STEPHENSON HARWOOD

Green and sustainable ship finance

Our international finance team advises:

- Lenders
- Borrowers
- Issuers
- Private equity sponsors and investors
- On all aspects of green and sustainability linked financing

> "They are outstanding, they have an excellent ability to understand and deliver on our specific needs and they are proactive."
>
> **Chambers UK 2022**

In the last years, Environmental Social and Governance ("ESG") performance has become more important in the shipping industry. This results not only from the increasing number of regulations that shipping companies and operators have to comply with at different stages of their ships' lifecycle (e.g. from the decreased IMO global sulphur cap on fuel under MARPOL Annex IV, which now stands at 0.5%, to the new IMO Energy Efficiency Design INDEX, which requires new ships to comply with minimum mandatory energy performance levels) but also from international initiatives and market trends.

This is starting to have an impact on how lenders and other investors assess the creditor risk of the companies they consider lending to or investing in. Therefore, having started from evaluating and decreasing their environmental footprint, ship owners are now developing ESG strategy plans to improve their ESG performance, which may, in turn, increase their chances to access financing and investments.

How we can help

While the Loan Market Association has developed some guidelines for green loans and sustainability linked loans, these guidelines are not tailored to the ship finance market and there are no template provisions to insert into loan agreements.

We can assist ship finance lenders with structuring and product advice and ensure they avoid "green-washing". We can also help them adapt their traditional loan documentation if they wish to make a green or a sustainability linked loan available to one of their borrowers by drafting the appropriate documentation provisions to reflect the purpose of the loan and/or the ESG strategy of the borrowing group. We can also advise shipping lenders on other shipping-specific provisions relating to the use and implementation of the Poseidon Principles and ship scrapping.

We can also prepare bespoke documentation for a particular borrowing group that wishes to ensure consistency across their loans in respect of their ESG targets, representations and covenants.

We are happy to provide training on green and sustainable finance in shipping on demand to our clients.

Our experience

Green loans

First scrubber financing backed by a GIEK guarantee

We advised KfW-IPEX Bank on a US$72 million loan agreement to Quantum Pacific Shipping for the purchase and installation of scrubbers. Backed by the Norwegian export credit guarantee agency GIEK, the facility will be used to acquire and install exhaust gas cleaning scrubbers from Clean Marine. This was the first scrubber financing that was backed by a GIEK guarantee.

GATX Corporation

We advised long-standing client GATX Corporation on the new management of its five gas carrier vessels by Anthony Veder, and their entry into the Anthony Veder gas pool. Anthony Veder is involved in all segments of gas shipping, from LNG to LPG, and ethylene to CO2.

Vigeo Eiris' certified green loan

We advised a European bank on the structuring and documentation for a green loan. The green loan was made available after Vigeo Eiris, an independent international ESG research provider, confirmed compliance with the four core components of the LMA's Green Loan Principles (GLPs). A key part of the financing was the agreement around the green loan infrastructure and the related representation and undertakings. These included discussion around the LMA's GLPs, the third-party verification opinions, the green loan framework, the green loan reporting obligations and the Poseidon principles.

Acquisition of innovative eco-type barges

We advised J.P. Morgan Asset Management on the acquisition of 40 LNG-fuelled innovative eco-type inland waterway barges against charters with energy major Shell. The barges will be built by Concordia Damen Shipbuilding B.V.

Hoegh Autoliners

We advised Hoegh Autoliners on a series of zero carbon ready vessels.

Green Cargo Ship Deal

We advised Caisse d'Epargne et de Prévoyance Bretagne Pays de Loire on a financing, by way of a French tax lease, of the construction and acquisition by Grain de Sail Shipping of a cargo sailing vessel. The green element of this deal is that the vessel's length is only 50m, with a cargo capacity of 350 tons per trip, which will allow the company to transport 'slow cargo' (chocolate and coffee beans from the Americas to France and French wines on the return trips to the US).

Green lease facility for Hapag-Lloyd

We advised ICBC Financial Leasing in its capacity as owner and lessor in relation to a US$472 million green lease facility of three 23,500 TEU newbuilding containerships for Hapag-Lloyd. The newbuild ships will be powered by LNG dual fuel engines and are part of Hapag-Lloyd's order of six ultra-large containerships worth up to US$1 billion with Daewoo Shipbuilding & Marine Engineering. The transaction fulfils the Green Loan Principles of the Loan Market Association and the performance of the six ships is in line with the Climate Bond Initiative trajectory as certified in the form of a second-party opinion by DNV GL as an independent expert. This deal won the Marine Money "Green Finance – Green Loan Deal of the Year" 2020.

Green loan for European Bank

We are currently advising a European bank on a loan complying with the Green Loan Principles and the Climate Bond Initiative as certified by independent expert DNV Business Assurance Services UK Limited. The loan will include various green events of default, as well as a margin adjustment depending on the borrower's compliance with some green covenants.

Green loan for Asian bank

We are currently advising an Asian bank on a green loan which will allow the borrower to purchase vessels eligible under a green finance framework which is aligned with the Green Loan Principles.

Star Bulk loan

We are currently advising ABN Amro Bank N.V. – in its capacity as agent, security agent and sole lender – on a US$36 million junior facility for the purpose of partly refinancing the purchase price of 42 VDL scrubbers and financing the Atradius Insurance Premiums secured over obtaining second priority/preferred mortgages over 22 fleet vessels of Star Bulk Carriers Corp.

> " The team are highly dedicated, efficient and go the extra mile to deliver despite tight deadlines."
>
> **Chambers Global 2022**

Sustainability-linked loans

Stolt facility

We advised Nordea Bank Abp, filial i Norge in connection with a US$415 million sustainability linked secured loan facility made available to the Stolt Tankers Group. The agreement provides for a term loan facility and a revolving credit facility, secured against a fleet of 19 vessels across two flag states. The loan included a margin adjustment based on two KPIs and imposed some sustainability covenants on the borrower.

DNB Bank financing

We advised DNB Bank ASA in connection with a US$154 million sustainability linked secured term loan advanced to a joint venture vehicle established by Kristian Gerhard Jebsen Skibsrederi AS and Hayfin Capital Management. The finance documentation, secured against a fleet of ten vessels, contained a number of bespoke green finance provisions including a margin ratchet linked to sustainability key performance indicators as determined by the Poseidon Principles – the self-governing climate alignment agreement among financial institutions active in the ship finance sector.

Star Bulk financing

We advised Star Bulk Carriers Corp. in a refinancing from a syndicate of banks led by DNB Bank ASA. The refinancing included a sustainable margin adjustment based on the Fleet's AER.

Peacock financing

We advised a syndicate of lenders - comprising ABN AMRO Bank, ING Bank, TIAA FSB and Clifford Capital - on a sustainability-linked loan. The deal involved the upsize and conversion of a US$200 million senior secured financing facility to the Peacock Container Group, with stakeholders ultimately closing a US$240 million senior secured sustainability-linked financing facility. The sustainability provisions included a margin adjustment mechanism based on the borrower's ESG score determined by an independent sustainability assessor.

Sustainability loan to Ocean Driller retrofit financing

We advised Ocean Driller Limited in relation to the financing of an LNG Carrier made available by Standard Charter Bank, which included a margin adjustment mechanism dependant on key performance indicators and the maintenance of Enviro+ classification notation.

ING US$126 million financing

We advised ING Bank NV., Singapore in relation to a K-SURE backed loan which included margin ratchets based on various KPIs.

Loan to Diana Shipping group

We advised ABN Amro Bank N.V. in relation to a loan provided to the Diana Shipping group. The loan included a margin adjustment mechanism dependant on the fleet's AER and ECBT score.

Swire Pacific Offshore

We advised a subsidiary of Swire Pacific Offshore in connection with sustainability linked loans made to a company that owns and operates state-of-the-art turbine installation vessels. The loan included a margin ratchet linked to the achievement of certain agreed ESG criteria and was certified by CICERO.

HSBC's US$13.6 million facility

We advised HSBC on its first shipping sustainability and transition-linked financing for Stem Shipping Co S.A in respect of a five-year US$13.6 million facility. The loan will enable the company to progress its ESG goals by establishing a key performance indicator that aligns with the sector's wider sustainability and regulatory targets in relation to the reduction of CO2 emissions.

U-Ming Marine Transport financing

We advised the Tapei Branch of Australia and New Zealand Banking Group Limited in respect of a bilateral USD 50 million facility to U-Ming Marine Transport (Singapore) Private Limited. The facility included sustainability-linked provisions such as a margin adjustment based on the fleet's AER score, annual reporting and reliance on an ESG opinion from DNV Business Assurance Singapore Pte. Ltd.

Our team

Ian Mace
Partner, Head of ship finance, London
T: +44 20 7809 2653
E: ian.mace@shlegal.com

Dora Mace-Kokota
Partner, London
T: +44 20 7809 2325
E: dora.mace-kokota@shlegal.com

Jonathan Ward
Partner, London
T: +44 20 7809 2081
E: jonathan.ward@shlegal.com

Shaun Park
Partner, London
T: +44 20 7809 2541
E: shaun.park@shlegal.com

Jon Cripps
Partner, London
T: +44 20 7809 2992
E: jon.cripps@shlegal.com

Julie Clegg
Partner, London
T: +44 20 7809 2175
E: julie.clegg@shlegal.com

Chris Vartzis
Partner, Pireaus
T: +30 210 429 5160
E: chris.vartzis@shlegal.com

Elton Chan
Partner, Hong Kong
T: +852 2533 2726
E: elton.chan@shlegal.com

Gregg Johnston
Partner, Singapore
T:+65 6226 1600
E: gregg.johnston@shlegal.com

Gregory Xu
Partner, Singapore
T:+65 6622 9670
E: gregory.xu@shlegal.com

Pedram Norton
Partner, Singapore
T:+65 6622 9651
E: pedram.norton@shlegal.com

Alain Gautron
Partner, Paris
T:+33 1 44 15 80 80 72
E: alain.gautron@shlegal.com

Huay Yee Kwan
Partner, Singapore
T:+65 6622 9678
E: huayee.kwan@shlegal.com

Stephenson Harwood is a law firm with over 1100 people worldwide, including more than 190 partners. Our people are committed to achieving the goals of our clients - listed and private companies, institutions and individuals.

We assemble teams of bright thinkers to match our clients' needs and give the right advice from the right person at the right time. Dedicating the highest calibre of legal talent to overcome the most complex issues, we deliver pragmatic, expert advice that is set squarely in the real world.

Our headquarters are in London, with eight offices across Asia, Europe and the Middle East. In addition we have forged close ties with other high quality law firms and an integrated local law capability in Singapore and the PRC. This diverse mix of expertise and culture results in a combination of deep local insight and the capability to provide a seamless international service.

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