

POSEIDON PRINCIPLE

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The introduction of Poseidon Principle in financing ship owning is a good step, especially as it addresses the environment degradation issue caused by shipping through its exhaust fumes. But let it not be forgotten, cheap fuel -the dregs of refining- is what has been propelling seaborne trade that has enabled globalisation in many respects. What the refineries will do with such heavy furnace oils is an apt question, to avoid it running power stations belching smoke closer inland. By cleansing shipping, the industry can breathe easy as they switch to cleaner leaner fuels, once they are made available enroute; but current indications are that the deadline may not be possible to be met.

From commercial economics point of India, ship finance that has been hauled over coal since the last boom and crash, perhaps can play a more pivotal role in tightening credit to avoid supply side over exuberance. It is easier said than done, as fluid liquidity at nominal rates is chasing seekers than the reverse. Added to that veils of ship-owning, flagging, registration etc make its easy victim for perfect storm. In fact shipping finance lenders have had to per force -without choice- turn out to be owners converting debt to equity, bidding time for an uptick. Some punters too as Hedge and PE funds!

In such context, Poseidon Principle is all the more laudable. It establishes a framework for assessing and disclosing climate alignment of ship finance portfolios. They set a benchmark for what it means to be a responsible bank in the maritime sector and provide actionable guidance on how to achieve the same. It provides a framework for integrating climate considerations into lending decisions to promote international shipping's decarbonisation. They are a global framework for assessing and disclosing the climate alignment of financial institutions' shipping portfolios. They establish common, global baseline to quantitatively assess and disclose whether financial institutions' lending portfolios are in line with adopted climate goals. Thus they serve as an important tool to support responsible decision-making.

They apply to lenders, relevant lessors and financial guarantors including export credit agencies. They are to be applied by all signatories in all business activities that are credit secured by vessel mortgages or finance leases secured by title over vessel, and where a vessel or vessels fall under the purview of the IMO. They are consistent with policies and ambitions of IMO -UN agency responsible

for regulating shipping globally, including its ambition for GHG emissions to peak as soon as possible and to reduce total annual GHG emissions by at least 50% by 2050 from the 2008 data.

Currently 11 financial institutions are signatories to the Poseidon Principles, representing a bank loan portfolio to global shipping of approximately \$100 billion -around 20% of the global ship finance portfolio. More banks are expected to join soon. Signatories are committed to implement Poseidon Principles in their internal policies, procedures and standards, and to work in partnership with their clients and partners on an ongoing basis to implement the Poseidon Principles. They are intended to evolve over time to include other issues where the collective influence of financial institutions can help improve the contribution the industry and its lenders can make to society.

As a result, they will enable financial institutions to align ship finance portfolios with responsible environmental behaviour and incentivise international shipping's decarbonisation -to shape a better future for the shipping industry and society. The Poseidon Principles are applicable to lenders, lessors, and financial guarantors globally. They are intended to evolve over time to address other adverse impacts.

Signatories will measure the carbon intensity of their shipping portfolios on an annual basis and assess their climate alignment relative to established decarbonisation trajectories. This assessment is based on a robust industry-appropriate methodology. Signatories recognize the important role that classification societies and other recognized organizations play in providing unbiased information. They support and rely on the mandatory regulation established by the IMO for collecting data on fuel consumption from ships.

Signatories commit to making compliance with the Poseidon Principles contractual in their new business activities. They will use standardized covenant clauses and work together with their clients and partners to meet this requirement. Signatories are required to report their portfolio alignment score on an annual basis. All Signatories' scores will be published annually by the Secretariat of the Poseidon Principles.

Eleven leading banks, jointly representing approximately USD 100 billion in loans, have come together to establish the Poseidon Principles. Citi, Societe Generale, DNB and other leading international banks promote greener global shipping through new principles.

As usual, success of such efforts will depend on monitoring and enforcing. With IMO meaning Flag State (as IMO has no enforcement mechanism) and Port State, as also Class involved as Recognised Organisation (RO), it becomes another check list item for inspections and vetting, with ship managers taking on onus of compliance at the operational level; master and chief engineer carrying the can!

It may not be as silly or difficult as it sounds, if bunkering and quality/testing records are tracked. An additional Class notation seems to be called for, just not for compliance but for rebates on port charges on offer in some ports/regions -as in EU- for being a committed environment conscious operator. Won't it be fair to expect and count a small charter hire/freight bonus for such conviction, commitment and compliance? As usual, time will tell.