Innovative Green Finance

A European Perspective

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September 24-28, 2024

Regulation that Changes our Business!

Financial Impact of Carbon

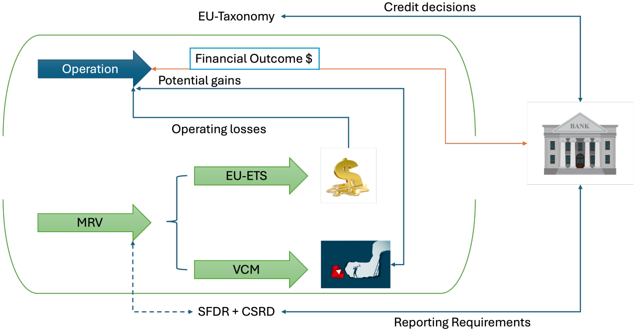

Figure: the new framework of business

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Understanding the Challenge of Proper Reporting

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CSRD: Corporate Sustainability Reporting I

Directive EU 2022/2464

Key Objectives of the CSRD

1. Improving Transparency and Accountability $\longleftrightarrow$ Enhanced disclosure requirements
2. Standardizing Reporting Practices $\longleftrightarrow$ Establishment of common reporting standards
3. Promoting Sustainable Business Practices $\longleftrightarrow$ Alignment with the EU Green Deal and Paris Agreement

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CSRD: Corporate Sustainability Reporting II

Directive EU 2022/2464

Detailed Provisions of the CSRD

1. Disclosure Requirements
   - Environmental, social, and governance (ESG) factors
   - Mandatory vs. voluntary disclosures
2. Double Materiality Concept
   - Financial materiality
   - Impact materiality
3. Reporting Standards $\longleftrightarrow$ Adoption of European Sustainability Reporting Standards (ESRS)
4. Assurance and Audit Requirements $\longleftrightarrow$ Mandatory third-party verification
5. **Digital Reporting** $\longleftrightarrow$ Use of the European Single Electronic Format (ESEF)

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CSRD: Corporate Sustainability Reporting III

Directive EU 2022/2464

Impact on Businesses

1. Operational Changes $\longleftrightarrow$ Integration of sustainability into business strategy
2. Cost Implications $\longleftrightarrow$ Initial and ongoing compliance costs
3. Competitive Advantage $\longleftrightarrow$ Long-term benefits of enhanced sustainability reporting

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CSRD: Corporate Sustainability Reporting IV

Directive EU 2022/2464

Role of Stakeholders

1. Corporate Governance $\longleftrightarrow$ Board and management responsibilities
2. Investors and Financial Markets $\longleftrightarrow$ Impact on investment decisions and access to capital
3. Civil Society and Consumers $\longleftrightarrow$ Increased transparency for informed decision-making

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The SFDR Regulation I

Reporting as pre-condition for financing....

Sustainable Finance Disclosure Regulation

Regulation (EU) 2019/2088 aims to increase sustainability transparency within the finance industry by requiring financial institutions to offer standardized Environmental, Social, and Governance (ESG) disclosures to investors.

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The SFDR Regulation II

Reporting as pre-condition for financing....

1. The SFDR became applicable on 10 March 2021. Its scope captures financial market participants and financial advisers operating in the EU. It sets specific rules for how and what sustainability-related information they need to disclose.
2. Aims to reduce greenwashing, enhance transparency, and promote the flow of capital towards more sustainable assets.
3. *All* financial market actors in the EU fall under the scope of SFDR regulations.
4. It also classifies investment funds under three articles according to the funds' sustainability focus:

   Article 6: Funds without a sustainability scope or mandate
   Article 8: Funds supporting ESG initiatives.
   Article 9: Funds with explicit sustainability objectives.

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The Opportunity of Sustainability Linked Financing

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The Emergence of Sustainability Linked Finance I

The outcome of EU Policies

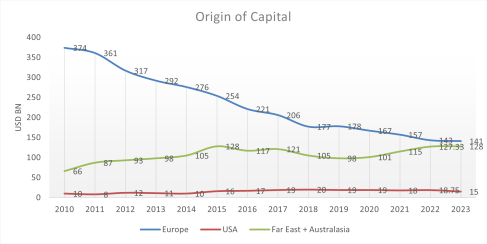

Figure: Top-40 SF Banks reduce their exposure

(Source: Petrofin)

all figs in bln USD	2018	2019	2020	2021	2022	an. Growth
Bonds	**0,2**	**0,4**	**0,4**	**1,6**	**0,5**	**20%**
Green	0,2	0,2	0,4	0,1		
Sustainability		0,2		1,5	0,5	
Sustainability-Linked						
Loans	**2,1**	**1,0**	**6,0**	**6,1**	**4,6**	**17%**
Green	0,1	0,2	0,0	1,3	0,0	
Sustainability-Linked	2,0	0,8	6,0	4,8	4,6	
Total	**2,3**	**1,4**	**6,4**	**7,7**	**5,1**	**17%**

Table: Sustainable Finance transactions for Maritime Ventures (Source: Lind, Decarbonization, 2023)

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The Emergence of Sustainability Linked Finance II

The outcome of EU Policies

The essential success factors

- Ease compliance $\xrightarrow{\text{reduce man-hours and effort}}$ reduce administrative burden
- Enhance trust to ESG data $\xrightarrow{\text{trust along the reporting chain}}$ Digitization of all processes
- Deem audit irrelevant $\xrightarrow{\text{data available online 24/7}}$ reduce audit to a formality

The link to finance

- less cost and effort to apply for and monitor performance $\longrightarrow$ lower cost - higher margins
- trust to data $\longrightarrow$ no green-washing suspicion or allegation
- effortless compliance

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Lessons Learned - the Missed Opportunity of the EU-ETS

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Lessons Learned

The Case of EU-ETS

Sources of resistance to ETS:

- fear of the unknown
- lack of data
- resistance to change
- availability of capital

Impact of

- no free allowances in the EU-ETS for the maritime industry
- no selling right - only purchasing $\leftarrow$ ETS as a levy
- phase-in scheme is accelerated $\leftarrow$ from 40% in 2024 to 100% in 2026

The final outcome

- Finance depends on ESG (CO_2eq emissions for the moment) performance $\longleftrightarrow$ finance for BAU is not available
- VCM (only?) and other markets can facilitate enhanced environmental performance

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Experience suggests... I

Apparently...

1. decarbonization is high in the global agenda and there is no turning back
2. funds will be allocated as per the environmental performance of assets
3. the price of carbon will also impact the final financial result
4. digital technology and data collection is the key to success!

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Experience suggests... II

1. the industry needs globally applied rules to keep trade free and unrestricted!
2. Technology can help and can tell the good from the bad operator!
3. Winners use modern technical and financial tools

Conclusions I

Impact on Decision-Making and Operations

1. CSDR and SFDR result in strict reporting requirements
2. digital and streamlined reporting is necessary to keep compliance cost and effort minimal
3. unless ESG data are properly communicated financing is not available
4. the expected burden increases yet technology is available
5. enhanced energy performance backed with digital ESG data can open the door for sustainable finance

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Conclusions II

Impact on Decision-Making and Operations

My two cents...

1. EU banks will allocate funds as per ESG (CO_2 emissions) criteria; EU-lending $\downarrow$
2. higher (technology) risk $\leftrightarrow$ higher yield; appetite $\uparrow$
3. tier 1 clients will have more opportunities; concentration of capital and innovation $\uparrow$
4. alternative sources will emerge to fill the gap; fresh capital influx $\uparrow$

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Thank You Busan for the Invitation!

Thank You for Your Attention!

Happy to answer your questions!

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