

# IT'S NOT JUST ABOUT CLIMATE CHANGE



**IN RECENT YEARS, TERMS LIKE SUSTAINABILITY AND ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE) HAVE BECOME VERY COMMON, NOT JUST WITHIN THE SHIPPING INDUSTRY BUT GLOBALLY. HOWEVER, WHAT DO THESE WORDS MEAN IN PRACTICAL TERMS? WITHIN THE SHIPPING INDUSTRY, SUSTAINABILITY HAS ALMOST BECOME SYNONYMOUS WITH DECARBONISATION. HOWEVER, THERE IS MORE TO SUSTAINABILITY THAN DECARBONISATION AND IT IS IMPORTANT THAT THIS IS NOT FORGOTTEN WHILE ALSO ADDRESSING CLIMATE CHANGE.**

Firstly, it is important to understand the difference between sustainability and ESG. Sustainability in its broadest sense is quite a fluid, umbrella term but can be defined as: 'A societal goal that broadly aims for humans to safely co-exist over a long time', which can then be translated into various ethical and responsible business practices. ESG, on the other hand, sets specific criteria used to define environmental, social, and governance systems as sustainable and to protect a Member from operational and reputational risks. This is where sustainability goes beyond the focus of decarbonisation. A good starting point for any Member who wants to start its ESG journey is to study the United Nations' Sustainable Development Goals (SDGs) along with the ten Principles of the UN Global Compact and incorporate these into its strategies, policies and procedures.

To understand ESG, it can be helpful to start from the end with the G – Governance. Sometimes Governance is overlooked compared to the S and E – Social and Environmental. However, like building a house, Governance is the foundation which needs to be solidly in place before ESG work progresses further, and defines the boundaries within which a Member manages its business. As well as the statutory

requirements (which of course must be complied with), these boundaries should also include industry best practices, together with the development and implementation of procedures and policies to ensure that the Member is not just being compliant with the regulations, but is also acting ethically. These will all encourage Members to incorporate ESG into their business systems – moving away from ESG driven by the heart to ESG driven by the head where it becomes a natural and integrated part of how a Member conducts their business.

With a solid foundation in place, we can move on to the S – Social. This includes among other things creating a safe working environment. This is, of course, nothing new within the shipping industry. One of the main objectives of the International Safety Management (ISM) code which became mandatory in the nineties, was to achieve this. Furthermore, in 2013 the International Labour Organisation's Maritime Labour Convention (MLC) became mandatory in order to ensure worldwide protection for the rights of seafarers, including the right to a safe and secure workplace. However, ESG goes beyond this. While MLC and ISM apply to seafarers and to the operation of their ships,

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ESG applies, in contrast, to a Member's entire organisation, whether onshore or at sea. For a Member, this will include ensuring workers' rights along with workforce equality, inclusion and development. There should also be an ethical business model with no use of modern slavery or child labour and a real effort to prevent bribery and corruption.

Then there is the E – Environmental, which is probably the most discussed part of ESG, driven by the global ambition to reduce climate change. As touched on above, this has become almost synonymous with decarbonisation, which is not surprising as this is a very important and urgent objective, without doubt one of the key challenges for the shipping industry going forward. However, being environmentally responsible also includes many other factors such as reducing the use of plastic, increased recycling, developments for improved waste disposal and general care for both the marine and land environment.

Once Members have identified the current and future ESG-related risks and controls, the next step is to establish Key Performance Indicators (KPIs) to measure performance and then disclose this information to stakeholders by publishing an annual sustainability report.

The Sustainability Accounting Standards Board (SASB) has produced standards that identify the ESG issues most relevant to financial performance in 77 industries including marine transportation.

The SASB Marine Transportation Sustainability Accounting Standard stipulates a number of ESG reporting categories relevant for shipping which do not focus solely on climate related factors, but also include: ecological impact and business ethics, employee health and safety management.

Britannia's annual sustainability report, which goes into more detail about the Club's sustainability strategy, can be read here. <https://bit.ly/3wlfGnx>



While some may still think that sustainability and ESG are merely buzzwords, the fact is they are unlikely to go away and, on the contrary, are likely to become increasingly important. The Poseidon Principles have been introduced by the banking sector and provide a framework for integrating climate considerations into lending decisions to promote decarbonisation in the shipping sector. However, the sustainability and ESG agendas are not only driven forward by financiers, but also by commercial demand and customer expectations that Members will act prudently and responsibly, not just when it comes to climate change, but also in terms of their social and governance obligations.

If you should have any questions regarding sustainability and ESG matters, please contact Britannia P&I's sustainability team at: [sustainability@tindallriley.com](mailto:sustainability@tindallriley.com)