

# SHIPPING FINANCE – THE EMERGENCE OF POSEIDON PRINCIPLES:

## POINTERS FOR NIGERIAN FINANCIAL INSTITUTIONS

- 1 <https://www.poseidonprinciples.org/about/>
- 2 The IMO is an agency of the United Nations that regulates shipping.
- 3 Signatories as used in this Newsletter includes the founding signatories and other financial institutions that sign on to the Poseidon Principles
- 4 The Poseidon Principles Association is the governing body of the Poseidon Principles whose object is the management, administration and development of the Poseidon Principles. Signatories to the Poseidon Principles automatically become members of the Poseidon Principles Association.

### Proem

On Tuesday, June 18, 2019, eleven (11) major global shipping banks decided to embrace the Poseidon Principles. The Poseidon Principles were developed in an effort spearheaded by global shipping banks – Citi, Société Générale, and DNB – in collaboration with leading industry players – A.P. Møller Maersk, Cargill, Euronav, Gram Car Carriers, Lloyd's Register, and Watson Farley & Williams LLP – with expert support provided by the Global Maritime Forum, Rocky Mountain Institute, and University College London Energy Institute.<sup>1</sup>

The Poseidon Principles provide a framework for integrating climate considerations into lending decisions to promote international shipping's decarbonization. The Poseidon Principles align with the goal of the International Maritime Organisation ("IMO")<sup>2</sup> to reduce greenhouse emissions from shipping by a minimum of fifty per cent (50%) by 2050. The Poseidon Principles also accord with the policies and ambitions of the initial greenhouse gas strategy adopted in April 2018 by member states of the IMO. The founding signatories include the following banks: Citi, DNB, Société Générale, ABN Ambro, Amsterdam Trade Bank, Credit Agricole CIB, Danish Ship Finance, DVB, ING, Danske Bank and Nordea (the "Signatories")<sup>3</sup>.

By signing on to the Poseidon Principles, the Signatories agree to promote a low carbon future for the global shipping industry by integrating climate consideration into bank portfolios and credit decisions.

Signatories commit to implementing the 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.

The intention is that the Poseidon Principles will 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.

It is understood that the Poseidon Principles apply to lenders, relevant lessors and financial guarantors including export credit agencies. According to the Poseidon Principles Association<sup>4</sup>, the Poseidon Principles must 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.

Parallels can be drawn with the initiatives taken by the Loan Market Association ("LMA") (in the case of the Green Loan Principles ("GLP")) and the International Capital Markets Association ("ICMA") (in the case of the Green Bond Principles ("GBP")). As with the other subjects and parties to which the GLP and GBP relate, lenders and other financial institutions who play a role in the shipping industry within and outside Nigeria, and who may eventually sign up as Signatories, will have to incorporate the Poseidon Principles in their internal credit policies, procedures, and standards.



5 <https://www.poseidonprinciples.org/principles/assessment/>

6 That is the Technical Guidance to the Poseidon Principles - [https://www.poseidonprinciples.org/wp-content/uploads/2019/07/Poseidon\\_Principles.pdf](https://www.poseidonprinciples.org/wp-content/uploads/2019/07/Poseidon_Principles.pdf)

7 The IMO DCS (Data Collection System) is intended to be the first step in the process to collect and analyze emission data related to the shipping industry.

This publication therefore seeks to provide some of the highlights of the Poseidon Principles and provides commentary on the Poseidon Principles as they may apply in the Nigerian context. Similarly, parallels are drawn in this publication with the aforementioned GBP and GLP.

### The Poseidon Principles

As earlier stated, the Poseidon Principles provide a framework for integrating climate considerations into lending decisions to promote international shipping decarbonization. Currently, the eleven (11) banks who are the founding signatories represent a bank loan portfolio to global shipping of approximately US\$100 billion – around twenty per cent (20%) of the global ship finance portfolio. More banks are expected to join in the near future. We envisage that Nigerian financial institutions will, at some point, consider becoming signatories to the Poseidon Principles. It is, therefore, timely that this publication seeks to examine the Poseidon Principles with a view to highlighting its core principles for the benefit of these financial institutions and other industry participants.

The cardinal Poseidon Principles are as follows:

#### (a) Assessment of Climate Alignment

This principle states that Signatories will, on an annual basis, measure the carbon intensity and assess climate alignment – carbon intensity relative to established decarbonization trajectories – of their shipping portfolios.

The Poseidon Principles use carbon intensity relative to established decarbonization trajectories to measure climate alignment.

Climate alignment is defined as the degree to which a vessel, product, or portfolio's carbon intensity is in line with a decarbonization trajectory that meets the IMO ambition of reducing total annual greenhouse gas emissions by at least fifty per cent (50%) by 2050 based on 2008 levels.<sup>5</sup> The Poseidon Principles rely specifically on the Annual Efficiency Ratio (AER) as the carbon intensity metric.

To assess climate alignment of a single vessel, the vessel's annual carbon intensity is compared with the decarbonization trajectory for its ship type and size class. The climate alignment of a product and or portfolio is a weighted average of the vessel carbon intensities in each product or portfolio.

#### (b) Accountability

Under this principle, the Signatories agree to only use data types, sources, standards and service providers established by the IMO and as explicitly identified in the Technical Guidance<sup>6</sup>. In practice, this requires sourcing of data and a Statement of Compliance as defined by the IMO Data Collection System<sup>7</sup>.

#### c) Enforcement

The principle on enforcement mandates signatories to commit to making compliance with the Poseidon Principles contractual through the use of standardized covenant (clauses) that further the advancement of the Poseidon Principles.

The Poseidon Principles include a standardized covenant clause covering the more specific information needed, so that shipowners do not have to negotiate similar language with every lender. For this reason, it is recommended that the covenant clause be included in new loan agreements, but it is not compulsory for the Signatories.

#### (d) Transparency

The fourth principle requires Signatories to publicly acknowledge that they are a signatory to the Poseidon Principles and that they will publish the results of the portfolio climate alignment score of their business activities on an annual basis in line with the Technical Guidance. This requirement takes effect for each Signatory in the calendar year after the calendar year in which it became a Signatory.

### Conclusion

There is the growing trend for financial institutions to actively come up with initiatives to promote sustainable development through financing transactions or by providing facilities for activities that promote a safer, cleaner and sustainable environment.

Prior to the advent of the Poseidon Principles, the ICMA issued the GBP which enables capital-raising and investment for new and existing projects with environmental benefits. In Africa, financial institutions in Nigeria were quick to adopt same. For instance, in April 2019, Access Bank PLC announced the issuance of the first certified corporate green bond in Africa, raising N15 billion (US\$41 million). At the launch ceremony held at the FMDQ OTC Exchange, it was disclosed that the five (5) year, 15.50% fixed rate bond was fully subscribed and had been awarded an AA- rating by Agosto & Co., with underlying framework verified by PwC (UK), and certification by the Climate Bonds Initiative.

Similarly, Nigeria continues to attract the attention of the international community as it relates to environmentally friendly and sustainable finance initiatives, especially since December 2017 when she became the first nation in Africa and only the fourth nation globally to issue a Sovereign Green Bond, raising US\$29 million in a Climate Bonds Certified issuance. Just recently, Vetiva Capital Management Limited and Climate Bonds Initiative signed a new partnership agreement, with a view to developing a liquid green and climate bond market in Africa.

Toeing the line of the ICMA, the LMA released the GLP on March 21, 2018. The GLP is in line with and builds on the GBP, with a view to promoting consistency across financial markets. It is, therefore, not surprising to see the Poseidon Principles gain traction and wide acceptance. If the acceptance of the GBP by Nigerian financial institutions is anything to go by, it is very likely that Nigerian financial institutions will consider the best approaches for incorporating and implementing the Poseidon Principles.

There is no doubt that the Poseidon Principles will enjoy wide acceptance and that the number of banks that will become signatories will continue to increase. This is largely attributable to the calibre of banks who are the founding signatories, and the share of the shipping finance market that the founding signatories hold.



At the moment, we do not see any unsurmountable challenges for Nigerian financial institutions in adopting the Poseidon Principles. The role of legal advisers and industry participants in ensuring the successful incorporation and implementation of the Poseidon Principles within the Nigerian shipping and maritime industry cannot be overemphasized.

Following Nigeria's accession to the Paris Convention, a strong emphasis on land and sea greenhouse gas reduction toward zero emissions is emerging as green finance initiatives move further into mainstream finance in Nigeria. Progressive minded banks and other financial institutions will do well to support clients in meeting their reduction emissions targets, while supporting sustainable and environmentally friendly projects or initiatives.

For more information on this Article, please contact



**Adedoyin Afun**  
Partner  
[adedoyin.afun@bloomfield-law.com](mailto:adedoyin.afun@bloomfield-law.com)

or your usual contact at Bloomfield LP.



DISCLAIMER

This is a publication of Bloomfield LP and is for general information only. It should not be construed as legal advice under any circumstance and Bloomfield LP shall bear no liability for any reliance on this publication. For further information about the Firm, its practice areas, publications and details of seminars/events, please visit: [www.bloomfield-law.com](http://www.bloomfield-law.com).

