Debunking 3 myths about ESG in maritime

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Myth # 1: ESG is nearly all about decarbonization – let the technical department worry

Decarbonization remains one of the main topics of the ESG discussion in the maritime sector. The association is so strong that many seem to think that ESG in maritime and decarbonization are synonymous and argue that ESG is primarily the responsibility of the technical department. While this view has its reasoning, it only focuses on a portion of the 'E' within 'ESG'. The reality is that Environmental- E, Social-S and Governance-G looks at an organization in its entirety, including its relationships.

A complete ESG strategy and reporting goes far beyond a company's decarbonization plans, towards:

(a) Identifying, evaluating and monitoring the key sustainability risks and opportunities and committing to a course of specific and measurable actions,

(b) Identifying key people and securing the flow of reliable information from the various data sources, as well as

(c) Presenting the sustainability related information fairly and in accordance with a suitable framework.

So, inevitably, ESG is a multi-disciplinary team exercise that cannot be completed by the technical department alone.

Myth #2: ESG creates no tangible benefits for private shipping companies – let's wait

ESG is a business imperative in maritime, whether public or private. Although there is no hard requirement as of now, this area is of significance to key players in the supply chain, especially shipping finance providers and insurers, who are regulated entities having to report on their strategy and performance on ESG. It is these players that primarily put pressure on the maritime sector to address ESG.

With an ever increasing amount of green financing being available, finance providers have started to introduce incentives to attract shipping companies who implement sustainable practices and report consistently and transparently on them.

The incentives are primarily loan margin bonuses linked to specific environmental KPI's. This was a huge development as there is now a clear monetary benefit from adopting sustainable shipping business practices and being transparent about them.

In broad terms, 'if it matters to your counterparties, it matters to you'. Elite charterers are also starting to put pressure on private shipping, having implemented their own ESG strategies. In their case, it is the readiness of reliable ESG related information that can determine whether the charterparty will be agreed upon or not. So, sustainability information is, in this case, becoming a pre-requisite.

Also, to resolve one of the most common misconceptions in the private shipping sector, there are currently no absolute target measurements on any ESG KPIs. Companies do not need to meet any specific targets and yet they can benefit by responsibly reporting their strategy, commitments and performance.

Myth # 3: The framework for ESG is still vague – let's wait

Perhaps the most severe critique that ESG has been facing is that there were a number of reporting standards and frameworks and so sustainability related information was inconsistently prepared.

In addition to that, the lack of accountability on behalf of the preparers of sustainability related information meant that this information was completely unreliable for decision making. No wonder financiers did not include any sustainability related information in their new credit assessment processes until the horizon somewhat cleared.

In relation to the preparation of sustainability reporting, perhaps the most important recent development is the issue of the first two Sustainability Disclosure Standards introducing new reporting requirements and effectively starting a new era in stakeholder reporting, globally.

Being the first two of many, the significance of these Standards is profound as they are issued by the International Sustainability Standards Board (ISSB), an independent international organization, formed by the Trustees of the IFRS Foundation, who developed the International Financial Reporting Standards, decades ago, resolving the issue of consistency in the preparation of financial information.

To enhance the accountability of the preparers of sustainability reports, another independent international organization, this time the International Auditing and Assurance Standards Board (IAASB), the audit profession standard setters, has released the draft International Standard on Sustainability Assurance 5000 (ISSA 5000), which focuses on improving sustainability reporting globally and is expected to replace the International Standard on Assurance Engagements 3000, which has been widely used to provide external assurance by audit firms to sustainability information, up to now.

The existence of both international sustainability reporting standards and international sustainability assurance standards clears the picture of how complete, accurate and fairly presented sustainability information can be prepared and who can then provide external assurance to further enhance its credibility, without of course overlooking the significance of experts, such as classification societies, in certifying important environmental KPIs.

It is no surprise that the Accountancy Profession, having long established frameworks in reporting and assurance – as well as a code of ethics for all professionals - is best suited for the job. Peter Bakker, former CEO of TNT N.V. had raised eyebrows by saying that 'Accountants will save the world' in an impactful speech, later published by Harvard Business Review, back in 2013. His prophesy may just be fulfilled.