Is dry bulk at risk from environmentally driven banks?

By Ted Petropoulos
Head
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There is little doubt that environmental awareness is rising in all banks and especially in the West. There are currently 15 international banks that have joined the Poseidon principles which influence their lending and reward environmentally clean supply projects and low emissions vessels. Already over 15 banks have publicly stated that their lending policies exclude financing for new coalmines and plants, as their byproduct - coal – is environmentally hazardous. A large number of banks including major Far East banks and leasing companies are monitoring the above evolution and have stated that they are considering joining such policies.

The purpose of this paper is to analyse the recent survey carried out by Petrofin Research ©, in conjunction with Lorentzen & Stemoco, that examines the potential impact of the elimination by banks of financing new coal mines and plants and its effects on the financing of coal transportation by dry bulk vessels. The survey was conducted in February 2020 and was based on responses by 26 banks.

Survey Rationale

In view of the current environmental concerns regarding coal, we posed three questions to two groups of banks:

Group A. Banks that have committed to exit new coal finance, and

Group B. Banks that have not yet declared officially their policy on new coal finance.

The questions were posed from the perspective of COAL TRANSPORTATION, i.e. the coal trade of DRY BULK vessels.

The results are as follows:

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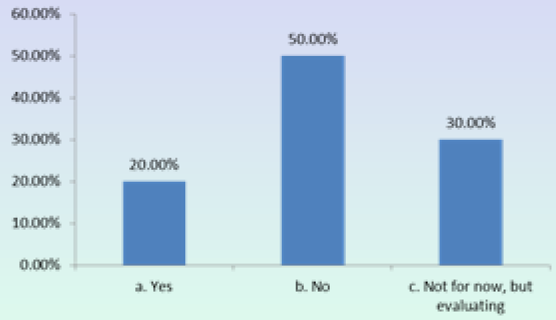
GROUP A:

Group A. Banks that have committed to exiting new coal financing

1. Given your announcement of exiting direct lending to new coal mines and plants, are you also planning to either restrict dry bulk ship lending or introduce relevant restricting clauses for coal transportation to the loan agreements?

	Bankers' responses
a) Yes	20%
b) No	**50%**
c) Not for now, but evaluating	30%

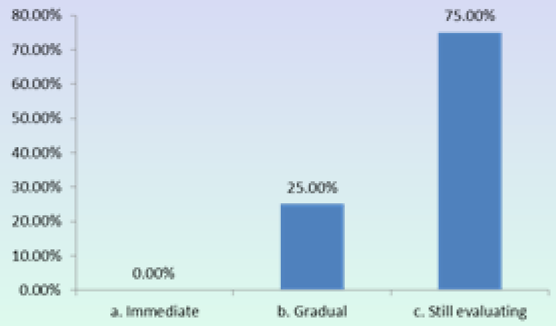


Group A. Banks that have committed to exiting new coal financing

2. If you are considering limitations to dry bulk shipping transporting coal cargoes, would the process / implementation be:

A small number of banks responded as N/A and were, therefore, not included in the calculation of this question's response percentages

	Bankers' responses
a) Immediate	0%
b) Gradual	25%
c) Still evaluating	**75%**



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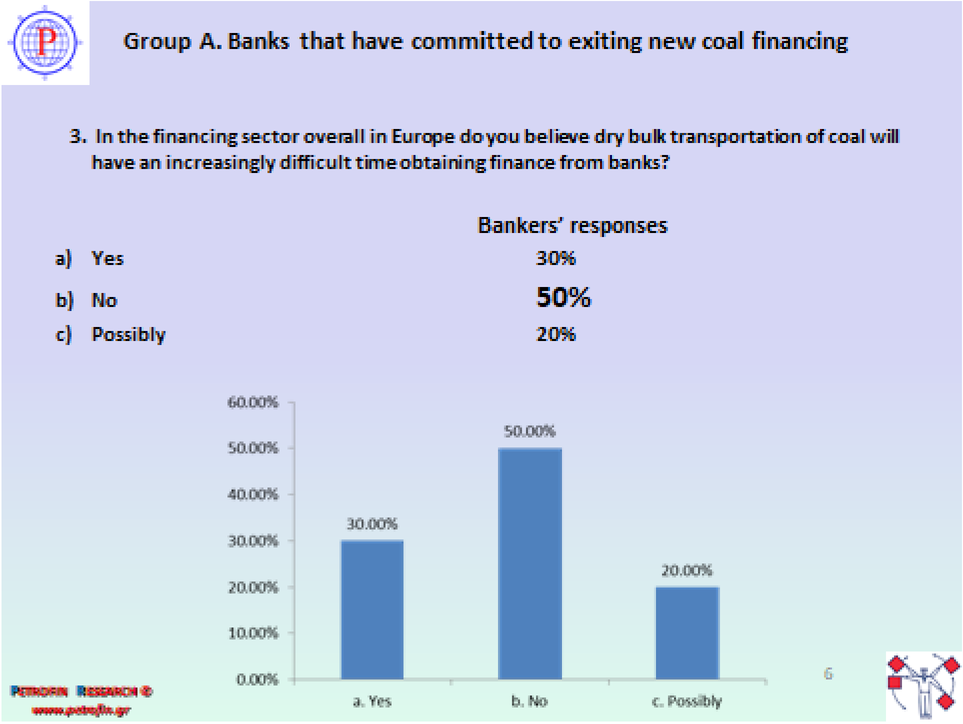

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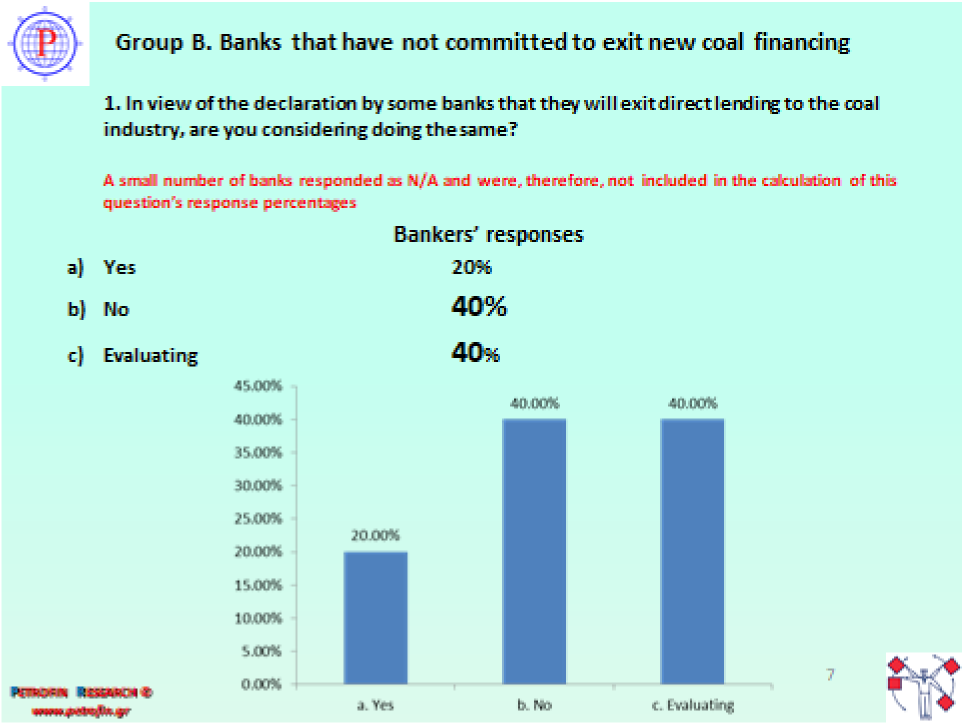
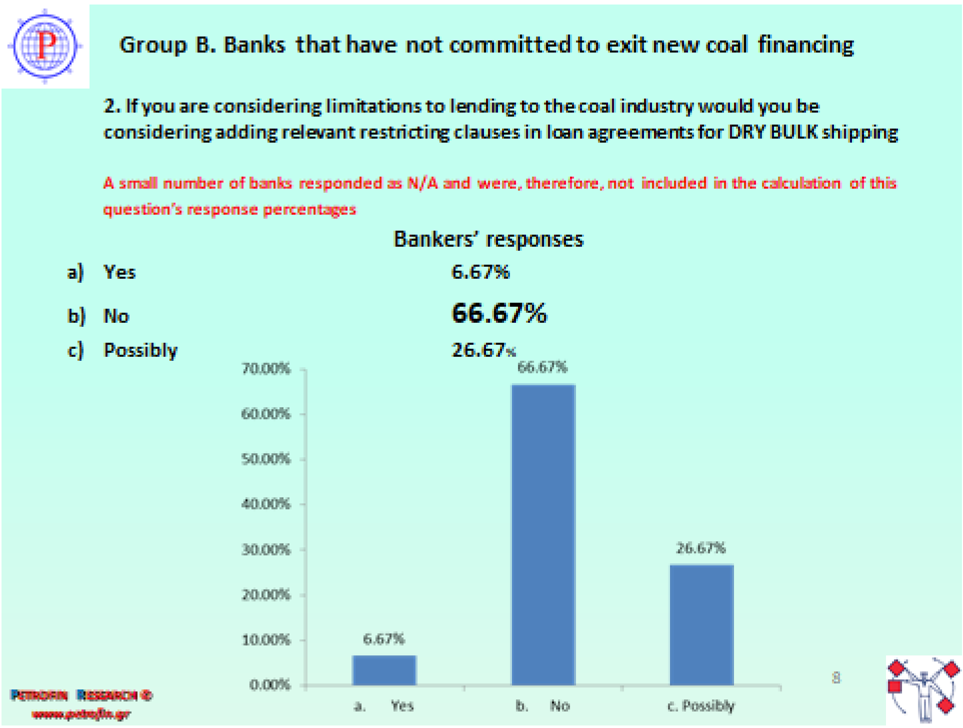
GROUP B:





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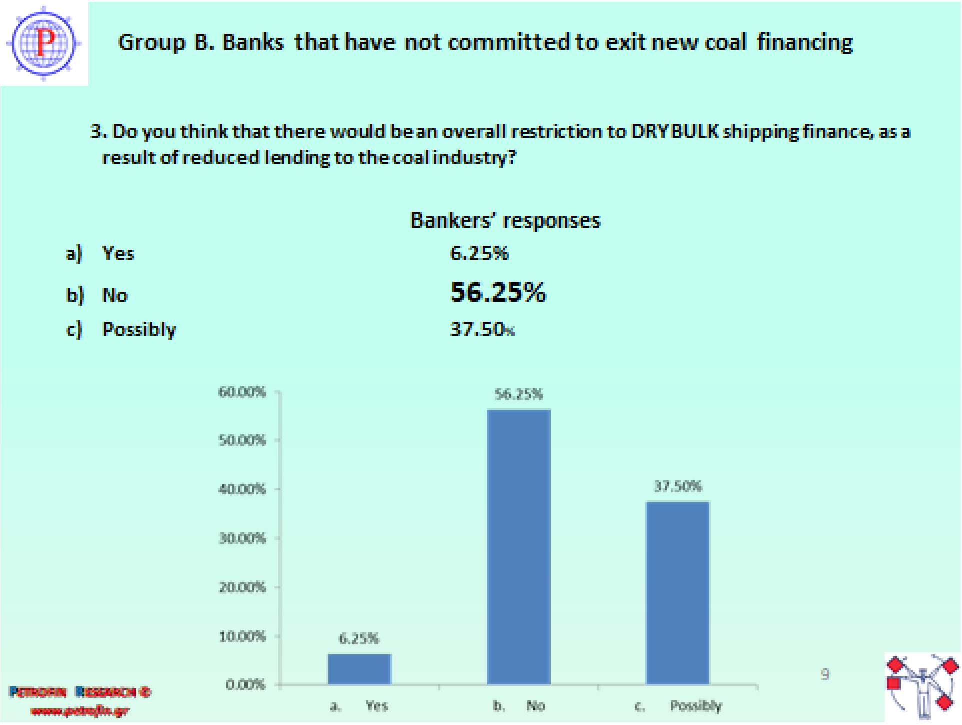

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Main conclusions and observations

The survey provides evidence that the issues of financing the coal industry and the associated policy towards coal transportation in dry bulk vessels is receiving banks' attention. However, the majority of banks are not expanding restrictions to dry bulk transportation or finance at this time.

The first group of banks vary more in their response as to whether dry bulk transportation of coal shall affect owners obtaining finance from banks with 30% believing that it will, but 50% responding no and 20% being uncertain.

The second group of banks are considering or evaluating not financing coal by 60%. However, 66.67% are not considering restrictive clauses in dry bulk shipping and only 6.67% believe that such clauses shall be added in lending restrictions.

Similarly only 6.25% in Group B believe that there will be restrictions in dry bulk shipping finance whereas 30% believe so in Group A

Overall, our research indicates that restrictions to coal transportation and dry bulk ship finance, although not imminent, is becoming a relevant topic for several banks. At a time when there is restricted lending to shipping by European lenders, the coal issue may in time be a factor for ship owners.

Clearly the dry bulk sector remains vulnerable in the future from restrictions by banks as global environmental concerns rise and these are increasingly shared by the banking industry.

It will be interesting to conduct this survey in the future to monitor the change of attitude of banks to this issue.