



THE  
GOVERNANCE  
GROUP

# ESG & SHIP FINANCING

Hamburg Ship Finance Forum 27 February 2020





## TOPICS

- Defining ESG
- Investor perspective – ratings - taxonomy
- Access to green finance
- Case study

# ESG factors

While the specifics vary by company, industry and geography, a common set of ESG factors are considered when evaluating opportunities, making decisions, managing investments and engaging with companies to seek improvements in business practices and disclosure.



## ENVIRONMENTAL

Climate impact and GHG emissions, energy efficiency, air and water pollution, water scarcity, biodiversity and site restoration.



## SOCIAL

Human rights, local community impact and employment, working conditions, health and safety, and anti-corruption.



## GOVERNANCE

Alignment of interests, executive compensation, board independence and composition, taxes and accountability.



# From activism to.....capitalism

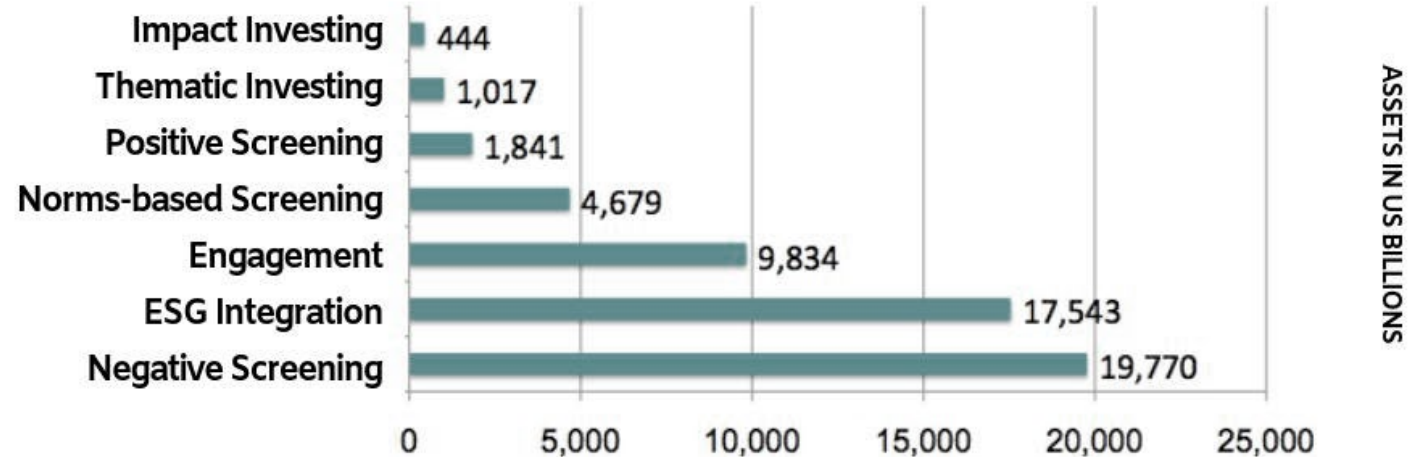


«Each company's prospects for growth are inextricable from its ability to operate sustainably and serve its full set of stakeholders.»

Larry Fink, CEO BlackRock - January 2020

# Investment strategies

## GLOBAL SUSTAINABLE INVESTING ASSETS BY STRATEGY 2018



# Quantifiable measures

 Environmental (E)	 Social (S)	 Corporate Governance (G)
<ul style="list-style-type: none"> <li>➔ E1. GHG Emissions</li> <li>➔ E2. Emissions Intensity</li> <li>➔ E3. Energy Usage</li> <li>➔ E4. Energy Intensity</li> <li>➔ E5. Energy Mix</li> <li>➔ E6. Water Usage</li> <li>E7. Environmental Operations</li> <li>E8. Climate Oversight / Board</li> <li>E9. Climate Oversight / Management</li> <li>E10. Climate Risk Mitigation</li> </ul>	<ul style="list-style-type: none"> <li>➔ S1. CEO Pay Ratio</li> <li>➔ S2. Gender Pay Ratio</li> <li>➔ S3. Employee Turnover</li> <li>S4. Gender Diversity</li> <li>➔ S5. Temporary Worker Ratio</li> <li>S6. Non-Discrimination</li> <li>➔ S7. Injury Rate</li> <li>S8. Global Health &amp; Safety</li> <li>S9. Child &amp; Forced Labor</li> <li>S10. Human Rights</li> </ul>	<ul style="list-style-type: none"> <li>G1. Board Diversity</li> <li>G2. Board Independence</li> <li>G3. Incentivized Pay</li> <li>G4. Collective Bargaining</li> <li>G5. Supplier Code of Conduct</li> <li>G6. Ethics &amp; Anti-Corruption</li> <li>G7. Data Privacy</li> <li>G8. ESG Reporting</li> <li>G9. Disclosure Practices</li> <li>G10. External Assurance</li> </ul>

Source: NASDAQ

# Materiality analysis

*A company that spends vast sums of money trying to address every conceivable environmental, social, and governance (ESG) issue will likely see its financial performance suffer; however, companies that focus on material issues tend to outperform those that don't.*

– Harvard Business Review, 05/2019



# Ratings



However, there are some downsides:

- Do not use the same methodology
  - Difficult to compare companies
- ... waiting for EU taxonomy:



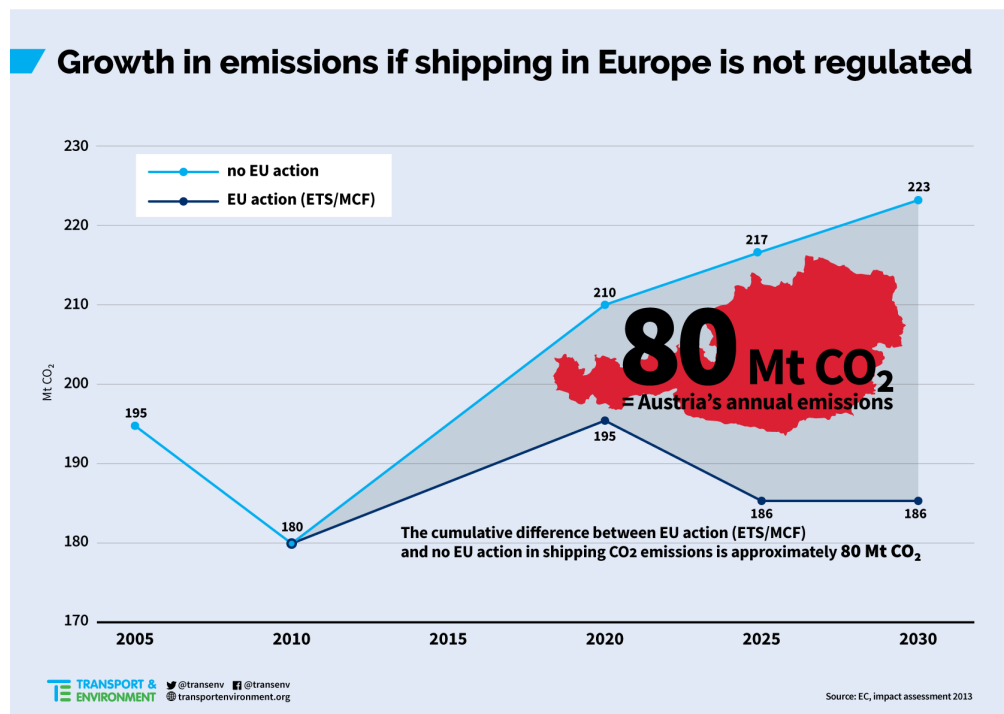
# EU taxonomy

*(...) an economic activity must contribute substantially to at least one environmental objective and do no significant harm to the other five, as well as meet minimum social safeguards*

- 1) Climate change mitigation;
- 2) Climate change adaptation;
- 3) Sustainable use and protection of water and marine resources;
- 4) Transition to a circular economy, waste prevention and recycling;
- 5) Pollution prevention and control;
- 6) Protection of healthy ecosystems.



# EU – CO<sub>2</sub> pricing ahead?



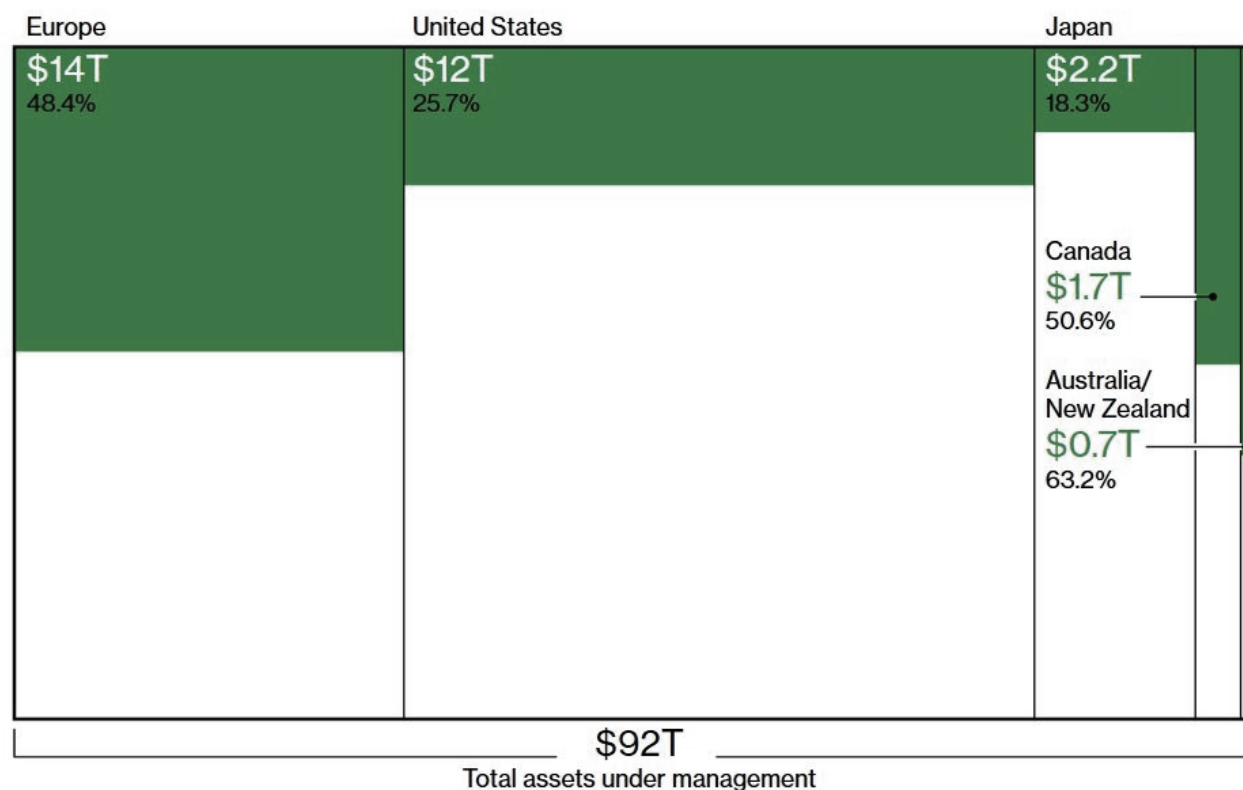
*“I don’t see any sense in keeping on counting emissions but doing nothing to reduce them. Some environment committee colleagues agree on that point, even if the Commission is not too enthusiastic”*

- MEP Jutta Paulus, 13 Feb 2020

# ESG-marked assets

## Sustainable Assets Are a Big Deal

Share of total managed assets in 2018



Source: GSIA

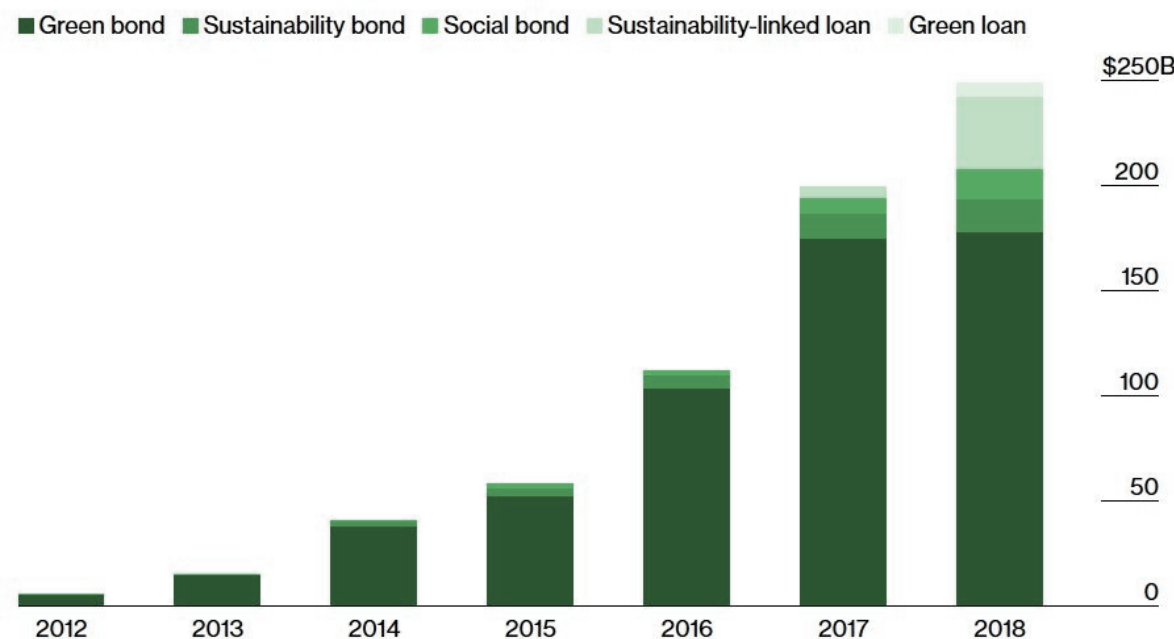
Sustainable investing assets:  
**USD 30 trn** at the start of 2018

In Europe, these assets make  
up **48%** of total assets under  
management

# Opportunities: access to green finance

## A New Green Market

Sustainable debt issued by instrument type



Source: BloombergNEF

Teekay Shuttle Tankers L.L.C. successfully placed USD 125 million senior unsecured Green Bond on OBX due October 2024.

The proceeds from the bond issue will be used to partially fund four E-Shuttle newbuilds currently under construction and with planned deliveries in 2019 and 2021.



TEEKAY OFFSHORE



# Recap: Responding to demands on ESG reporting

With growing concern for climate change and the rollout of new regulations related to ESG in the shipping industry, investors and analysts increasingly request sustainability data to map related risks and opportunities

## Calls for industry:

- Accountability and transparency
- ESG reporting adapted to financial markets
- Industry standardization
- Common targets and collaboration

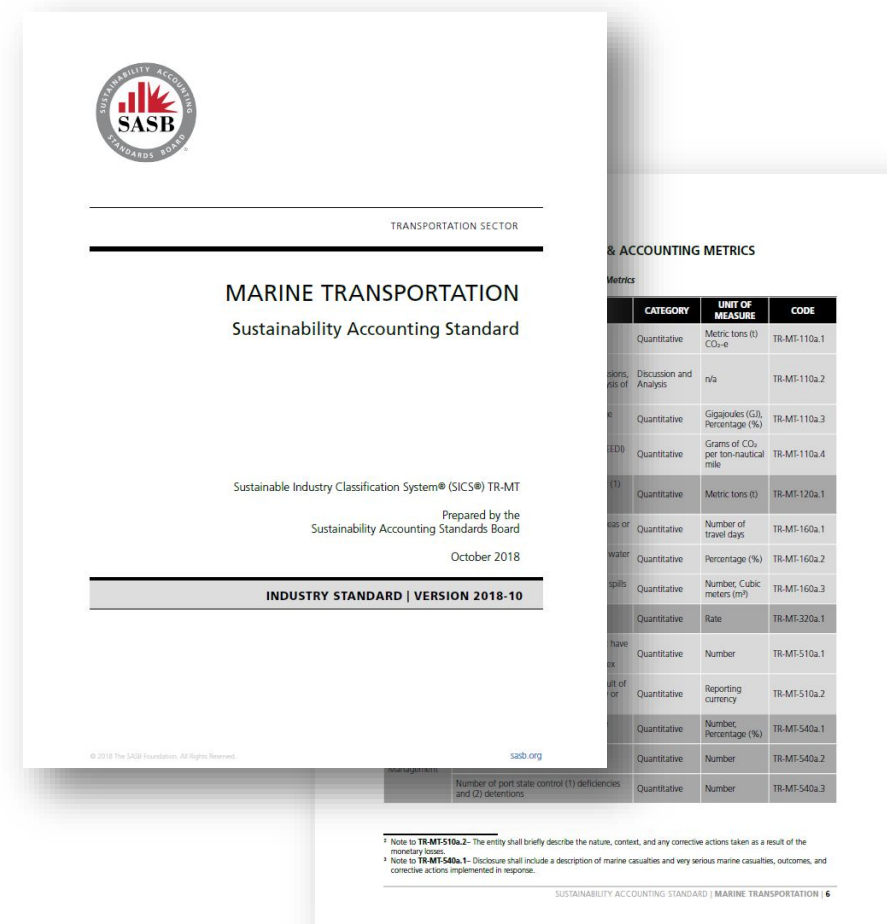
## Contributions by companies:

- Material ESG topics & financially material parameters
- Comparable data (quantitative)
- ESG management and governance structure
- Strategic positioning related to risks and opportunities
- Short- and long-term priorities



# In practice: SASB is becoming a leading reporting standard for the shipping industry

- SASB has developed a complete set of **77 industry-specific standards**
- Identifies the minimum set of **financially material sustainability topics** and associated metrics for a typical company in an industry
- SASB has developed industry standards for **Marine Transportation**
- The **materiality** of sustainability factors is decisive for what a company should **prioritize** in its management and ESG reporting



# Select clients





# Case Study: Frontline



- Table of key industry ESG topics
- Financially material parameters
- Quantitative & comparable data

- Chapters covering key topics
- Governance structure
- SASB mgmt. standard & UN Global Compact

## 2. SUSTAINABILITY ACCOUNTING STANDARDS DISCLOSURES

TOPIC	ACCOUNTING METRIC	UNIT OF MEASURE	DATA	CODE
 <b>GREENHOUSE GAS EMISSIONS</b>	Direct greenhouse gas emissions from owned and controlled sources	Metric tonnes (CO <sub>2</sub> e)	1,200,000	TS-MT-110A.1
	Scope 1 emissions	Metric tonnes (CO <sub>2</sub> e)	8	TS-MT-110A.2
	Scope 2 emissions	Metric tonnes (CO <sub>2</sub> e)	1,192,000	TS-MT-110A.3
	Scope 3 emissions	Metric tonnes (CO <sub>2</sub> e)	1,192,000	TS-MT-110A.4
 <b>AIR QUALITY</b>	CO <sub>2</sub> emissions (excluding land use change and forestry)	Percentage (%)	79.9%	TS-MT-110A.5
	CO <sub>2</sub> emissions (including land use change and forestry)	Percentage (%)	79.9%	TS-MT-110A.6
	CO <sub>2</sub> emissions (excluding land use change and forestry)	Percentage (%)	79.9%	TS-MT-110A.7
	CO <sub>2</sub> emissions (including land use change and forestry)	Percentage (%)	79.9%	TS-MT-110A.8
 <b>MARINE PROTECTED AREAS</b>	Shipping duration in marine protected areas	Number of days	100	TS-MT-110A.9
	Shipping duration in marine protected areas	Number of days	100	TS-MT-110A.10
	Shipping duration in marine protected areas	Number of days	100	TS-MT-110A.11
	Shipping duration in marine protected areas	Number of days	100	TS-MT-110A.12
 <b>SPILLS AND RELEASES TO THE ENVIRONMENT</b>	Oil spills	Number	0	TS-MT-110A.13
	Oil spills	Number	0	TS-MT-110A.14
	Oil spills	Number	0	TS-MT-110A.15
	Oil spills	Number	0	TS-MT-110A.16

6 • 2018 • Environmental Social Governance

## 4. ENVIRONMENT

**GREENHOUSE GAS EMISSIONS AND AIR QUALITY**

Frontline is committed to reducing greenhouse gas emissions and improving air quality. We have set targets for 2018 and are working to achieve them. Our targets are based on the Science Based Targets initiative (SBTi) and the Paris Agreement. We have also set targets for air quality, including particulate matter (PM<sub>10</sub>) and nitrogen dioxide (NO<sub>2</sub>). We are working to reduce our emissions and improve air quality by using cleaner fuels and technologies. We are also working to improve our energy efficiency and reduce our carbon footprint. We are committed to transparency and will report on our progress regularly.

6 • 2018 • Environmental Social Governance

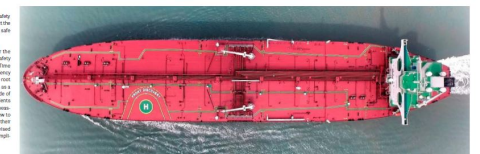
## 5. SAFETY, LABOUR CONDITIONS AND HUMAN RIGHTS





### HUMAN RESOURCES AND DIVERSITY

Frontline is committed to creating a safe and healthy work environment for all our employees. We have set targets for 2018 and are working to achieve them. Our targets are based on the International Labour Organization (ILO) and the United Nations Sustainable Development Goals (SDGs). We have also set targets for diversity and inclusion, including gender equality and representation of different ethnicities. We are working to improve our safety and health performance and to create a more inclusive and diverse workforce. We are committed to transparency and will report on our progress regularly.

6 • 2018 • Environmental Social Governance

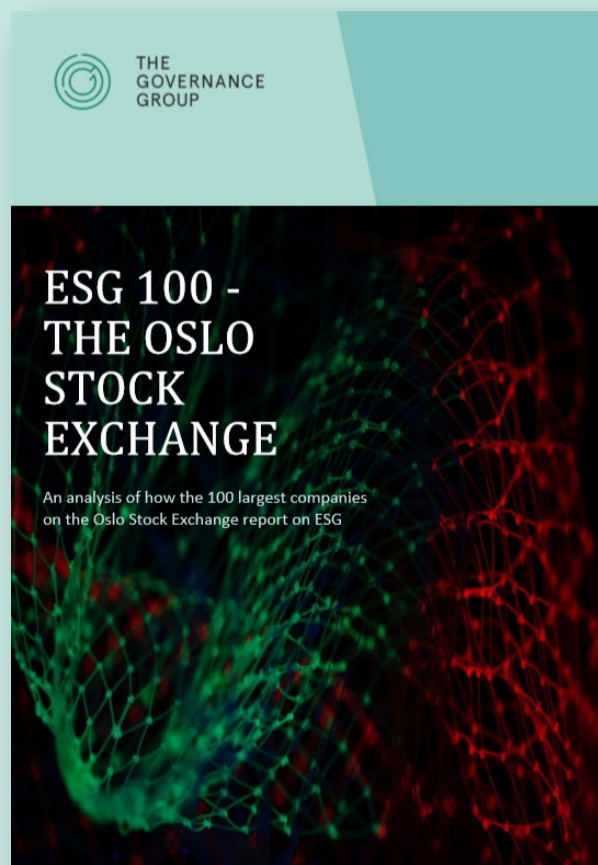
1 • SUSTAINABILITY ACCOUNTING STANDARDS DISCLOSURES



TOPIC	ACCOUNTING METRIC	UNIT OF MEASURE	DATA	CODE
 <b>CORRUPTION</b>	Number of bribery or corruption incidents	Number	0	TS-MT-110A.17
	Number of bribery or corruption incidents	Number	0	TS-MT-110A.18
	Number of bribery or corruption incidents	Number	0	TS-MT-110A.19
	Number of bribery or corruption incidents	Number	0	TS-MT-110A.20
 <b>LOST TIME INCIDENT RATE</b>	Lost time incidents per 100,000 hours	Percentage (%)	0.00	TS-MT-110A.21
	Lost time incidents per 100,000 hours	Percentage (%)	0.00	TS-MT-110A.22
	Lost time incidents per 100,000 hours	Percentage (%)	0.00	TS-MT-110A.23
	Lost time incidents per 100,000 hours	Percentage (%)	0.00	TS-MT-110A.24
 <b>MARINE CASUALTIES</b>	Marine casualties	Number	0	TS-MT-110A.25
	Marine casualties	Number	0	TS-MT-110A.26
	Marine casualties	Number	0	TS-MT-110A.27
	Marine casualties	Number	0	TS-MT-110A.28
 <b>CONDITIONS OF CLASS</b>	Number of conditions of class	Number	0	TS-MT-110A.29
	Number of conditions of class	Number	0	TS-MT-110A.30
	Number of conditions of class	Number	0	TS-MT-110A.31
	Number of conditions of class	Number	0	TS-MT-110A.32
<b>PORT STATE CONTROL</b>	Port state control	Number	0	TS-MT-110A.33
	Port state control	Number	0	TS-MT-110A.34
	Port state control	Number	0	TS-MT-110A.35
	Port state control	Number	0	TS-MT-110A.36

1 • SAFETY, LABOUR CONDITIONS AND HUMAN RIGHTS

# Publications





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