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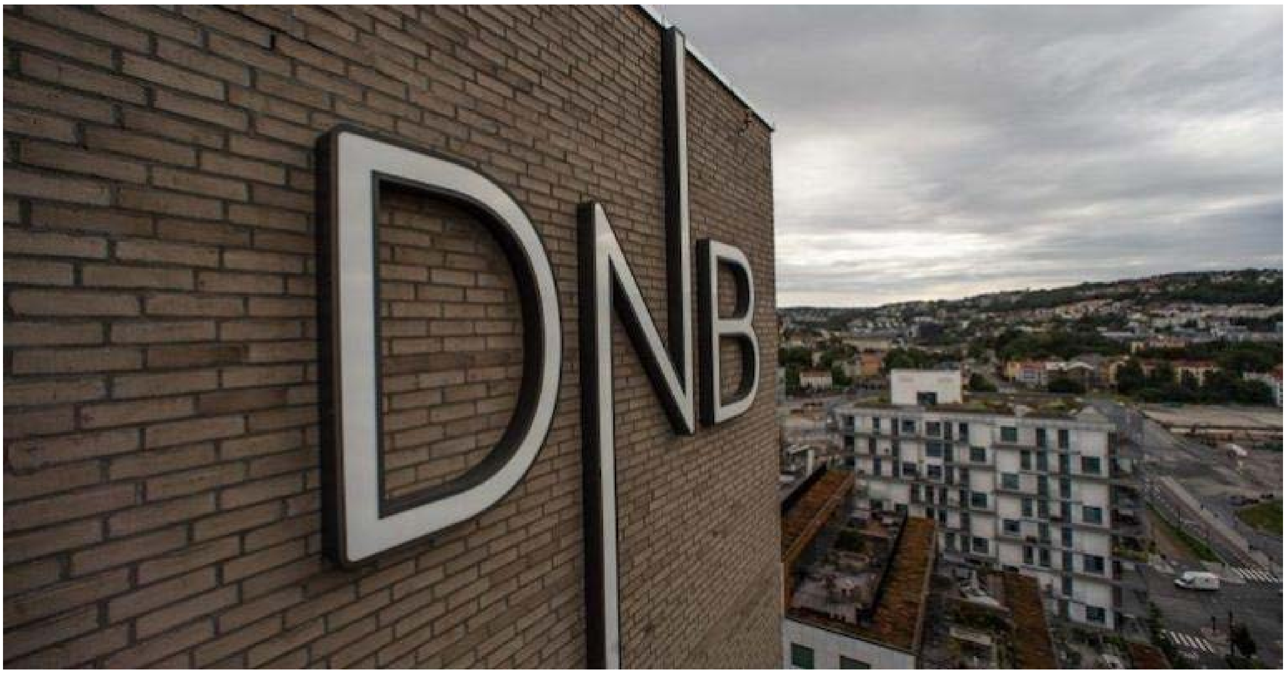
Banks gear up for new financing era as carbon takes centre stage



A major shift in long-established ship financing criteria is likely to transform fundamental aspects of ship lending as carbon emissions and vessel ratings take centre stage.

Paul Bartlett | Nov 28, 2022

DNB's Leif Håkonsen, Head of Strategic Business Advisory, Ocean Industries spoke to *Seatrade Maritime News* about some of the likely changes.

DNB, one of the four banks that engaged in the drafting of the Poseidon Principles, has adopted a proactive approach to new financing structures that are being developed to fund shipping's transition to cleaner fuels. The bank is involved in five pilot projects within the Norwegian Green Shipping Programme and is a member of both the Getting to Zero Coalition and the UN Global Compact.

At an operational level, Håkonsen told Seatrade Maritime News that new lending criteria have been put in place, with priority given to clients who take an active and positive approach to the energy transition. And the imminent introduction of the IMO's carbon intensity indicator (CII) is likely to focus more attention on poor performers.

"We have a client-centric approach – *who* we finance comes before *what* we finance," he said. "All considerations on cash flows and asset values happen in a client and fleet context, not just ship by ship. And we now spend more time on technology, operational measures, future fuels, and transition risk when assessing clients. Understanding of fleet profile and age, and the timeline for technological developments as well as fuel availability, are all key in this process."

Other possible changes to funding structures could include a requirement for longer employment cover with sound charterers; shorter financing terms; and a significantly more cautious approach to 'balloons', or the residual values of assets at the end of the financing term.

The bank has adopted ambitious targets for greening its own shipping loan book, aiming for a 33% cut in emissions intensity between 2019 and 2030, slightly more ambitious that the Poseidon Principles trajectories. Active client selection and capital allocation will form a part of this strategy, with 'laggards' not prioritised. "We are there to assist in transition, but it must also be at the core of a client's strategy," Håkonsen said.

Procuring competitive finance is likely to become far more difficult for the hundreds of small shipping companies owning just a handful of vessels trading short-term or spot. Without forward employment cover and/or a strong balance sheet, small owners are likely to find very limited funding options. "Longer contracts, different types of risk-sharing, and sharing of roles and responsibilities will develop," he declared.

Håkonsen believes that one likely development could be greater collaboration between owners and their chartering customers. Both have the energy transition high on the agenda and, for major charterers, the sustainability of their supply chains is high on the priority list. Meanwhile, owners will require long-term commitments from charterers to help in the funding of more expensive assets either geared to, or prepared for, the use of dramatically more expensive fuels in the future.