards launching the Centre just before COVID hit everything; hence, we had to carry out the development under lockdown. It took courage from companies

to commit to a very much conceptual at that time project. Even though we were a bit nervous about the timing, the Centre took off in June 2020 with seven Founding Partners on board. They were asking many questions on the way, but you could sense they were into the idea, backing it up with high ambitions. From today's perspective, it was a fantastic experience. That said, meeting now in person trumps anything else. Last year, we opened the project to another partner category: Mission Ambassadors for organisations unable to commit people but still wanting to contribute to the effort and support the agenda. The ecosystem grows and is full of energy. The shipping industry is rife with challenges, but there is also a tangible willingness to do the right thing for the environment.

❑ *Why have you, in co-op with BCG, created the ESG Playbook for Shipping?*

We work systematically around the numerous challenges around decarbonisation,

## What is ESG?



Environmental

A company's environmental impact includes sub-topics such as **CO<sub>2</sub>e emissions, pollution, waste, biodiversity, and natural resource management incl. circularity**. A company's performance on the environmental dimension is increasingly being scrutinized by investors, regulators, and customers

Social

**Health and safety of employees, product liability** and the **assumption of responsibility** within a company's environment shape its public image

Governance

**Corporate governance** such as leadership's orientation on **ESG-aligned company policies** and **supply chain management** are steering mechanisms of ESG implementation

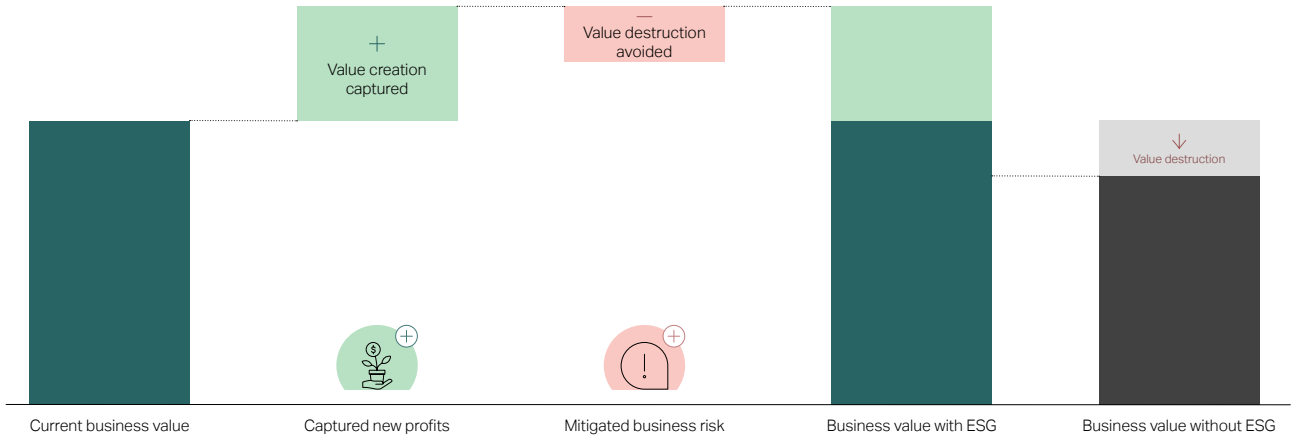
Photo: Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping and Boston Consulting Group's ESG Playbook for Shipping



## Value of ESG

ESG can be deployed to capture new sustainable business value and mitigate current and future business risks

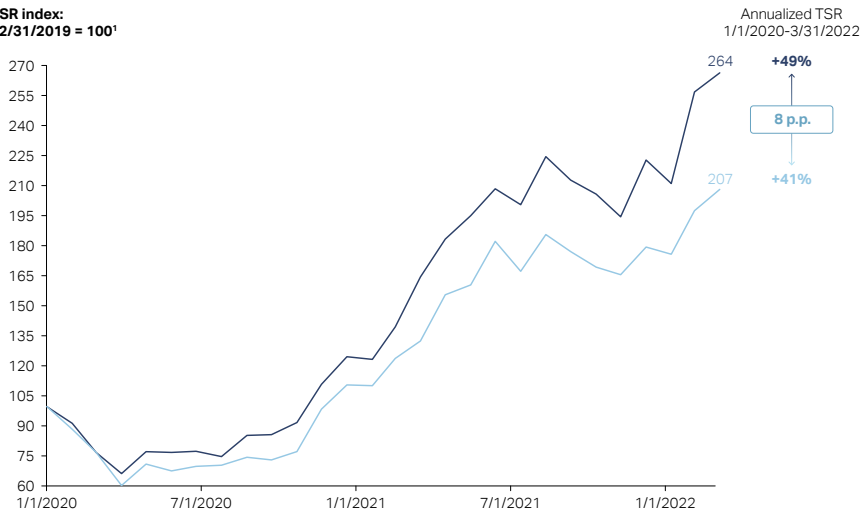
### The ESG imperative



Source: BCG & MIMCZCS analysis

## Shipping companies that choose to lead on ESG capture superior value

TSR index:  
12/31/2019 = 100<sup>1</sup>



Shipping companies with robust ESG strategies deliver better shareholder returns

— ESG<sup>2</sup> score ≥ median  
— ESG<sup>2</sup> score < median

**ESG score:**  
Environmental + Social + Governance commitment and effectiveness

**TSR:**  
Total Shareholder Return (share price return and dividend yield)

Note: 1. Median rebalanced monthly total return of a set of 40 Marine Transport players; 2. ESG score measure a company's relative material Environmental (eg., Toxic Waste & Emissions, Carbon Emissions), Social (eg., Health & Safety) and Governance (eg., Corporate Governance, Corporate Behavior) performance, commitment and effectiveness

including technical projects on alternative fuels and energy efficiency. We, naturally, also scrutinise regulations. We are building up data & knowledge based on our tech focus, which will be then used to drive the regulatory change. Much of our energy goes into creating a techno-economic framework to help us model the implications of introducing new rules or future fuels. This industry-broad, generic work is very much transition-oriented. With the ESG Playbook for Shipping, we want to do something else. The industry in question more or less takes the shape of a bell: green frontrunners sit on the one end, the opposite end is taken by those who, for various reasons, don't want to get involved with

organisations such as our Centre, and the rest are falling in between. The majority takes a defensive stance: let the regulations come, and we'll see how to comply. At the same time, however, there is mounting pressure from customers and societies, not to mention investors, to up shipping's sustainability behaviour. Decarbonisation in general, and that of the supply chain in particular, cannot be ticked off if we leave behind Scope 3 emissions – and shipping makes it into this category more often than not. It will be increasingly difficult for a shipping company to shrug off the requests on their ESG performance. Shipping is as diverse as it gets, and some may not have the capacity to address such

inquiries as adequately as possible, even though they would like to do so. ESG may be something new for them, and they need to wrap their heads around it; equally, earn the badge of skill in handling ESG issues. And it is safe to bet that more regulations on these matters will come – not only from the EU but also from the US or South Korea. The ESG Playbook for Shipping is thus our contribution to helping shipowners, who might feel a bit scared before entering uncharted waters, accommodate that change systematically. Yet, I don't want to create some 'winter (of regulations) is coming' atmosphere. The ESG field also promises many benefits to harvest. For instance, while ESG doesn't directly & instantly



# SUSTAINABILITY

lower one's carbon footprint, gathering data, setting targets and following through on them actually motivates companies to be more ambitious. This will only grow with increased transparency: seeing how your business stacks up against the competition. Ideally, this will better the performance of the entire sector.

Ultimately, ESG performance will become a licence to operate. Risk mitigation and compliance are essential, but these are just parts of future-proofing one's business. The ESG value proposition goes beyond the minimum by grabbing the opportunities that increasingly stem from sustainable operations. The message is that ESG is far more than 'just reporting.'

□ *A shipowner knocks on the Centre's doors and says: I need an ESG strategy. What is the modus operandi of devising one?*

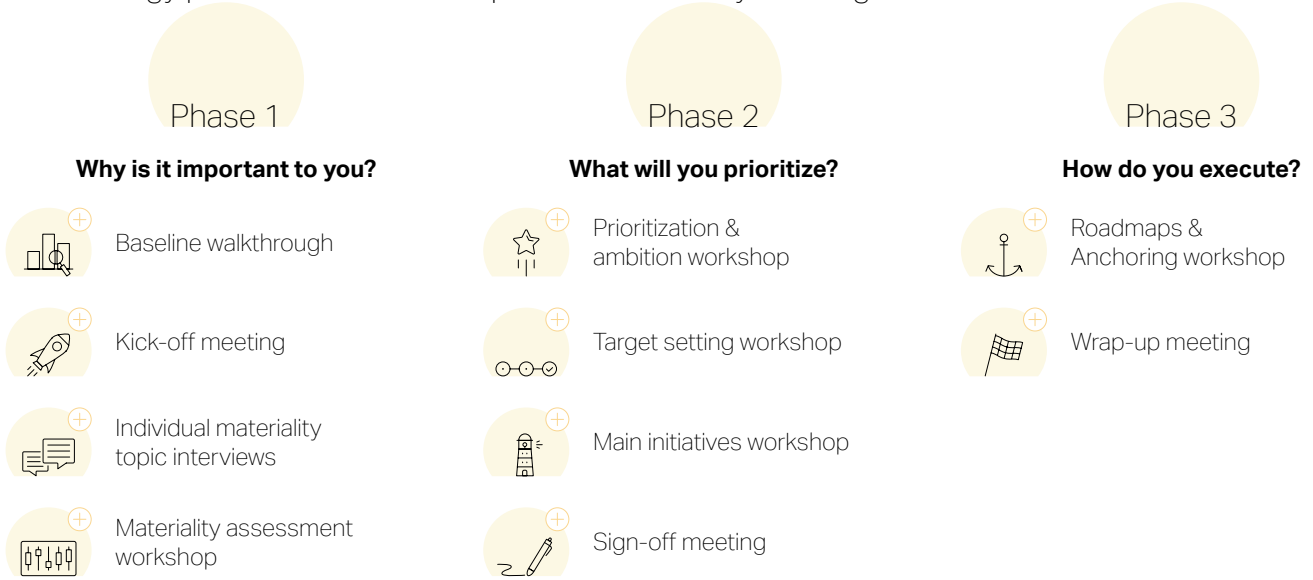
The first step would be to understand where a shipping company is on its journey. We have two products to help with that, starting with the free version of the Playbook – something to get the ESG conversation rolling, understand its particulars in an orderly manner, what to spotlight during discussions within one's organisation, and what stakeholders need to be engaged. In short, it is about pinpointing what and whom we treasure & cherish – which necessitates a company to catapult itself from

the 'shipping silo' by looking at the bigger picture – and what can we do to walk the value talk, say: invest in new green technology, at the same time training people in using it to the fullest. That would be a good point of departure for whom ESG is a new thing.

The other group consists of those who already did their homework and want to progress – doing it efficiently and relatively quickly by hiring consultants. To that end, our BCG partners have developed a commercial service built upon the Playbook. Here, the Centre primarily contributes to the area of decarbonisation. Both approaches rely on the level of ambition an organisation has. Someone will be

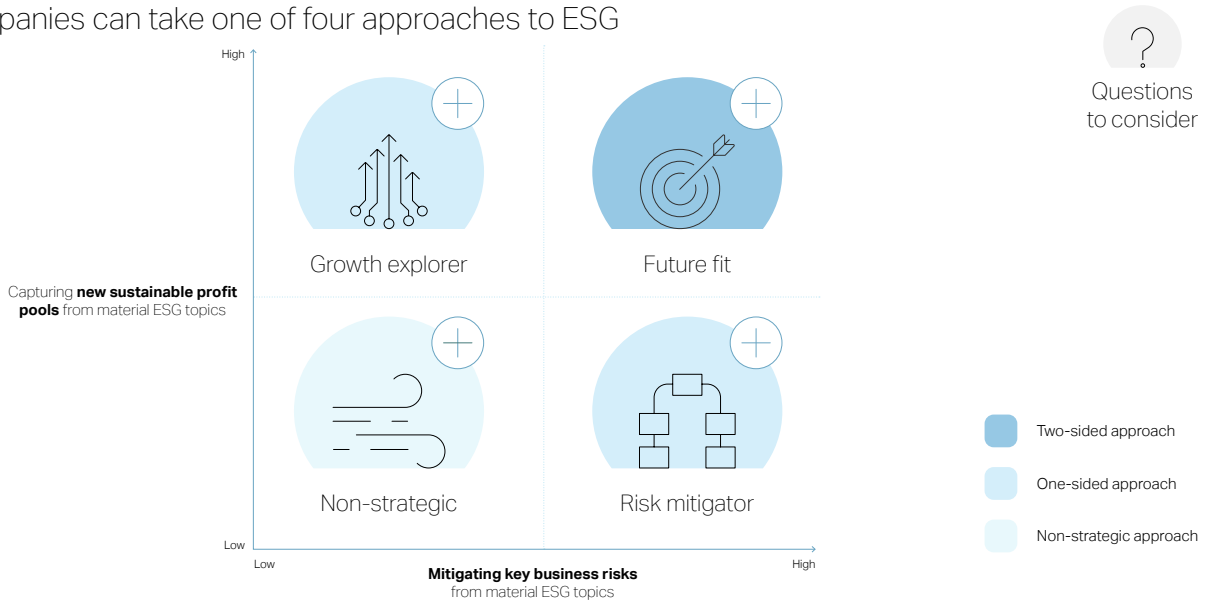
## Phases

The strategy process consists of 3 phases and 10 key meetings



## Strategic approaches

Companies can take one of four approaches to ESG



perfectly fine with an ESG strategy that handles the regulatory affairs: mainly mitigating the risks that otherwise could destroy value. Others, in turn, will focus their ESG actions on exploring growth opportunities, seeing how this tool could help them capture new profit pools. And there are those targeting both sides: organisations that view ESG as a means of becoming fit for the future.

The Centre does not expect everybody to fill in the ranks of the last category, the types of organisations that blaze the trail and for whom the horizon is limitless. We fully acknowledge the capacity differences that exist throughout the shipping business. The desire to excel is laudable, but it's best to shine at what you can effectively polish. ESG requires a solid anchor. After all, it is also about credibility: it won't do you any good if you trumpet your ambitious goals but don't see them through.

Transparency is key, and so is patience. Rome wasn't built in a day, and no one expects an organisation to deliver on its ESG overnight. What we want is progress, for example, disclosed annually. As such, an ESG strategy isn't as much a thing one has, a static folder that gathers shelf dust, but rather a dynamic work in the making. The 'governance' part is critical here – ESG should be embedded into each & every tier of an organisation. It should be part of the CEO and front-line worker's day, so to speak, with a dedicated team somewhere in the middle coordinating the whole undertaking.

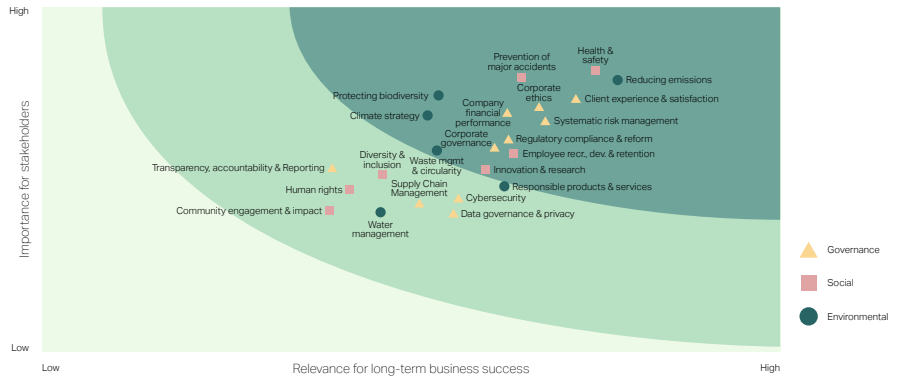
ESG is an extensive exercise. It may look complex, where the entire thing may fall apart because of one misaligned link. Yet, the reality proves much more positive, with companies integrating ESG into their DNAs. It can also stand for something more than 'just' business development, namely enabling green change by other stakeholders. We see it in the will to develop the so-called Green Corridors, end-to-end transport & logistics chains that require diverse organisations to come together and play on the same team. We can notice it happening in the Baltic, where the ferry and ro-ro lines are increasingly cautious about their relations with port communities and the environment, thus, investing in solutions that reduce pollution, not only their carbon footprint. By axing down their CO<sub>2</sub> emissions or noise generated at berth, they also enable their trucking clients and port partners to perform on the 'E' and 'S', respectively, in their ESG strategies.

**□ What puts the brakes on a broader ESG commitment?**

There are still shiploads of work ahead of us. Our analysis shows that too many shipping

**Shipping Industry Matrix**

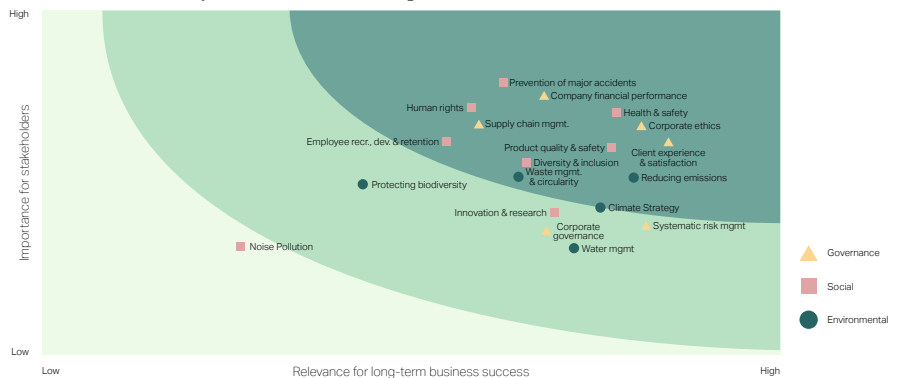
The matrix for the shipping industry shows the importance of Reducing Emissions and Health & Safety



Note: Includes ESG topics mentioned by at least 10 firms by the 47 analyzed companies. Source: BCG's Materiality Mapping Analytics Product (MMAP)

**RORO/Car Carriers**

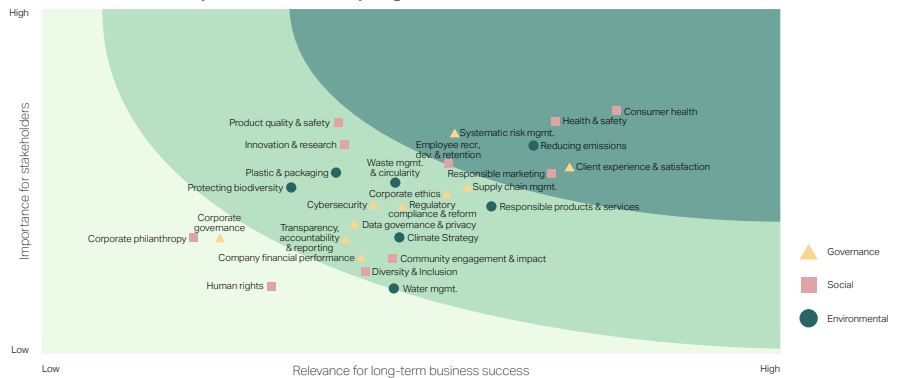
Consolidated materiality matrix for the RORO segment



Note: Sample size 4 RORO companies. Source: BCG's Materiality Mapping Analytics Product (MMAP)

**Ferry**

Consolidated materiality matrix for the ferry segment



Note: Sample size 7 ferry companies. Source: BCG's Materiality Mapping Analytics Product (MMAP)

companies aren't reporting their ESG performance – if they have such a strategy at all. Outside media coverage full of news bits on green investments, the glamourless reality is that not enough is happening industry-wide – and we need to talk about that. Therefore, regulations are critical in moving the green needle. We, on our part, channel our message to that middle section of the bell curve, trying to drive home that there is value

in acting before regulators nudge us or in going beyond the current regulatory minimum. My wish and something I keep my fingers crossed for – not to mention working on it at the Centre, day in-day out, would be for anybody in a position to act to realise how severe the climate change situation is, hence begin doing what's in their power. ESG is a more than workable tool for focusing that 'yes we can (and should, and will)' energy. □