



# ESG Strategy and Sustainable Procurement in Maritime

20 February 2024





Today ESG is a competitive advantage, tomorrow it will become a 'license to operate'.

ESG factors are not simply nice-to-have additions to a company's strategy; they are fundamental to its long-term viability and resilience

ESG investing is not a sacrifice of returns for values; it's an alignment of values with returns.

# Three Pillars of ESG Strategy



ESG refers to Environmental, Social and Governance factors considered by companies when managing their operations, and investors when making investments, in respect of the risks, impacts and opportunities.

## Environment

- Energy efficiency Water management
- Waste management and ship recycling
- Climate change
- Air pollution
- Ocean health and bio-diversity
- Ship recycling
- Sustainable procurement

## Social

- Safety performance
- Human capital & employee relations
- Human rights & grievances
- Security
- Diversity & inclusion
- Responsible procurement and supply chain (suppliers & contractors)

## Governance

- Systemic Risk Management
- Dialogue, Transparency and Partnerships
- Data protection and cyber security
- Sustainable Digitalization
- Innovation

## ENABLERS

- Environment management system
- Environmental targets
- EEXI & CII measures

- Health & wellness initiatives
- Safety trainings and
- Learning & development Diversity & inclusion
- Corporate social responsibility policies
- Hiring policies

- Board of director's mandate
- Code of business ethics and conduct
- Ethics committee
- Whistleblower policies
- Information security & data privacy policy
- Tax transparency
- Regulatory compliance

# ESG Strategy Formulation

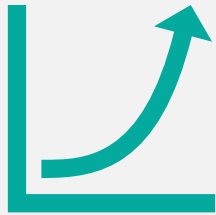


## Process for ESG Strategy Formulation



### Materiality Assessment

- Identify and prioritize material issues



### Baseline Setting

- Establish a thorough baseline covering all material issues



### Set goals and targets

- Set goals that are achievable and measurable



### Develop policies and practices

- Detail out pathways to achieving the goals and targets



### Reporting

- Track and report progress to key stakeholders



### Continuous Improvement

- ESG issues are dynamic and evolving and continuous evaluation is required





# ESG in the maritime sector is gaining traction



3%

Contribution of the Maritime industry to global emissions<sup>1</sup>

41%

Large Shipping companies with ESG reports issued<sup>2</sup>

80%

ESG-related assets under management as compared to total lending to the Shipping sector by 2030<sup>3</sup>

\$281bn

ESG linked finance available for maritime (2021)<sup>4</sup>

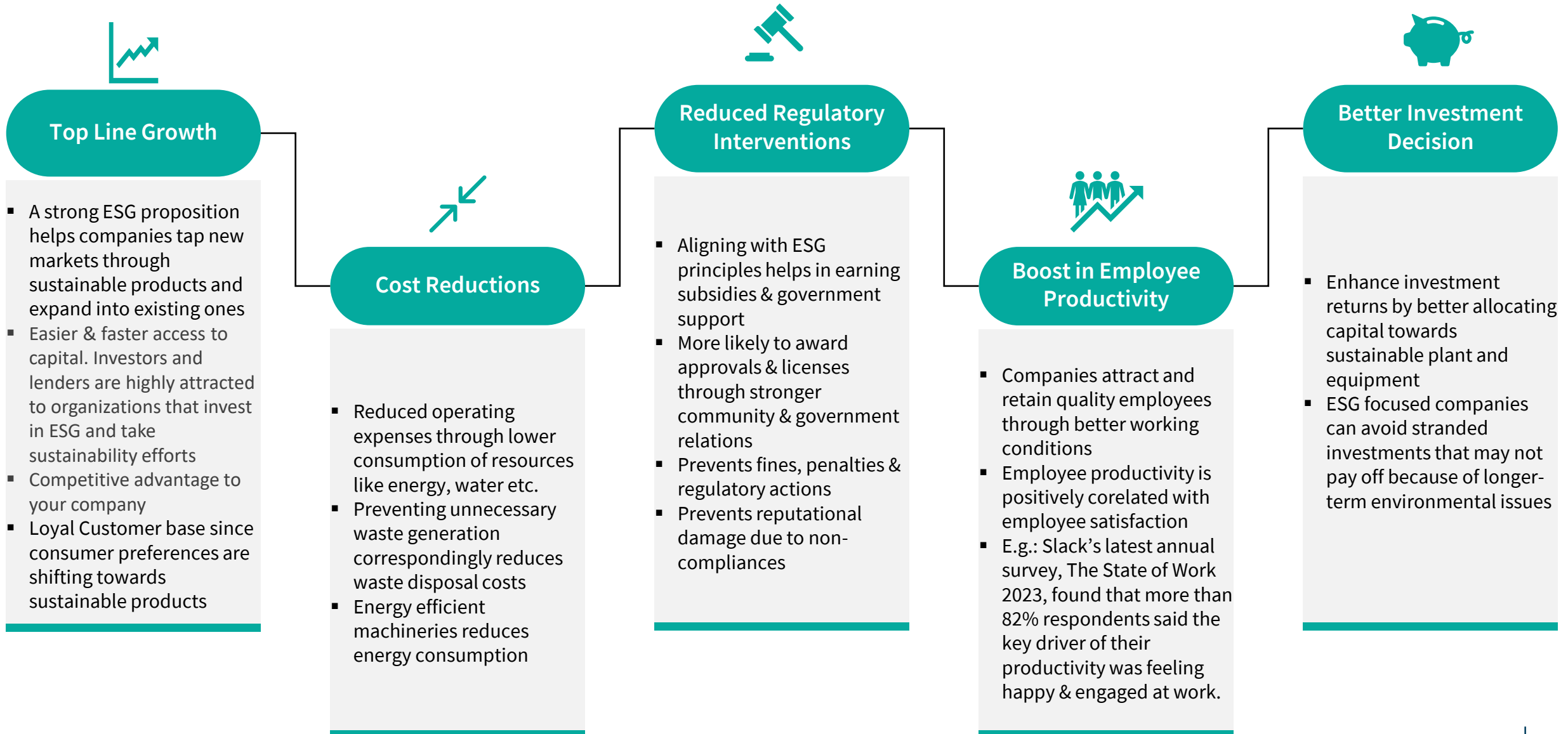
1: "How much does the shipping industry contribute to global CO2 emissions", 22 September 2023, <https://sinay.ai/en/how-much-does-the-shipping-industry-contribute-to-global-co2-emissions/#:~:text=In%202022%2C%20international%20shipping%20alone,contributor%20to%20global%20carbon%20pollution.>, last accessed 16 Feb 2024

2: "Environmental Social Governance (ESG) for Shipping", Maritime Cyprus, 23 May 2023, <https://maritimecyprus.com/2023/05/23/environmental-social-governance-esg-for-shipping/#:~:text=Only%2046%25%20of%20the%20largest,customers%2C%20employees%2C%20and%20investors.>, last accessed 16 Feb 2024

3: "Shipping industry faces ESG heat from lenders", Reuters, 19 Oct 2021, <https://www.reuters.com/business/sustainable-business/shipping-industry-faces-esg-heat-lenders-2021-10-19/>, last accessed 14 Feb 2024

4: "ESG in the Shipping Sector: The role of ESG in the evaluation of shipping companies", Deloitte, [https://www2.deloitte.com/content/dam/Deloitte/gr/Documents/consumer-business/gr\\_esg\\_in\\_the\\_shipping\\_sector\\_noexp.pdf](https://www2.deloitte.com/content/dam/Deloitte/gr/Documents/consumer-business/gr_esg_in_the_shipping_sector_noexp.pdf), last accessed 16 Feb 2024

# Major benefits of ESG



# Shipping industry is lagging behind



- **Only 46%** of the largest shipping companies have **made pledges in line with IMO or net-zero commitments** and **only 41% have GHG and sustainability reporting**.
- To act, shipowners and operators face a **complex supply chain of conflicting needs** and mounting **external pressure from regulators, customers, employees, and investors**.
- There is a **significant decarbonization potential** in wider adoption of ESG practices.
- The business **landscape is rapidly changing** with regards to ESG. **New regulations are passed** such as the **inclusion of shipping in EU's Emission Trading Scheme (ETS)**, **IMO's 2023 targets for decarbonization** and **CSRD-mandated ESG disclosures**.
- Customers are increasingly **willing to pay a green premium** and many **investors look to divest** from carbon-intensive assets without a clear decarbonization strategy.
- Shipping is a heavily regulated industry providing an advantage with managing ESG risks and requirements.
- The **challenge** is to:
  - **Link existing processes, performance and KPIs into an ESG context** that shows how the processes help to manage identified ESG risk exposures.
  - **Develop targets and strategy aligned to global emission reduction ambitions**
- After years of increasingly vocal demand for enhanced transparency about ESG matters from investors and other stakeholders, regulators and standard setters in various jurisdictions issued definitive proposals to transform ESG reporting in 2022
- **The 'big three' disclosure** frameworks:
  - Corporate Sustainability Reporting Directive (CSRD)
  - International Sustainability Standards Board (ISSB)
  - Securities and Exchange Commission (SEC)

# Major Global ESG disclosure standards



Securities Exchange  
Commission  
Proposed Climate Disclosure  
Rule



California State Senate  
California Climate  
Accountability Package  
(Proposed)

European Commission  
Corporate Sustainability  
Reporting Directive (CSRD)  
Taxonomy Regulation



Financial Conduct Authority  
Sustainable Disclosures  
Requirements



International Sustainability  
Standards Board (ISSB)  
IFRS Sustainability Disclosure  
Standards

Securities and Exchange  
Board of India  
Consulting Paper on ESG  
Disclosures, Ratings and  
Investing (BRSR norms)



# Each of the frameworks recognizes that enhanced sustainability disclosures are good for the capital markets.



Criteria	EU CSRD	ISSB	US SEC
<b>Areas covered</b>	Broad list of environmental, social, and governance topics, climate disclosures, supply chain reporting	Standards address climate and other sustainability risks . Additional thematic standards are expected in the future	Proposed disclosures address climate-related risks. Disclosures related to human capital are expected to be added.
<b>Industry specific standards</b>	✓ Under development	✓ In accordance to the SASB Standards	✗ Not required
<b>Materiality assessment</b>	✓ Double Materiality	✗ Financial Materiality	✗ Financial Materiality
<b>Scope 1 + 2</b>	✓ Consistent with GHG protocol	✓ Consistent with GHG protocol	✓ Consistent with GHG protocol
<b>Time horizon</b>	✓ Short, medium, and long term are prescribed	✗ Not defined	✗ Not defined
<b>Target setting</b>	✓ 5 year rolling periods aligned with Paris Agreement	✓ Aligned to latest international agreement	✓ Any climate-related targets or goals
<b>Scenario Analysis</b>	✓ Consistent with the Paris Agreement	✓ Aligned to latest international agreement	✓ Provides supporting evidence for resilience
<b>Scope 3 GHG emissions</b>	✓ Total and all significant scope 3 categories	✓ Total and all component scope 3 categories	✗ If material
<b>Assurance</b>	✓ Limited assurance, transitioning to reasonable assurance	✓ Rules of the jurisdictions apply	✓ Scope 1& Scope 2 GHG emissions would be subject to required assurance

# All in scope companies are required to publish CSRD reports by 2028

## Scope and Applicability

- Companies with **listed securities in the EU** market and meet 2/3 of the following criteria
  - >€700k in net turnover
  - >€350k in total assets
  - Average of 10 employees
- **EU-based large undertakings** that meet at least two of the following criteria:
  - >€40M in net turnover
  - >€20M in total assets
  - Average of 250 employees
- The **EU-based parent of a group** of entities that meet the large undertaking criteria as a whole
- **Parent companies from a third country** that in consolidation generate >€150 million in net turnover in the EU & meet any of the following criteria:
  - Owns a subsidiary that is considered a large undertaking in the EU
  - Owns a subsidiary with debt or equity securities listed on an EU-regulated exchange
  - Owns a significant EU branch with net turnover exceeding €40 million

## Timeline



# IFRS and US SEC Scope and Applicability

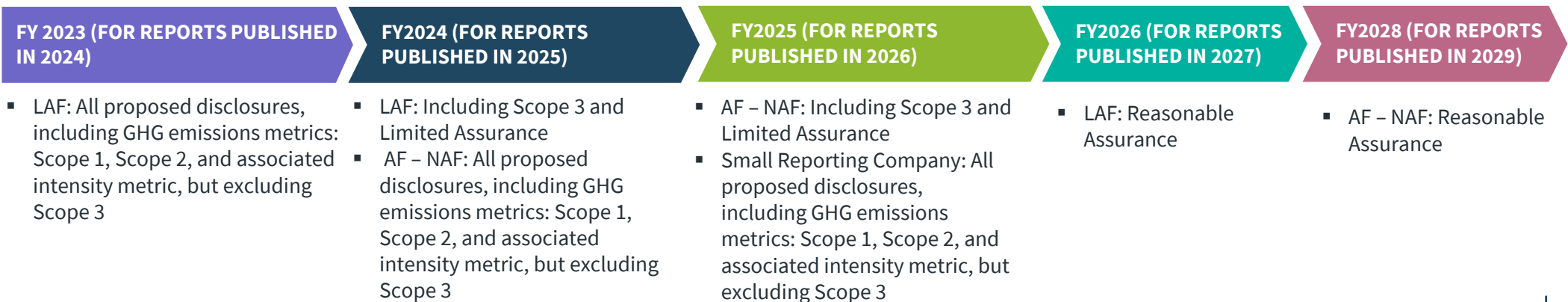
## IFRS Scope and Applicability

- IFRS standards are required for domestic public companies
- 120 + nations and reporting jurisdictions permit or require IFRS for domestic listed companies
- 90 + countries have fully conformed with IFRS and include a statement acknowledging such conformity in audit reports.
- **Publicly Listed Companies:** Publicly listed companies are usually subject to greater scrutiny and disclosure requirements from investors, regulators, and other stakeholders.

## US SEC Scope and Applicability

- Primarily regulates publicly listed companies in the United States of America.
- Large Accelerated Filer (Public float greater than \$700 million)
- Accelerated Filer (\$100 million or more revenue) and Non-Accelerated Filer (Less than \$100 million in revenues)
- SRC (Small Reporting Company)

## Timeline





ESG accountability requires a new mindset focusing on collective action across the value chain

Recognizing that ESG reporting alone is insufficient, attention to supply chain considerations and impacts is increasingly paramount, as they reflect the broader environmental, social, and governance implications of an organization's operations and are integral to fostering sustainability across the entire value chain

# Sustainable Procurement plays a pivotal role in meeting consumer demands and driving systemic change



15%

Increase in brand value through sustainable procurement practices

25%

Emissions reduction through active sustainable procurement practices<sup>2</sup>

9%

Cost reduction due to Sustainability in Procurement process<sup>3</sup>

82%

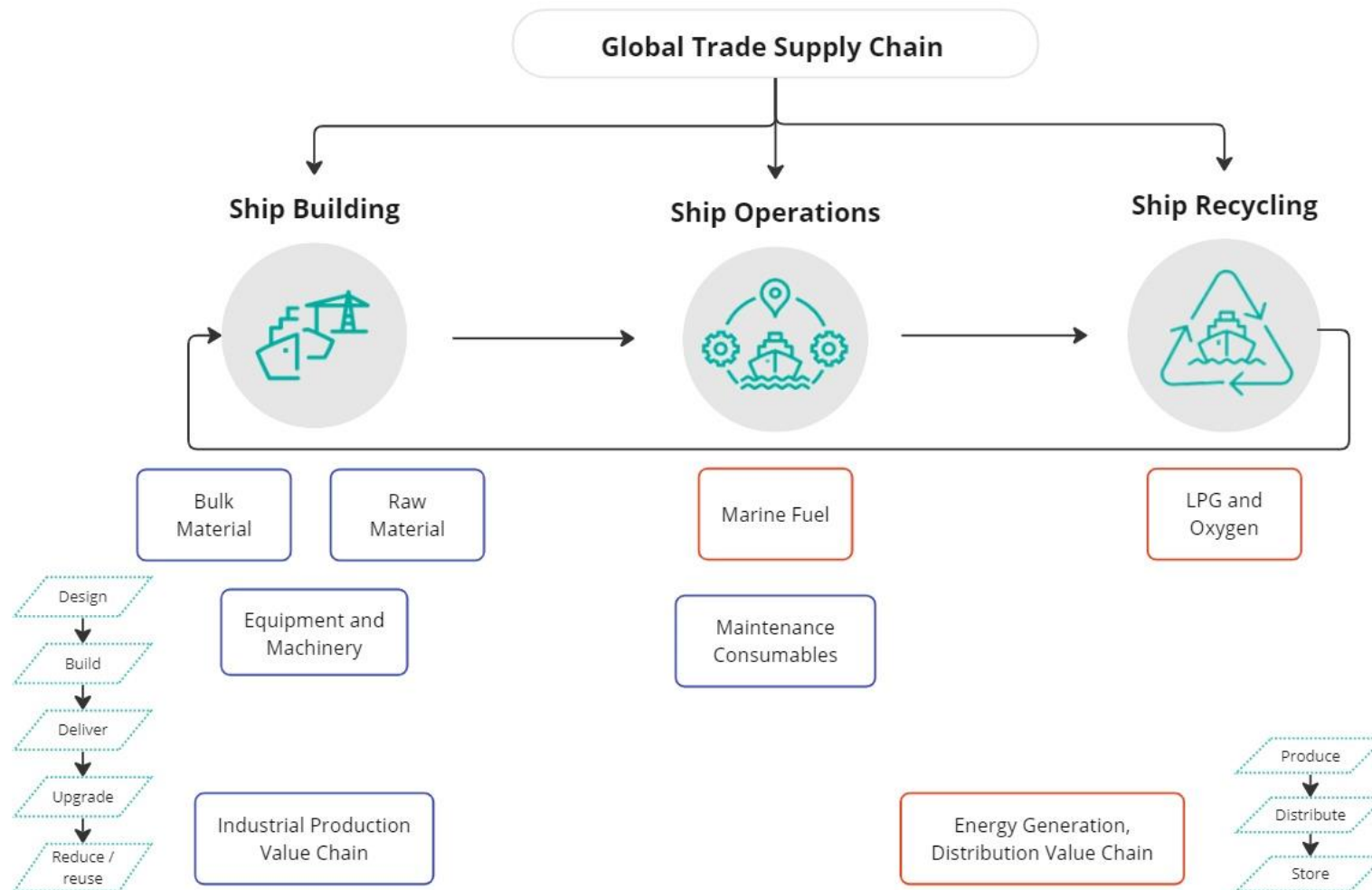
Shipping customers willing to pay a premium for zero-carbon shipping<sup>4</sup>.

WtP premium is expected to rise beyond 2% corresponding to between \$10 billion and \$20 billion in extra revenue for the shipping sector.

1, 2, 3: "Sustainable Procurement Statistics — 21 Key Figures of 2024", <https://procurementtactics.com/sustainable-procurement-statistics/>, 4 December 2023,  
4: "Consumers are willing to pay for net zero production", BCG, last accessed 16 Feb 2024  
<https://www.bcg.com/publications/2023/consumers-are-willing-to-pay-for-net-zero-production>



# Two-thirds of the average company's environment, social, and governance footprint lies with suppliers.



Every part of the value chain is interdependent in terms of:

- Risk
- Costs
- Innovation
- Continuity and security
- Access to capital
- Contribution to society
- Supporting local economy
- Circularity

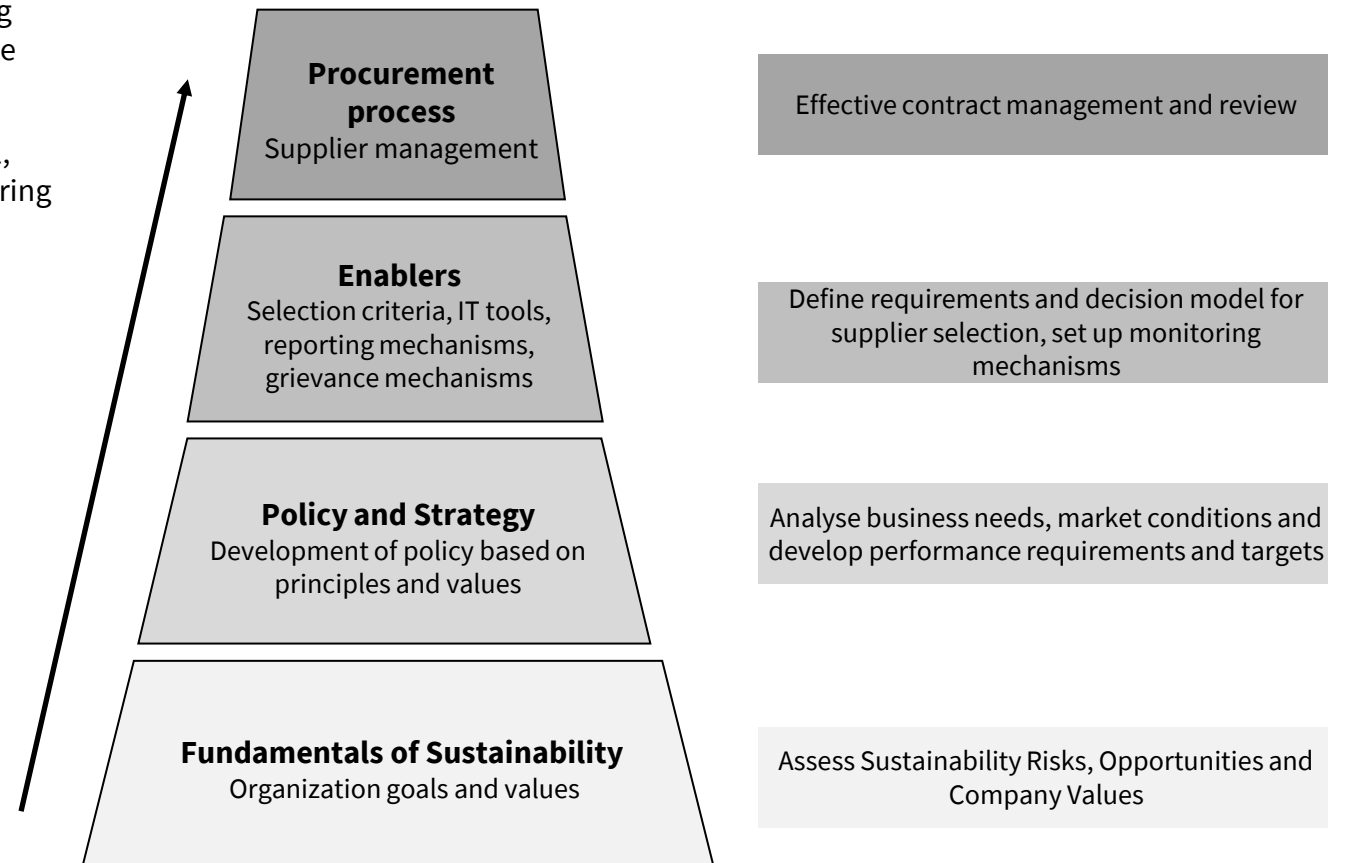
Sustainable procurement in maritime thrives through collaborative efforts among stakeholders, where industry players, regulators, and environmental advocates unite to foster responsible sourcing practices, reduce carbon footprints, and safeguard marine ecosystems

# Sustainable procurement necessitates a top-down approach, with leadership commitment and organizational buy-in



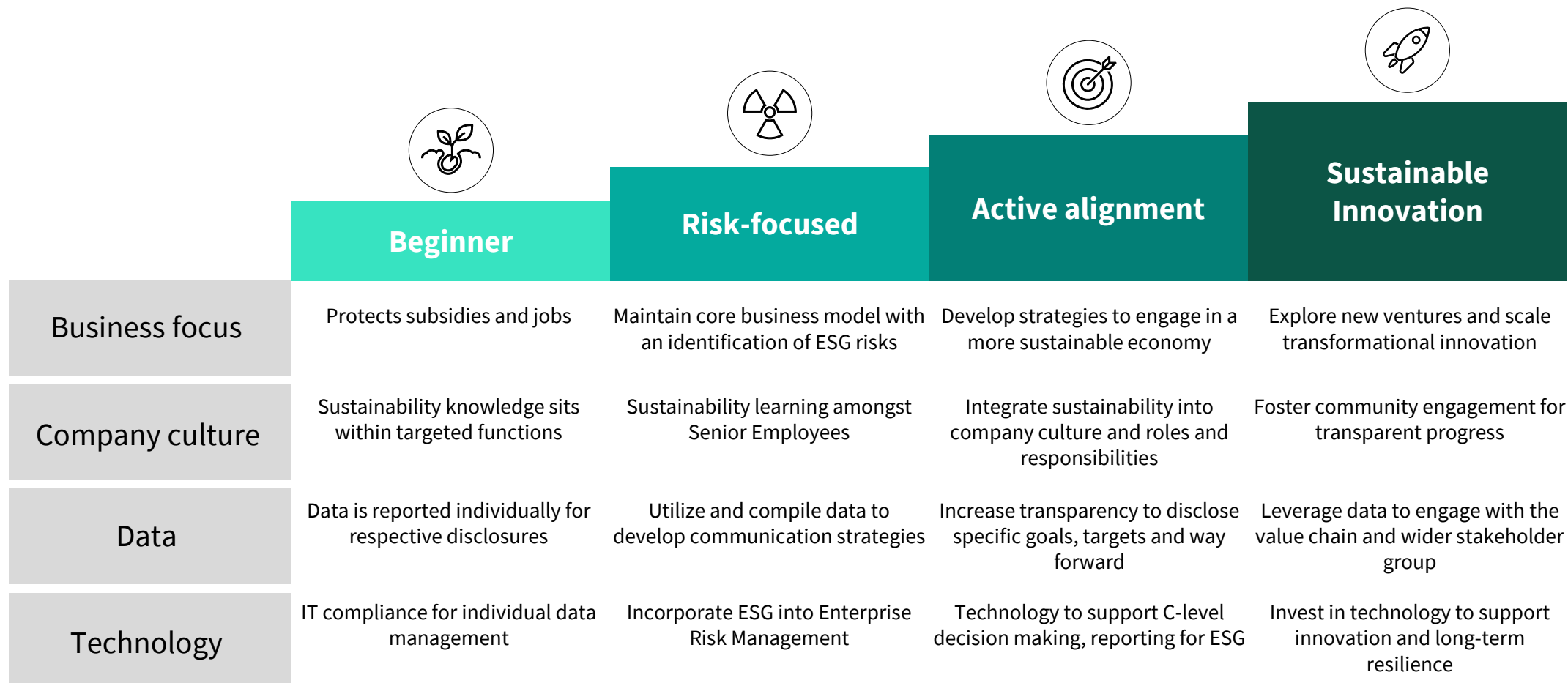
## Framework for Sustainable Procurement

- Sustainable procurement refers to the strategic process of sourcing goods, services, and raw materials in a way that minimizes negative environmental, social, and economic impacts.
- Framework for sustainable procurement integrates environmental, social, and economic considerations into sourcing decisions, fostering accountability, transparency, and collaboration across the supply chain.



Aligned to ISO 20400 requirements

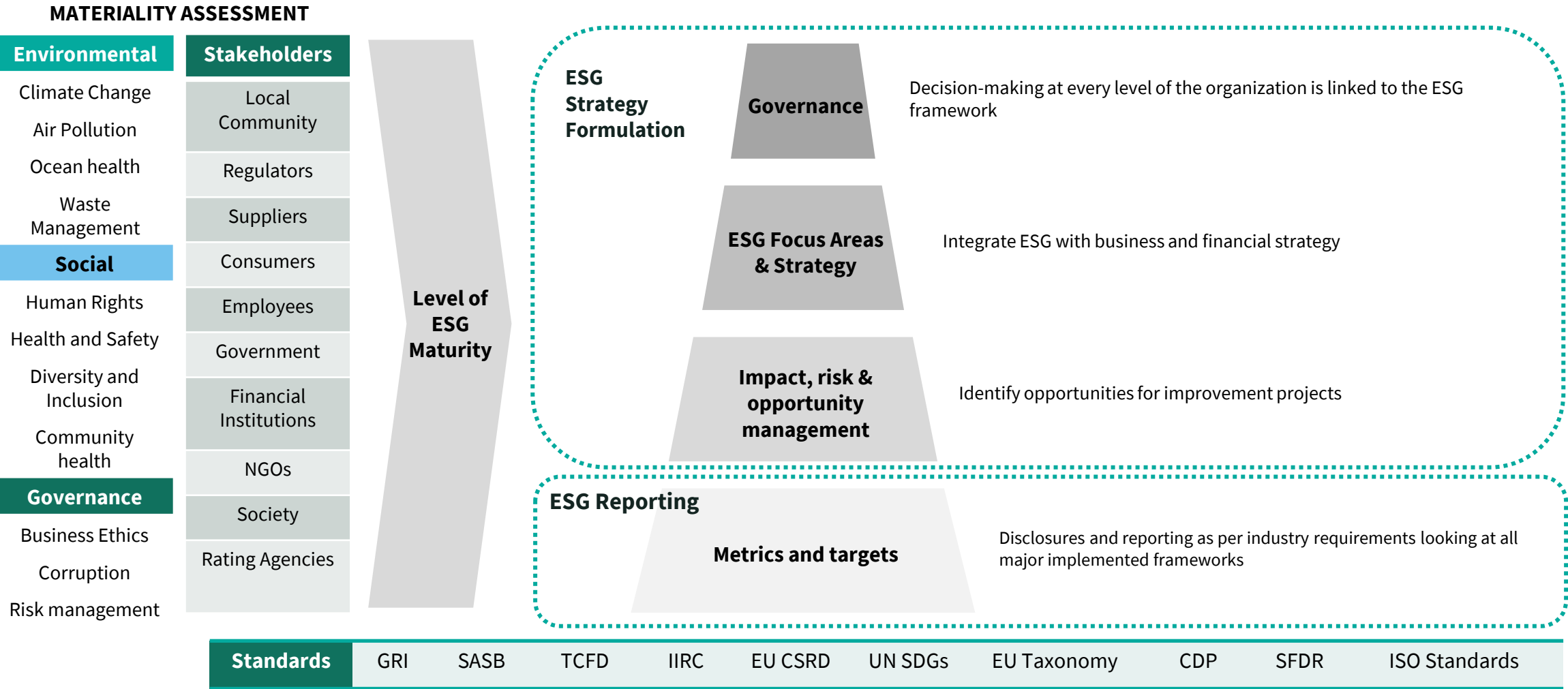
# Industry transition through ESG



# LR framework recognizes the level of ESG maturity and starts to bridge the gap between current maturity and ambition



## LR's ESG Assessment Framework



# LR Business Offerings on ESG



## ESG Strategy, Reporting & Assurance

ESG Strategy

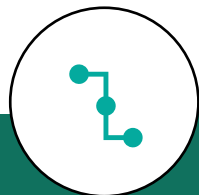
Framework development

Reporting and Assurance

Automated ESG reporting

Materiality Assessments

Due-diligence studies



## Sustainable Supply chain

ISO 20400 Assessments

Strategy and Governance Structures

Supply Chain Risk Management

Sustainable Procurement



## Climate Change and Sustainability Advisory

Climate risk assessment and reporting

Climate change adaptation plans

Waste management and circular economy

Ship recycling / OSW Recycling

GHG emission management

Carbon foot printing / Lifecycle Assessment



## Sustainable Finance

Sustainability Linked Financing Frameworks

Due-diligence Assessment

Climate Bond Certification Support

Emissions Trading Certification Support



# The Maritime Decarbonization Hub



## *Mission*

To accelerate the **sustainable energy transition** of the maritime sector to deliver **safe, technically feasible** and **commercially viable** zero-emission shipping.



**Enable** the energy transition



Ensure **safe adoption** of sustainable carbon neutral marine fuels



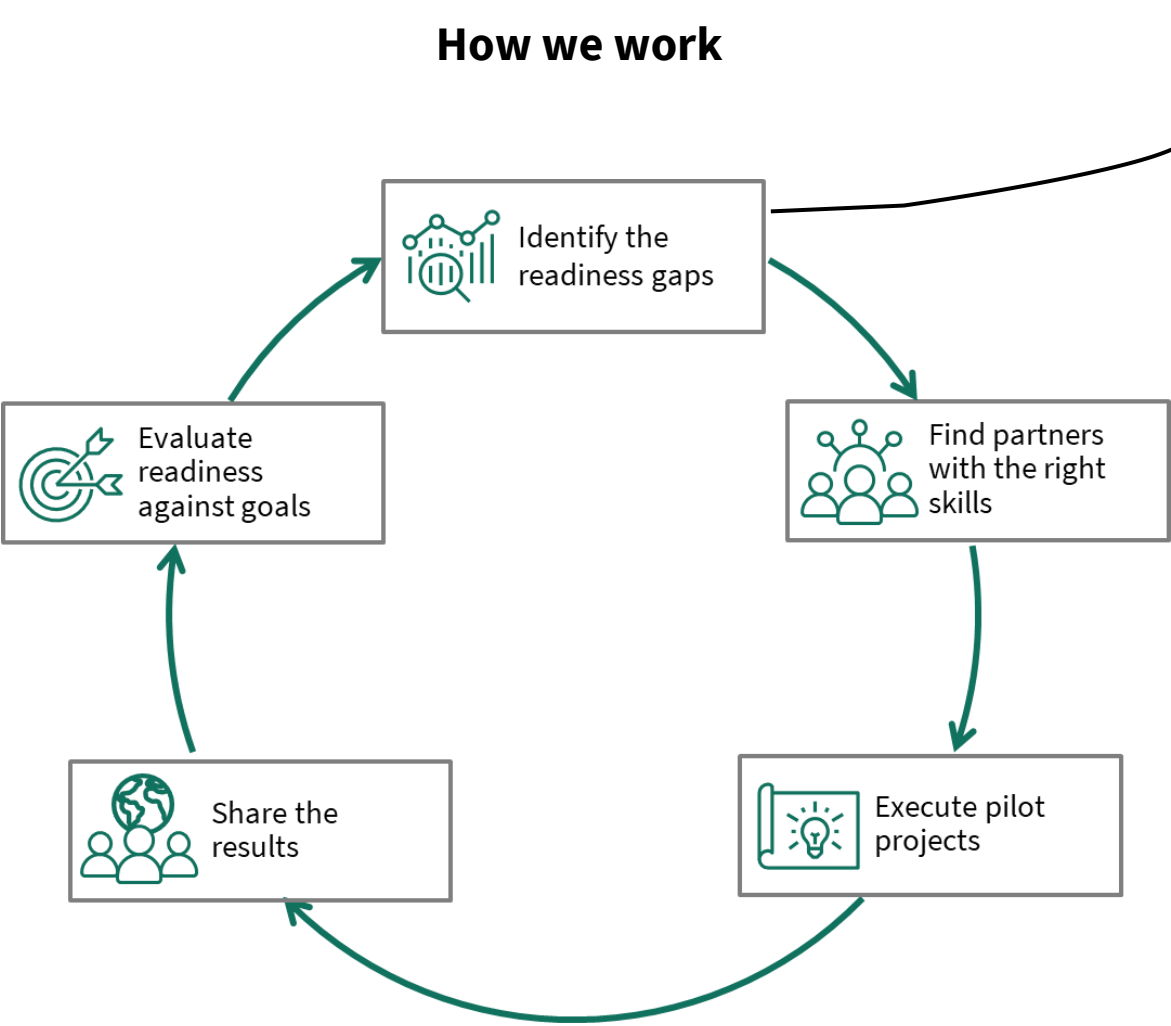
**Increase uptake** of sustainable carbon neutral marine fuels by 2030



**Influence** effective policy

# The Maritime Decarbonizations Hub - driving long term progress

## How we work



## Zero-carbon Fuel Monitor



Energy sources



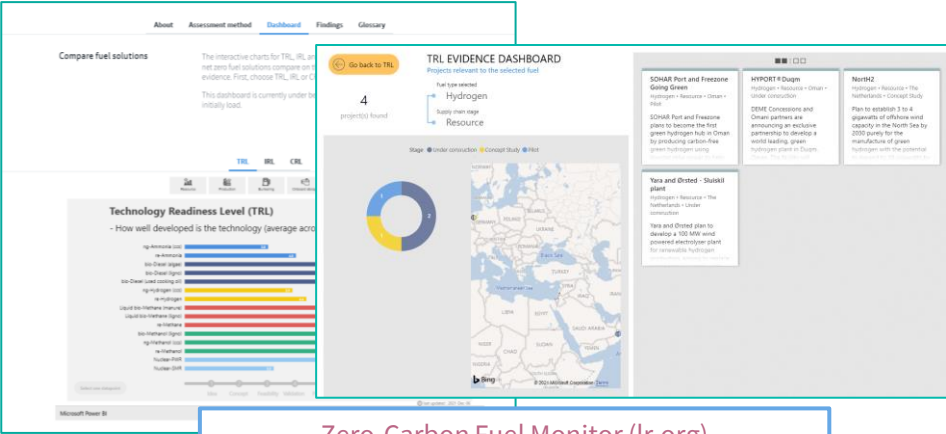
Production, conversion, system integration



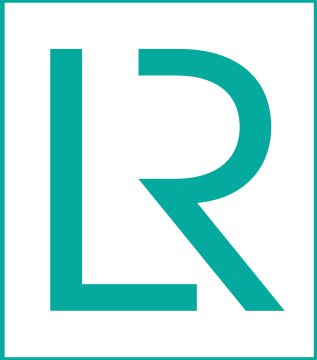
Bunkering and ports integration



Ship, onboard storage and handling, propulsion



Zero-Carbon Fuel Monitor (lr.org)



# Thank you

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