

# Poseidon Principles use finance to take on global emissions

The global shipping industry is a major producer of greenhouse gases. Now a new initiative is asking shippers to confront the issue head on.

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[The Poseidon Principles](#), which came into effect in June 2019, are the first global climate alignment agreement between financial institutions and the shipping industry. By connecting financing to emissions standards, their aim is to cut greenhouse gas (GHG) emissions in shipping by at least 50% by 2050 compared with 2008 levels.

“The international shipping industry produces 2-3% of global [greenhouse gas] emissions,” says **James Mitchell**, manager of the global climate finance program at the Rocky Mountain Institute. To put that into perspective, that’s about the same percentage of GHG produced annually by Germany. And as the number of ships on the seas increases, the rate of emissions is only going to rise.

“Emissions are expected to grow under ‘business as usual’ assumptions,” Mitchell says. “There’s a projection that shipping emissions, by 2050, will increase 50-250%. So, no one disagrees that we should be decarbonising.”

## **Banks as ‘part of the solution’**

According to **Paul Taylor**, global head of shipping and offshore at Société Générale Corporate and Investment Bank, banks have invested over USD 400 billion in over 70,000 commercial ships that are currently on the oceans.

“As a provider of capital, it is normal that banks understand the impact underlying collateral vessels have on the environment,” says Taylor. “It’s best to be part of the solution and embrace the unprecedented change that is currently taking place in the shipping sector as part of the energy transition. It is far better to help drive change than be a passenger whilst someone else drives at their own designated speed to an unknown destination.”

Taylor is the vice chairman of the Poseidon Principles and currently plays an important role lobbying for them; the Rocky Mountain Institute was part of the core drafting group that wrote

the Principles along with University College London, the Global Maritime Forum, three banks, shipowners and a classification society.

The goal of the Poseidon Principles is to enable lenders and banks to continue to approach shipping competitively, while working collaboratively to promote responsible environmental behaviour. Banks, for their part, are working together to analyse potential future business models through the lens of climate risks to lending portfolios.

“As the first bank-led, sector-specific climate alignment initiative, the Poseidon Principles will help establish the huge role banks can play in helping a given sector meet climate alignment targets, consistent with wider bank commitments such as the Paris Agreement, and the Katowice Agreement,” Taylor says.

At the June meeting in Helsinki of [SEA20](#), a Wärtsilä enabled initiative led by Smart and Ecologically Ambitious maritime cities to promote maritime sustainability, **Jules Kortenhorst**, chief executive of the Rocky Mountain Institute said that maritime finance portfolios need to plan ahead to meet environmentally responsible regulations.

“You will no longer be able to get the financing to put new assets on the water that are not compliant with the Paris Agreement,” Kortenhorst said.

**John Hatley**, Americas Vice President of Wärtsilä Marine solutions and Director of Market Shaping, says that the Principles are a shift in the approach to promoting sustainability.

“The Poseidon Principles represent a major global step change towards moving the entire marine community environmental stewardship as it’s ‘money that fuels deals’ across commercial investments,” Hatley says.

## **Asia needs to sign on**

Currently there are 11 Poseidon Principles signatories from American and European financial institutions. However, Chinese banks control about 25% of all ship finance, according to the Wall Street Journal.

“We expect Asian banks, including Chinese lenders, to be in the next wave of signatories to reflect Asia’s preeminent position in shipping,” Taylor says. “I am confident that Chinese lenders and export credit agencies will support the Poseidon Principles in the coming months, as will financiers from Japan, Korea and Singapore.”

James Mitchell agrees that Asian lenders have to sign on for the initiative to work.

“This agreement is not static; it’s going to continue to grow,” Mitchell says. “Fundamentally, for this agreement to work it needs to be global, and it’s not going to be global without the Chinese financial institutions on board.”

## **Making more money available**

Both Mitchell and Taylor say that the shipping industry has to learn to plan 5, 10 or even 15 years in advance. This can be difficult considering that many shipping contracts only last six months to a year.

“It falls to the lenders to work with and partner with their clients to figure out ‘How are you going to put in place a plan to meet that objective,’” says Mitchell. “It’s no longer an option to not have a plan. The entire world is going in this direction. There are serious financial risks for not going in this direction. So, let’s work together and figure out how we can actually achieve this aim.”

Taylor says that making more money available is one way to move forward. “The Poseidon Principles should ensure that there is greater liquidity available for new investments, including new fuels and technologies, Taylor says. “This will require banks to take more risk in the short term, alongside shipowners. In time, as newer technologies prove themselves as the new standard technology, shipowners and banks will naturally de-risk, whilst aligning themselves with IMO targets.”

The Poseidon Principles have the potential to impact the global shipping sector for decades and significantly lower GHG emissions by involving all parts of the shipping industry, not just the ships themselves, according to John Hatley.

“[The Poseidon Principles] will impact all supporting ecosystem elements including stakeholders and actions; vessel owners, ports, energy supply, capital equipment, ship designs, shipyards and cargo logistics; as well as regulatory institutions,” Hatley says.

And while the Principles aren’t a panacea, they represent a significant step forward – and not just for shipping.

“This agreement will not decarbonise the shipping sector alone. We need stronger policy to achieve that, but it will play a tremendous role in forcing companies to think longer term and make robust plans,” says Mitchell. “This is the cutting-edge agreement in the field of climate change. This agreement is by industry, for industry, and we think it’s a model that should be replicated [in other sectors of business].”