

## Shipfinance in the era of green shipping

by Ted Petropoulos

for SHIPPING International Monthly Review

May 2024

As 2030 is approaching the need to address the decarbonisation of shipping and its alignment with the Paris Agreement goals becomes more urgent.

### Where does the Greek fleet stand now

The biggest issue facing shipping, and of course, Greek shipping, at the moment is the transition towards decarbonisation. This affects all activities across the board, S&P, chartering and definitely finance. Alternative fuel orders in the global fleet have, undoubtedly, dominated the news and the alternative fuel orderbook in 2024Q1 has reached 49.5% of the total orderbook, but it should be noted that the rise since last year is only 1.7% (Table below).

*In million GT*

	Total Orderbook	Alt. Fuel Orderbook	Alt. fuel % of orderbook	Demolition
2023Q1	188.3	90	47.8%	1.8
2024Q1	222.4	110.2	49.5%	1.8
y-o-y growth	18%	22%	1.7%	0%

Source: Clarkson's

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Furthermore, regarding the Greek fleet, according to Clarkson's, Greek orders in 2024Q1 have showed a y-o-y reduction in contracting of 3.5%. Other major regions, such as China and Japan, showed much bigger decreases. On the other hand, regions, such as the Middle East (Qatar), Norway, US and Singapore, have shown a significant rise in new orders.

In addition, Greek alternative fuel orders consist of 4 methanol, 33 LPG, 80 LNG dual fueled vessels and from the rest of Greek orders approximately 37% are scrubber fitted vessels. It is evident, therefore, that the process of decarbonisation concerning the Greek fleet seems to have slowed down for now. This is due in part to the dearth of alternative fuel shipbuilding slots on account of numerous newbuilding orders using conventional technology. Also, the good shipping markets are delaying the recycling of older vessels, which has remained unchanged in 2024Q1, and for most public companies, investor appetite is for maintaining dividend flow. This emphasis on dividends dissuades companies from ordering new greener technology vessels which require a longer investment amortisation period. Should the European carbon penalties be extended to other regions and in the event that new green technology might develop (e.g. ammonia run main engines), it is possible that the decarbonisation process might pick up pace once again as 2030 is approaching.

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There are three additional factors influencing new alternative fuel orders. The first is the higher costs involved whose amortisation needs to be seen in practice. The second is the absence of a technological engineering breakthrough replacing conventional technology and aiming for emission free designs. The third is an inherent belief by many owners that the 2030 targets will be pushed back as technology is lagging behind the regulations. Hence, Greek shipowners show a cautious approach towards the move of decarbonisation.

### Decarbonisation in ship finance

It is evident that banks, leasing companies and funds have significant influence on the decarbonisation agenda. Together with their fiduciary duty to manage their risks and returns, they also have a social responsibility to contribute to the global climate goals. We have seen a concerted effort by banks to adopt more sustainable practices and in order to encourage and attract shipowners, they use different mechanisms and incentives, such as offering lower loan margins, providing higher LTV finance, increasing the loan amortisation periods, environmental criteria, or joining industry initiatives etc.

Such an industry initiative is “*The Poseidon Principles*”, which provide a global framework that assesses how ship financing aligns with the global climate goals. The principles are based on four core commitments: assessment, accountability, enforcement and transparency. Thus, the banks that take part in this are required to measure and disclose the carbon intensity of their shipping portfolios as well as to work towards reducing it over time. There are currently 35 signatories jointly representing approximately 80% of global shipping finance and more and more banks are working towards joining this global framework (*PoseidonPrinciples.org*). Interestingly, we have not seen any Greek banks and any alternative finance lenders joining the Poseidon Principles yet.

In addition, banks use a Sustainability Margin Adjustment Mechanism which is a tool that links the interest rate of a loan to the environmental performance of the borrower (*Loan Market Association – lma.eu.com*). The mechanism allows for a margin adjustment (either positive or negative) based on predefined environmental indicators or targets, such as GHGs, energy efficiency, or alternative fuels. This creates an incentive for borrowers to improve their environmental performance and rewards them with lower financing costs. We have already seen some of the major Greek banks, Eurobank, Piraeus and the National Bank of Greece already implementing the above tools by meeting KPI criteria. Other Greek banks are in the process of doing so.

Furthermore, flexible finance terms are also adopted by banks and provide some flexibility to borrowers on how they use the funds, as long as they are used for sustainability purposes. The goal of this mechanism allows borrowers to access funds for general corporate purposes but also to allocate funds for specific green or social projects, as well as the main goal which is investing in new or retrofitted vessels that are more environmentally friendly. These enable borrowers to switch between different uses of funds depending on their needs and opportunities.

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### Conclusions

Greek banks, according to the latest Petrofin Bank Research, have the fastest growing portfolio financing the Greek fleet. This, obviously, comes with the opportunity to commit themselves to green financing in the Greek ship finance market. Greek bank finance is entering into a new phase, where bank demand for loans and competition will become fiercer, especially for top tier clients but where overall volumes may not permit significant growth.

The challenges and barriers posed for the shipping industry are many, such as the high cost and uncertainty of new technologies and fuels. Moreover, the situation is also burdened by the lack of clear policies as well as the difficulty of measuring and reporting the environmental performance. The shipping industry is characterised by sheer complexity and diversity, which renders it quite difficult to standardise.

The opportunities and benefits that are offered by decarbonisation for the banking and shipping industries are gaining ground as there are prospects for increased profitability and reduction in operational costs in the future. As speculating about the future can be precarious, it should be noted that stakeholders are forming alliances and are cooperating towards resolving and overcoming the main issues and problems. Combining their respective know-hows all parties are hoping for a smoother transition towards decarbonisation. Good examples are IMO's focus on building a framework for the key elements of the 2030 target and the Methane Abatement in Maritime Innovation Initiative, where industry players bring together their expertise to help abate methane emissions. Therefore, a mutually reinforcing cycle of encouraging stakeholders is evident.

It is important to note that the financiers of this transition process are already playing a major role by taking the initiative of allocating more and more of their shipping portfolios towards cleaner vessels. However, this would require billions in new investments. To justify such sums green vessels will need to enjoy higher revenues. Hence, owners, banks and charterers will need to contribute towards such transition.