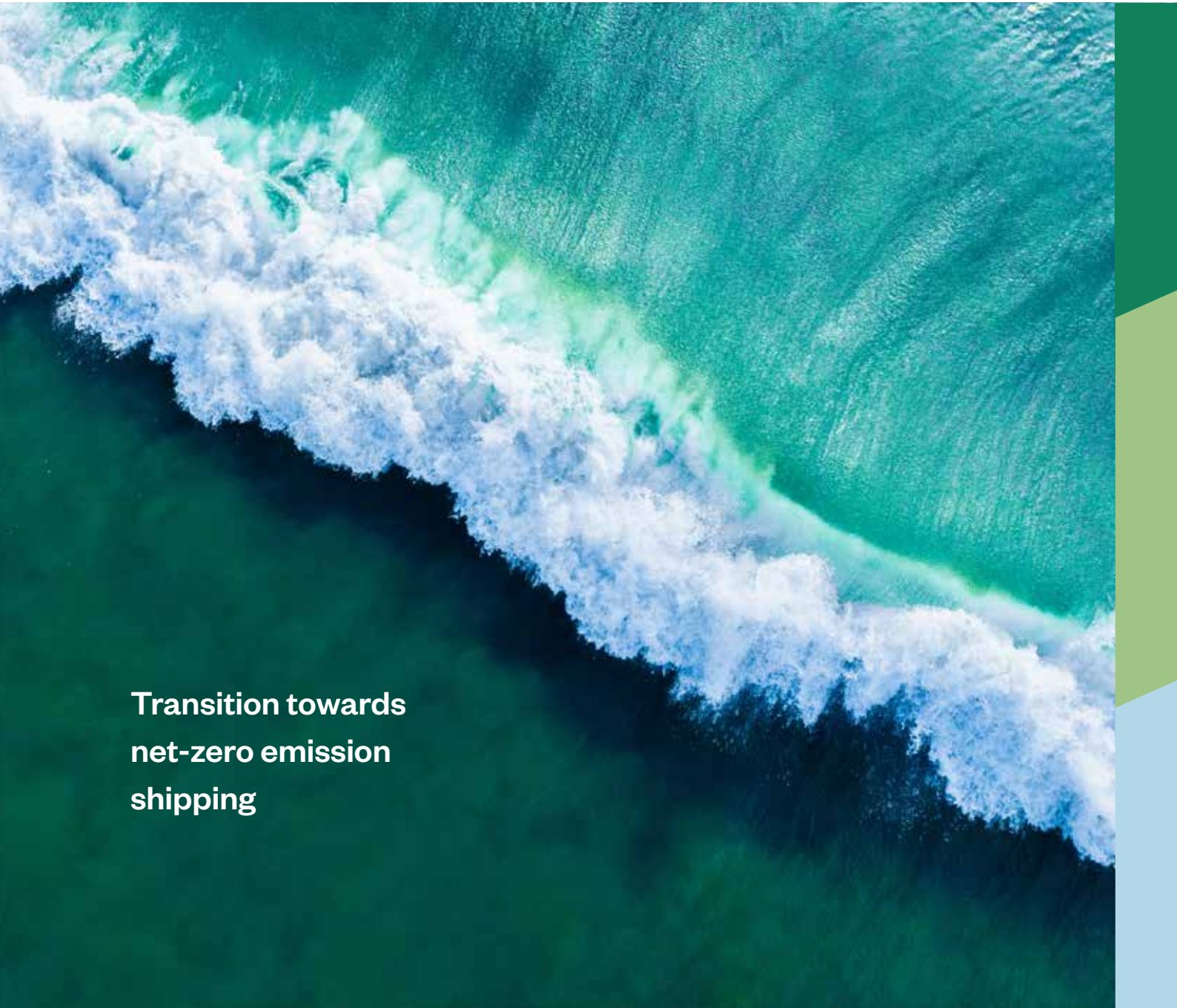


# Guidelines for Transition-Linked Financing



**Transition towards  
net-zero emission  
shipping**

**Issued by:**

Green Shipping Programme

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The Guidelines for Transition-Linked Financing for shipping have been developed by a working group of experienced industry participants led by the Norwegian pension fund KLP and facilitated under the Green Shipping Programme.



# Introduction

Transition-Linked Financing (TLF) aims to facilitate financing of companies that are making serious efforts to align their greenhouse gas (GHG) emissions with the ambition level of the Paris Agreement<sup>1</sup>, while also addressing potential adverse environmental impacts.

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1 The main aim of the Paris Agreement is to keep a global average temperature rise this century well below 2 degrees Celsius and to drive efforts to limit the temperature increase even further to 1.5 degrees Celsius above pre-industrial levels.

Shipping is the most carbon-efficient mode of commercial transport. Nevertheless, the industry is responsible for 2.9%<sup>2</sup> of global GHG emissions and must also play its part in the global transition to a net-zero economy. The International Maritime Organization (IMO) has recognized the need to strengthen the ambitions in the IMO strategy on the reduction of GHG emissions from ships, and it is expected that the shipping sector will work towards becoming net zero by 2050. During the transition to zero GHG emissions, the industry needs to consider emission reduction measures that can be applied to the existing fleet, while phasing in low- and zero-emission fuels over time.

Transition finance recognizes the need for banks and investors to contribute to decarbonizing hard-to-abate industries, where low- and zero-emission technology and infrastructure are unavailable or not yet commercially viable. Financing transitional activities and companies complements the financing of green activities and companies, which can take the form of green bond issuances, or green loans.

In a wide range of industries, financing transitional activities has to some extent been achieved using Sustainability-Linked Bonds (SLBs) and Sustainability-Linked Loans (SLLs). These instruments include impact-oriented environmental criteria for transition activities. However, there is no specific recommendation for the shipping sector that can assure stakeholders that the transition activity addresses the right environmental objectives, and that the transition's emissions target is ambitious enough. To achieve this, targets and performance indicators need to align with science-based targets<sup>3</sup> and emission trajectories, and to take steps towards alignment with the EU Taxonomy's<sup>4</sup> provision for shipping.

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2 Faber, J. et al. (2020), Fourth IMO GHG Study, Delft, CE Delft, July 2020.

3 An emissions reduction target is defined as 'science-based' if it is developed in line with the scale of reductions required to keep global warming in accordance with the ambitions in the Paris Agreement.

4 As described in Appendix 2 of these Guidelines, the EU Taxonomy classification system establishes a list of environmentally sustainable economic activities.

**The Guidelines for Transition-Linked Financing**

(‘the Guidelines’) presented in this publication do not aim to develop a new market standard, but rather to define a Paris-aligned *transition* for the shipping sector. This relates to how shipping can contribute to the global decarbonization effort, while ensuring that emission reduction efforts do no significant harm to other environmental objectives outlined in the EU Taxonomy. As such, these Guidelines outline how shipping companies should:

- align their emission-intensity performance with a pathway towards net-zero emission by 2050
- take steps towards alignment with the Do No Significant Harm (DNSH) criteria under the environmental objective of climate change mitigation in the EU Taxonomy.

In particular, this document provides guidance on selecting Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs) using the same methodology outlined in the SLB Principles (SLBP<sup>5</sup>) and/or the SLL Principles (SLLP<sup>6</sup>).

The purpose of this document is to tailor the fundamentals in the SLB/SLL Principles to the shipping industry, focusing on transitional KPIs, SPTs, and reporting requirements. For other provisions, the SLB/SLL Principles will be adopted as is (Figure 1).

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5 ‘Sustainability-Linked Bond Principles (SLBP)’. International Capital Market Association (ICMA). Viewed at [www.icmagroup.org](http://www.icmagroup.org)

6 ‘Sustainability-Linked Loan Principles (SLLP)’. Loan Syndications and Trading (LSTA). Viewed at [www.lsta.org](http://www.lsta.org)



Figure 1. Overview of how the Guidelines for Transition-Linked Financing link with existing ICMA standards

# Defining Transition-Linked Financing for shipping

The definition of TLF for shipping is the same as the LSTA/LMA<sup>7</sup> and ICMA<sup>8</sup> definitions of SLLs and SLBs, but where KPIs and SPTs are defined.

This document uses the term *transition* rather than *sustainable*, as the working group considers it to be a better description of the outcome. Sustainability can be interpreted as an end goal, while transition characterizes a company's process towards sustainability.

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7 Loan Syndications and Trading Association (LSTA); Loan Market Association (LMA).

8 International Capital Market Association (ICMA).



# Guidelines for Transition-Linked Financing

These Guidelines for TLF for shipping are based on the principles for SLLs/SLBs, with some extensions and specifications to reflect a greater need for transparency and accountability from companies in transition. The following sections outline the extensions that should be considered for the existing principles, which are listed below.

## 1. Selection of Key Performance Indicators



## 2. Calibration of Sustainability Performance Targets



## 3. Loan Characteristics



## 4. Reporting



## 5. Verification



*These Guidelines will be kept under review and updated on a regular basis.*

## 1. Selection of Key Performance Indicators (KPIs)

TLF aims to improve the borrower's environmental profile over the term of the loan/bond, and the environmental profile is captured through assessing selected KPIs. According to the SLLPs and SLBPs, KPIs should be material to the company's transition strategy, measurable, externally verifiable, and benchmarkable. Based on the working group's assessment of these principles for shipping, borrowers subject to this Guideline shall specifically report performance on selected KPIs for the following:

- **Decarbonization:** For GHG emissions, borrowers should use the relative intensity metric Annual Efficiency Ratio (AER). The KPI selection is justified in Appendix 1.
- **Alignment with the EU Taxonomy:** In addition to the decarbonization criteria, borrowers should take steps towards alignment with the DNSH criteria of the EU Taxonomy, specifically on elements that are currently unregulated: underwater noise, biofouling, and ship recycling. Details are found in Appendix 2.



## 2. Calibration of Sustainability Performance Targets (SPTs)

The calibration of SPTs should follow the principles for determining SPTs set out in the SLL and SLB standards. The targets should represent a material improvement, should go beyond 'Business as Usual', and should be compared to a benchmark and be determined on a predefined timeline.

Following these principles, the SPTs related to decarbonization should (based on the AER) be aligned with a target of zero GHG emissions in 2050, in line with the method provided by the Climate Bond Initiative<sup>9</sup> and the Poseidon Principles<sup>10</sup>.

The borrower must meet the transitional target set within the tenure of the loan or bond. Appendix 1 provides additional guidance on the KPI selection, trajectory construction, and guidelines related to calculating and reporting on metrics, and how to apply the criteria for different companies.

Efforts towards other environmental objectives should be made in alignment with the EU Taxonomy's environmental objective of climate change mitigation and its DNSH criteria.

When calibrating SPTs, research and development initiatives and the technological maturity of solutions enabling the company's transition strategy should be considered. Targets should be based on best available technologies and operating practices, not on expectations of what could become available in the future.

Borrowers cannot use carbon credits to improve performance when reporting on SPTs under Transition-Linked Financing.



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9 Climate Bonds Initiative is an international organisation working solely to mobilise the largest capital market of all, the \$100 trillion bond market, for climate change solutions

10 The Poseidon Principles are a global framework for assessing and disclosing the climate alignment of financial institutions' shipping portfolios.

### 3. Loan Characteristics

No additions to SLB/SLL Standard.



## 4. Reporting

The SLLPs apply, but with greater emphasis on disclosure of transitional activities and measures.

The borrower's compliance with the TLF criteria shall be reported to the bank(s) on an annual basis.

Borrowers shall specifically report on:

- 
- their carbon intensity in relation to the trajectories described in Appendix 1
- 
- whether or not they comply with the annual target(s) set out in the loan agreement
- 
- an assessment of the performance, outlining the reason(s) behind target compliance/non-compliance
- 
- the DNSH criteria under the environmental objective of the climate change mitigation objective in the EU Taxonomy, going beyond existing international regulations, as described in Appendix 2.
- 

Borrowers are encouraged to publicly disclose their performance in addition to their overall environmental strategy and ambition levels; for example, as part of their Environmental Social and Governance (ESG) reporting. The reporting should include target(s), progress towards said target(s), and analysis of trend performance (i.e., the reason(s) behind improvement/non-improvement).

When a bank has facilitated at least five transition-linked loans or bonds under application of the Guidelines, it shall report – to the Green Shipping Programme – aggregated and anonymized data displaying their financing and related environmental impact for assessment of the Guidelines' total impact.



## 5. Verification

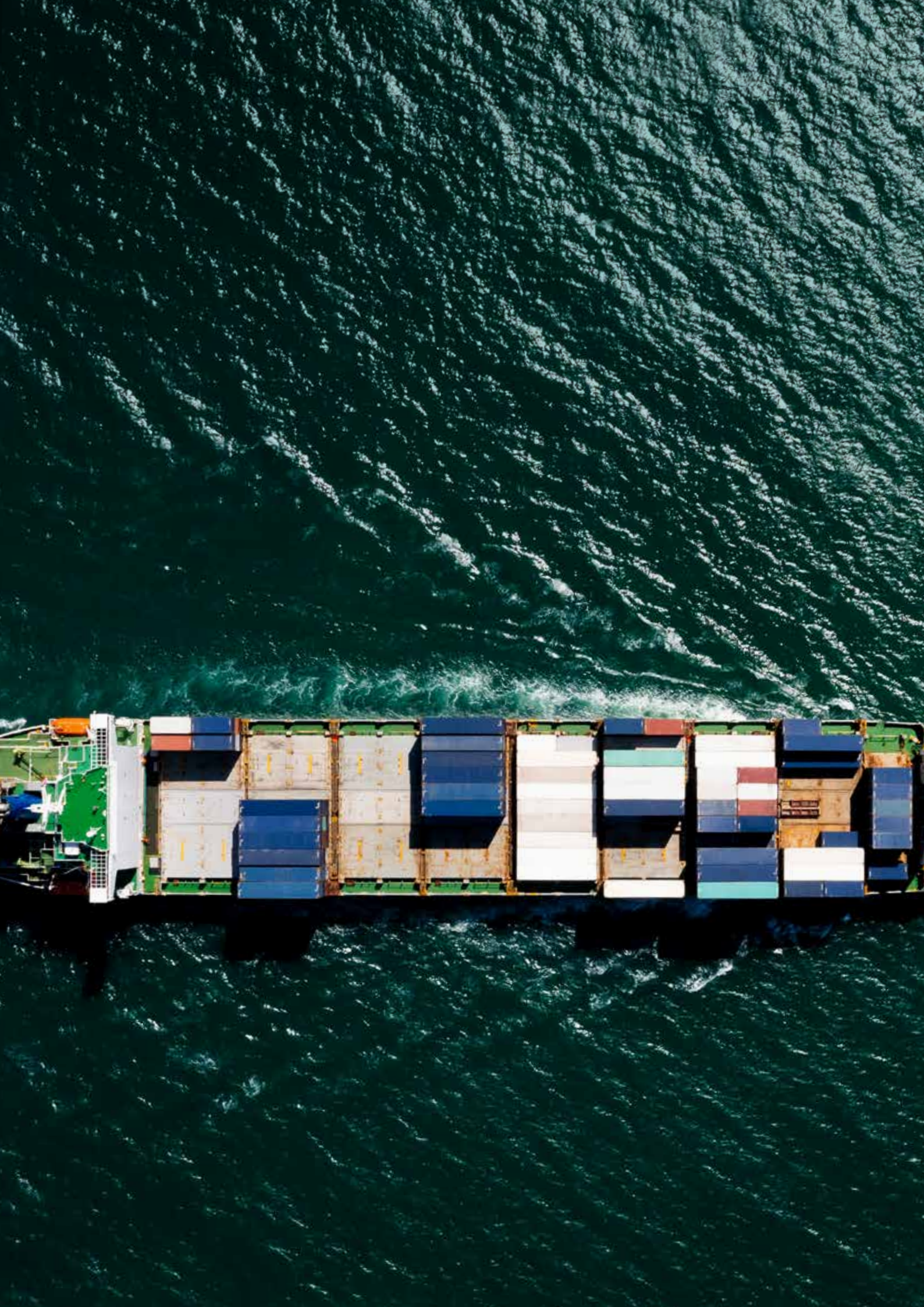
No additions to SLB/SLL Standard.



## Best practice

As part of developing and communicating transition plans, borrowers are encouraged to follow the recommendations put forward in ICMA's *Climate Transition Finance Handbook*, summarized by four key elements:

- 1. Issuer's climate transition strategy and governance:**  
A 'transition' label applied to a debt financing instrument should serve to communicate the implementation of an issuer's corporate strategy to transform the business model in a way which effectively addresses climate-related risks and contributes to alignment with the goals of the Paris Agreement.
- 2. Business model environmental materiality:**  
The planned climate transition trajectory should be relevant to the environmentally-material parts of the issuer's business model, taking into account potential future scenarios which may impact on current determinations concerning materiality.
- 3. Climate transition strategy to be 'science-based' including targets and pathways:** The planned transition trajectory should be: quantitatively measurable (based on a measurement methodology which is consistent over time); aligned with, benchmarked, or otherwise referenced to recognized, science-based trajectories where such trajectories exist; publicly disclosed (ideally in mainstream financing filings); supported by independent assurance or verification; and should include interim milestones.
- 4. Implementation transparency:** Market communication in connection with the offer of a financing instrument which has the aim of funding the issuer's climate transition strategy should also provide transparency, to the extent practicable, of the underlying investment programme including capital and operational expenditure.





# Appendix



## Appendix 1.

# Decarbonization criteria

Numerous bond and loan placements in the shipping industry over the past years have applied decarbonization criteria linked to the instrument's characteristics. Such criteria are normally defined on a placement-by-placement basis, but adherence to established principles has become the market standard and should be expected. The relevant principles for placements with impact-oriented greenhouse gas criteria (i.e., achieve a defined reduction within a defined period) are the LMA/ICMA Principles for Sustainability-Linked Loans/Bonds. While the principles clearly state that the KPIs should be material, and that the SPTs should be ambitious and go beyond business-as-usual, KPI selection and target setting is ultimately subject to borrowers' and verifiers' subjective decisions and assessments.

This presents a challenge for banks and investors, as it can be difficult to evaluate the ambitiousness of one company compared with another if the selected baselines, KPIs, and/or SPTs differ between the organizations. More importantly, it can be challenging to assess whether a company is in line with relevant external trajectories and targets, such as the IMO GHG Strategy or the Paris Agreement. In addition to creating reputational risk for the actors involved, this poses a risk of greenwashing and of not stimulating a sufficiently rapid transition to zero-carbon shipping. Therefore, there is a need for a higher level of standardization of what transition means in terms of climate related KPIs and carbon reduction targets.

This Appendix provides guidance on the selection of KPIs and targets that are science-based and on a path towards zero GHG emissions in 2050. A zero-emission target in 2050 aligns with the Climate Bonds Initiative's (CBI) target and the EU Taxonomy's climate change mitigation objective.

Figure 2 summarizes the decarbonization criteria, which follow the CBI's approach to KPI selection and trajectory construction in items 1.1 and 1.2.

Decarbonization criteria	
<p><b>1.2</b> Banks shall assess the borrower's AER value against the applicable ship size and type carbon intensity trajectory. The carbon intensity trajectories are designed to reach zero emissions in 2050.</p>	<p><b>1.1</b> Banks shall use the relative emission intensity indicator Annual Efficiency Ratio (AER), measuring grams of carbon dioxide (CO<sub>2</sub>) emitted per deadweight mile (dwt-mile), to calculate the borrower's GHG emissions.</p> <p><b>1.3</b> Banks shall calculate the borrower's AER score as a percentage of the applicable carbon intensity trajectory for a given year. If the borrower is subject to multiple carbon intensity trajectories, the decisive AER score is calculated as a dwt-weighted average.</p>
<p><b>1.4</b> Based on the AER starting point, banks shall decide whether the borrower qualifies as a transition leader or transition accelerator. An adjusted 10-year trajectory shall be calculated based on applicable guidance, determining the borrower's screening criteria.</p>	<p><b>1.5</b> Banks can consider relaxed screening criteria in terms of AER compliance in cases where companies present plans to invest in innovative solutions, such as zero-emission ships.</p>

Figure 2. Decarbonization criteria

## Selection of KPIs

### Decarbonization criterion 1.1

Banks shall use the relative emission intensity indicator Annual Efficiency Ratio (AER), measuring grams CO<sub>2</sub> emitted per dwt-mile, to calculate the borrower's GHG emissions.

### Background for KPI selection

GHG emissions can be measured both in absolute terms (total emissions) and on an intensity basis (emissions per transport work). While the total emissions are what ultimately needs to be reduced to mitigate climate change, the figure does not reflect a company's relative performance, as it captures neither the transport work nor, consequently, the carbon intensity of a vessel. For this reason, a relative intensity-level metric is selected.

There are multiple alternative carbon intensity indicators for different ship types, however the two most-used alternatives for cargo vessels are the Energy Efficiency Operational Indicator (EEOI) and the Annual Efficiency Ratio (AER). EEOI is calculated by dividing a ship's annual GHG emissions by the product of the annual distance sailed and the cargo carried, resulting in a metric measuring grams of CO<sub>2</sub> emitted per tonne-mile (tnm). AER, on the other hand, is calculated by dividing a ship's annual GHG emissions by the product of the annual distance sailed and the ship's *cargo capacity*, or deadweight-tonnes (dwt). This gives a metric measuring gCO<sub>2</sub> emitted per dwt-nm.

EEOI is more accurate in measuring a vessel's carbon intensity than AER, since AER inherently (and falsely) assumes that the vessel always sails fully loaded. The great benefit with AER, however, is that it has global data coverage through the IMO Data Collection System (DCS) introduced in 2019. All vessels of more than 5,000 gross tonnes are required to report the data needed to calculate the AER. For calculating EEOI, on the other hand, it is mandatory to report data only for voyages within the EU, under the EU Monitoring, Reporting and Verification (MRV) reporting regime.

Verified data are essential to operationalize the decarbonization criteria. The proposal is therefore to be open to using both EEOI and AER, and to select metric based on the applicable reporting requirements for the case in question. If the ship trades 100% of the time within the EU, the issuer should report EU MRV data that enable EEOI calculation. Otherwise, the issuer needs to report IMO DCS data that enable AER calculation.

## Decarbonization trajectories

Decarbonization trajectories to be used under these Guidelines are constructed with the methodology applied by both the Poseidon Principles and the Climate Bonds Initiative. The full set of yearly threshold values for all segments until 2050 can be downloaded [here](#).

### Decarbonization criterion 1.2

Banks shall assess the borrower's AER value against the applicable ship size and type carbon intensity trajectory. The carbon intensity trajectories are designed to reach zero emissions in 2050.

### Constructing decarbonization trajectories

This section explains the construction of the decarbonization trajectories; that is, how the required carbon intensity for a given ship type and size is calculated for a given year. The method is taken from CBI's background paper, *The Shipping Criteria for the Climate Bonds Standard & Certification Scheme*<sup>11</sup>, which is the same method applied by the Poseidon Principles. Similarly to CBI, the trajectories are constructed with a zero-emission target in 2050. The trajectory values differ however slightly as this Guideline bases the calculation on data from the Fourth IMO GHG Study, while CBI uses data from the Third IMO GHG Study. The trajectories are constructed on the basis of the total transport demand and total CO<sub>2</sub> emissions in the baseline year (2012), and the target emissions in 2050. From these data points, the fleet average carbon intensity can be calculated. Table 1 shows the transport demand, CO<sub>2</sub> emissions and resulting carbon intensity in 2008 and 2012, and the target values for 2050.

	2008	2012	2050
Total transport demand (billion tonne-miles)	46 003	54 077	119 429
Total CO <sub>2</sub> emissions (million tonnes)	921	848	0
Estimated aggregate carbon intensity (gCO <sub>2</sub> /tonne-mile)	22.0	15.7	0

**Table 1.** Transport demand, emissions, and carbon Intensity for international shipping.

11 <https://www.climatebonds.net/files/files/CBI%20Certification%20-%20Shipping%20Background%20Paper%281%29.pdf>

The decarbonization trajectory is obtained by applying a linear trend line connecting the carbon intensity in 2012 and 2050, as displayed in Figure 3.

The trajectory is indexed by normalizing the values to the baseline carbon intensity in 2012 and is displayed in Figure 4. The trendline of the indexed trajectory represents the slope which is used to construct the decarbonization trajectory values. The carbon intensity index for a given year is calculated by using the trendline formula, and the decarbonization trajectory values by multiplying the index value with the baseline AER values (2012) for the different ship categories. Ship categories and their respective baseline AER values are obtained from the Fourth IMO GHG Study.

### **Continuously updating the trajectories as further data becomes available**

Several parameters used in calculating decarbonization trajectories may change and will be reviewed and updated centrally. It is impossible to make individual modifications to the trajectories used under these Guidelines.



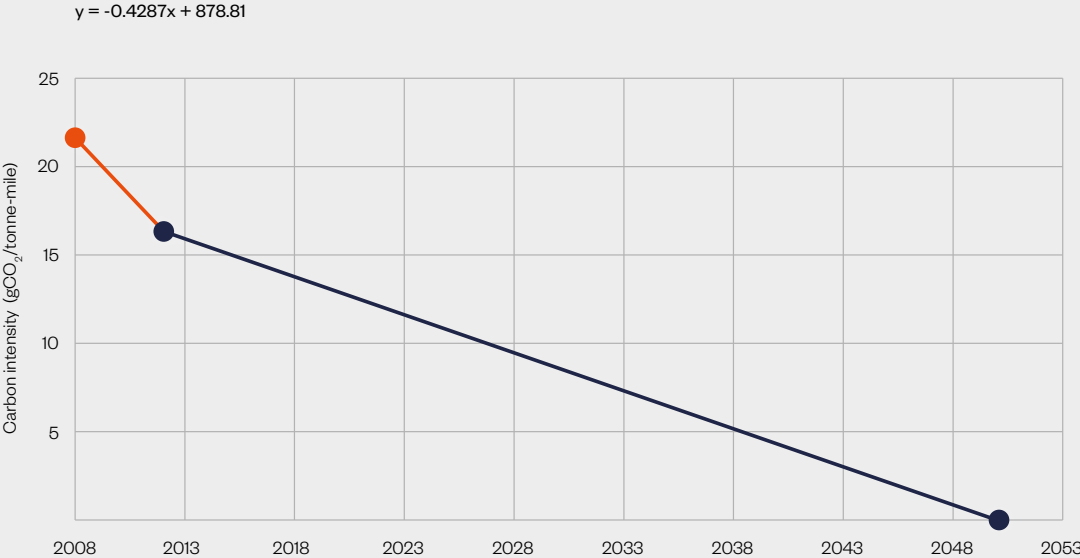


Figure 3. Global carbon intensity trajectory 2008–2050

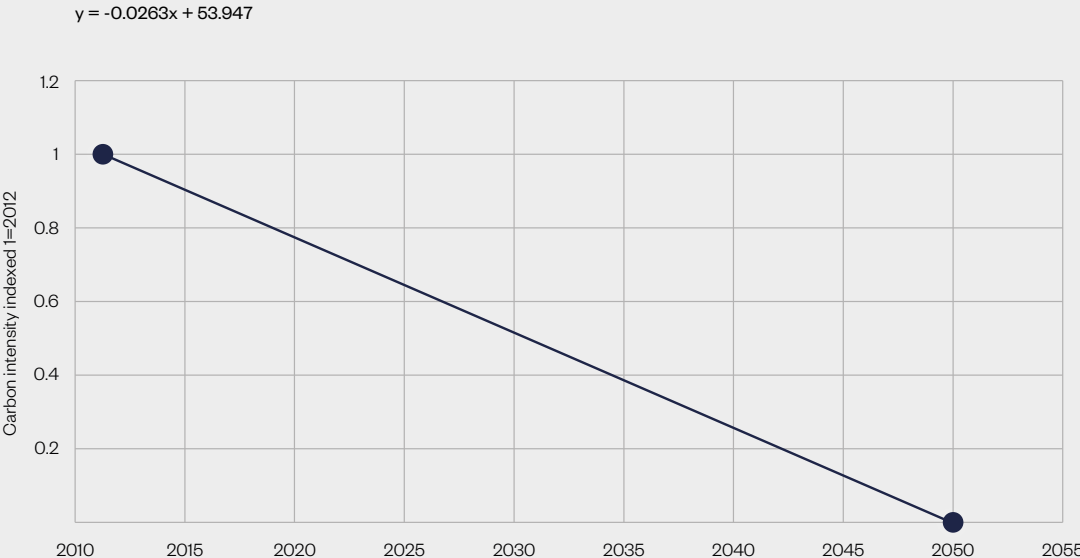


Figure 4. Indexed decarbonization trajectory 2012–2050

## Reporting and calculating AER at a company level

### Decarbonization criterion 1.3

Banks shall calculate the borrower's AER score denoted as the level of alignment with the applicable carbon intensity trajectory for a given year, expressed in percentage terms. If the borrower is subject to multiple carbon intensity trajectories, the decisive AER score is calculated as a dwt-weighted average.

Since these Guidelines for Transition-Linked Finance follows the principles of Sustainability-Linked Loans (SLL) and Sustainability-Linked Bonds (SLB), the company-wide (the fleet's) performance is ultimately what matters. However, the carbon intensity trajectory varies for the different ship categories, increasing the required granularity for assessing a company's performance. The company shall therefore report data that enables calculation of AER for each ship in the fleet, including the ship type and size, for assessment against the relevant trajectory. This means that the reporting for each vessel in the fleet should include ship type, ship size (dwt), annual total CO<sub>2</sub> emissions and sailed distance. For ships within the same category, the AER will be calculated as

$$AER = \frac{\sum_i^N C_i}{\sum_i^N D_i * dwt_i}$$

C is the annual carbon emissions, D is the annual distance sailed, and dwt is the deadweight tonnage at scantling draft. N is the number of ships in the ship category, and i indicates the individual ships. The AER for a given category in a given year will also be calculated as a percentage of the relevant carbon intensity trajectory, where values at or below 100% means alignment in absolute terms. The percentage value should be the decisive value when assessing whether a company qualifies for financing under the framework.

If the company has vessels in multiple ship categories, the decisive percentage score will be calculated based on a dwt-weighted average of the AER percentage scores for each ship category. For example, if a company has an aggregated dwt of 200,000 tonnes in category A with an AER percentage score of 113%, 500,000 tonnes category B with an AER percentage score of 95%, and 800,000 tonnes in category C with an AER percentage score of 105%, the decisive AER percentage score would be

$$AER_{tot} = \frac{200,000 * 113\% + 500,000 * 95\% + 800,000 * 105\%}{200,000 + 500,000 + 800,000} = 102.7\%$$



## Application of the decarbonization criteria

The decarbonization trajectory assumes a linear carbon intensity reduction to zero GHG emissions in 2050. However, companies have different starting points. These Guidelines define two different *transition categories* for companies: *transition leader* and *transition accelerator*. In defining targets for a given company, the bank must determine which of the two transition categories applies.

In line with the SLL/SLB principles, a company must improve the fleet AER to qualify for the loan/bond characteristics, and the improvement must be related to the defined carbon intensity trajectory.

It is the view of this working group that companies with a fleet AER both above and below its relevant carbon intensity trajectory should be eligible for financing under this Guideline. However, a different set of rules should apply, as follows. Companies with fleet AER *above* the trajectory need to improve relative to the slope of the trajectory – that is, they need to catch up with the trajectory – and are hereby referred to as *transition accelerators*. Companies with fleet AER *at or below* the trajectory should continue to improve and are hereby referred to as *transition leaders*. Guidelines on how the decarbonization criteria can be applied and operationalized for transition leaders and transition accelerators are outlined in the following sections.



## Transition leaders

*Transition leaders* are companies that have a calculated AER at or below the trajectory for the relevant ship type and size at the time they seek financing. Companies in this category are, depending on the segment, likely to be best-in-class. Still, they will in most cases have material GHG emissions levels and should be stimulated for further improvement towards the end goal of net-zero emission shipping. To avoid stagnation, or even a flat carbon intensity slope, an adjusted trajectory is drawn from the starting point to zero GHG emissions in 2050. The requirement in this Guideline is for the company to align with the drawn slope within the tenure of the loan/bond.

In addition, the company should demonstrate credible plans towards zero GHG emissions. Figure 5 illustrates the transition leader case and how AER performance can qualify or disqualify a company for loan/bond characteristics.

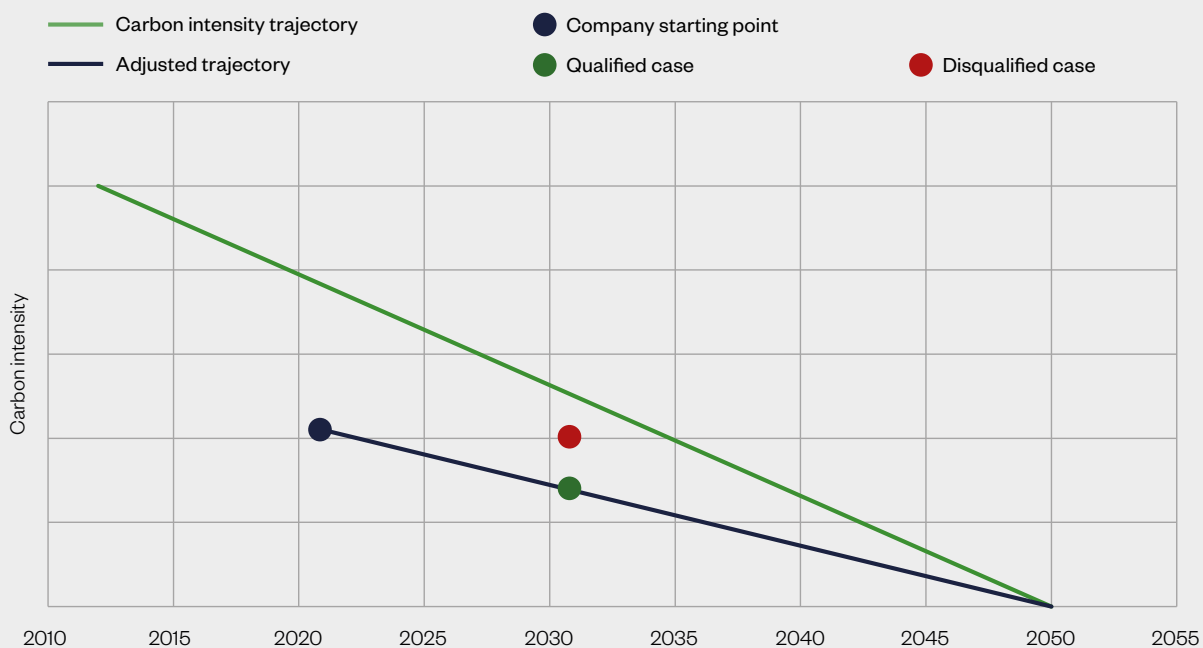


Figure 5. Transition leader case example

### Transition accelerators

*Transition accelerators* are companies with an AER starting point above the relevant carbon intensity trajectory. This category will include both relatively low- and high-performing companies, but the common denominator is that they do not comply with the criteria in absolute terms. Transition accelerators need to improve relative to the carbon intensity trajectory, to catch up and become compliant at some point in time.

To define the required improvement in AER, a 10-year trajectory is drawn from the company's starting point, intersecting with the carbon intensity trajectory 10 years later. The company needs to demonstrate credible plans and report progress towards reaching the adjusted trajectory within the tenure of the loan/bond. It also needs to present credible plans to achieve alignment with the trajectory within a 10-year period at the latest. Figure 6 illustrates the transition accelerator case and how AER performance can qualify or disqualify a company for loan/bond characteristics.

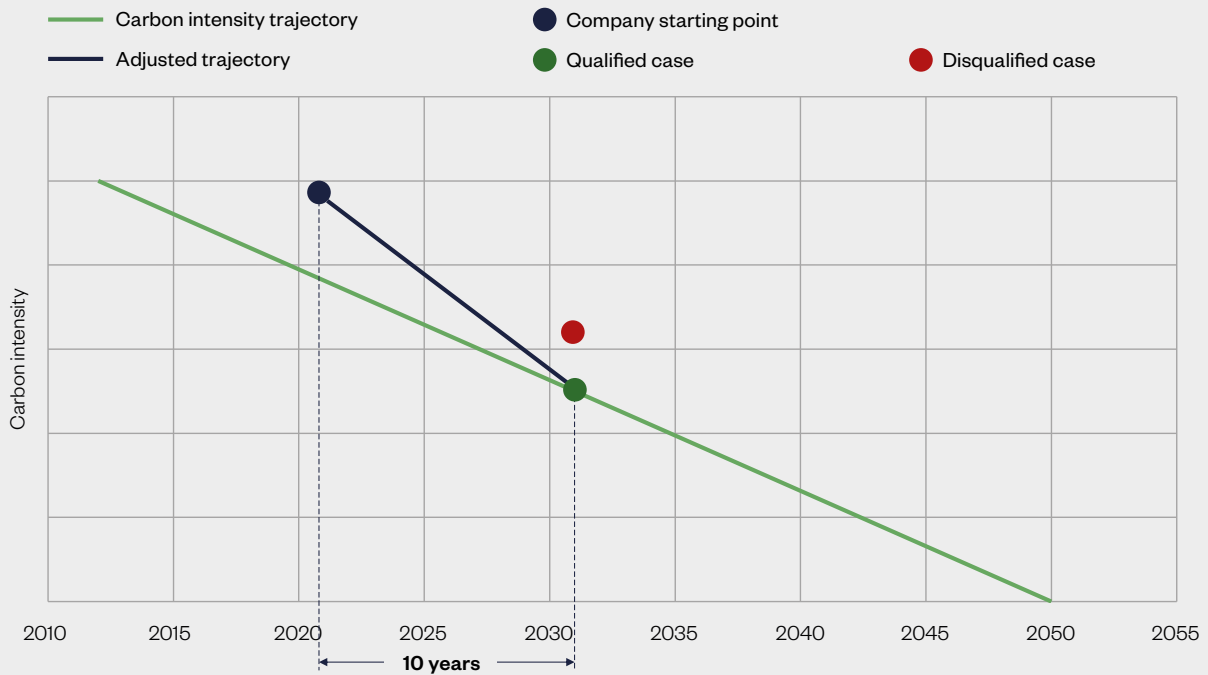


Figure 6. Transition accelerator case example

## Tenure and alignment with the Guidelines

The benefit of the adjusted trajectory, as shown in Figure 5 and Figure 6, is that it provides a continuous threshold, making it adaptable to any given loan or bond tenure. The target carbon intensity can be calculated based on the company's starting point, the adjusted decarbonization trajectory, and the tenure of the loan or bond in question. Figure 7 and Figure 8 exemplify how this can be applied for loans or bonds with tenures of three, five, or seven years.

When refinancing a transition-linked bond or loan, the bank can choose to proceed with the target trajectory defined originally, or they can recalculate the baseline with updated data and define a new trajectory.

### Decarbonization criterion 1.4

Based on the AER starting point, banks shall decide whether the borrower qualifies as a transition leader or transition accelerator. An adjusted trajectory shall be calculated based on the applicable guidance, determining the borrower's screening criteria.

## Balancing short- and mid-term emission reductions with long-term potential

Investments in low- and zero-emission solutions are in some cases not the most cost-efficient way of reducing the company-wide carbon intensity within a shorter period represented by the tenure of the financing. However, such investments will have large repercussions in the long term and represent major steps towards compliance with the climate change mitigation objective of the EU Taxonomy. Banks are encouraged to consider relaxed screening criteria in terms of AER compliance in cases where companies present plans to invest in innovative solutions that are a necessary part of the future technology and energy mix of shipping.

### Decarbonization criterion 1.5

Banks can consider relaxed screening criteria in terms of AER compliance in cases where companies present plans to invest in innovative solutions, such as zero-emission ships.

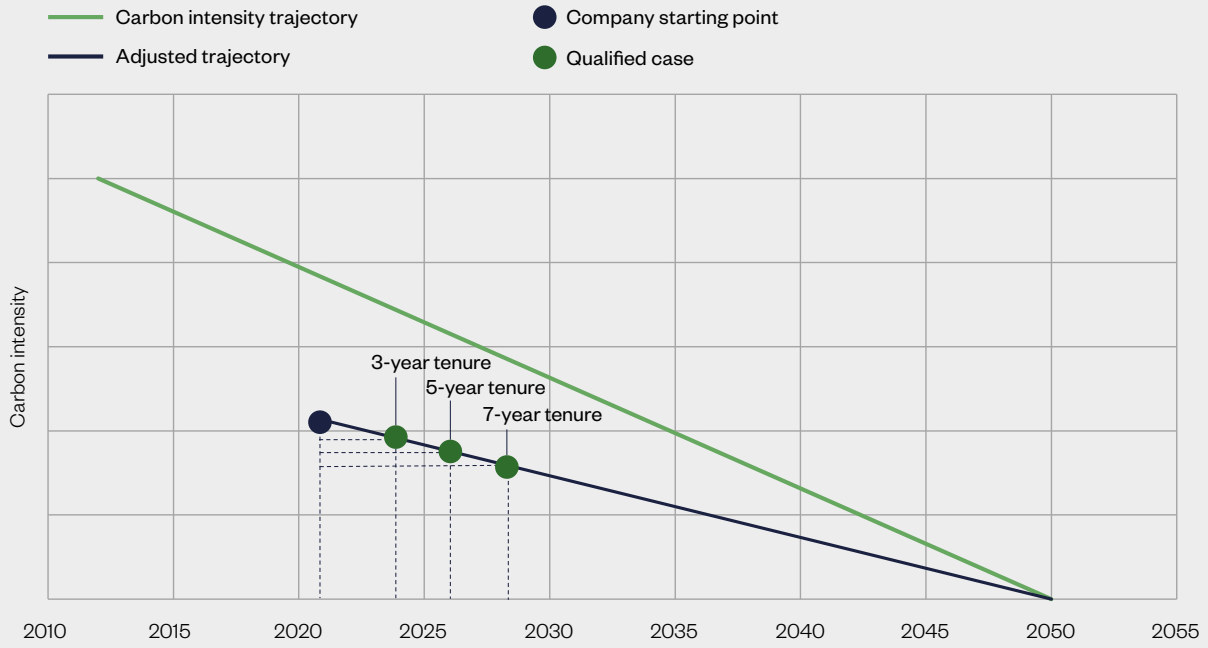


Figure 7. Transition leaders - tenure examples

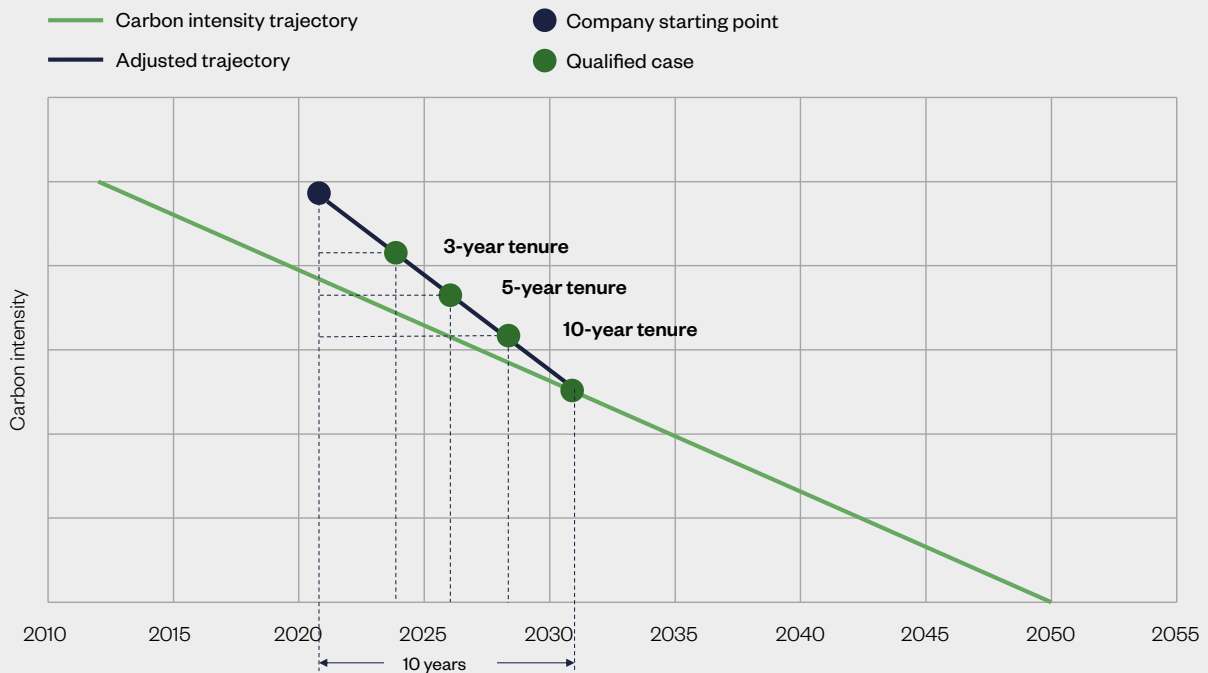


Figure 8. Transition accelerators - tenure examples

## Appendix 2.

# EU Taxonomy

### Criteria to ensure steps are taken towards alignment with the EU Taxonomy's environmental objective of climate change mitigation, in particular its Do No Significant Harm (DNSH) criteria.

**To meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal, it is vital that investments are directed towards sustainable projects and activities. To achieve this, a common language and a clear definition of what is 'sustainable' is needed. This is why the action plan on financing sustainable growth called for the creation of an EU Taxonomy, a common classification system for sustainable economic activities.**

The EU Taxonomy is a classification system, framed in the EU Taxonomy Regulation<sup>12</sup>, that establishes a list of environmentally sustainable economic activities. The EU Taxonomy will provide companies, investors, and policymakers with definitions of which economic activities can be considered environmentally sustainable. In this way, it should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation, and help shift investments to where they are most needed.

The EU Taxonomy identifies six environmental objectives, to at least one of which an economic activity must contribute significantly, while doing no significant harm (DNSH) to any of the other environmental objectives. The activity must also hold minimum safeguards of social rights.

The EU Commission ('the Commission') has delegated competences under the EU Taxonomy Regulation to develop technical screening criteria for the specific identification of substantial contribution to an environmental objective under the regulation and Do No Significant Harm (DNSH) criteria.

In the context of these Guidelines for Transition-Linked Finance for shipping, the most relevant environmental objective in the EU Taxonomy is climate change mitigation. For this environmental objective, the EU Commission has developed technical screening criteria and DNSH criteria for maritime transport activities.

The EU Taxonomy's criteria for substantial contribution to climate change mitigation is presumed to be

aligned with the decarbonization criteria of these Guidelines, moving towards zero GHG emissions in 2050 – at least in the sense of being on a pathway towards alignment. Maritime transport also holds transitional criteria under the EU Taxonomy.

In addition to criteria of substantial contribution to climate change mitigation, the EU Taxonomy includes criteria to ensure no significant harm is inflicted by the economic activity on any other environmental objectives (DNSH criteria). To promote alignment with the EU Taxonomy, these Guidelines include separate reporting requirements on the implementation of DNSH criteria that go beyond the existing regulatory framework for international shipping (IMO requirements).

The Guidelines do not include the DNSH criteria related to climate change adaptation and sustainable use and protection of water and marine resources as provided in Annex 1 to Commission Delegated Regulation. The reason for this is that these DNSH criteria are generally formulated, not well suited for maritime transport in their

current form, and are challenging to find effective and meaningful ways of reporting on. Also, the DNSH criteria on pollution prevention and control are not included as these are all considered to be covered by existing international IMO regulations. Further, the requirement to meet minimum social safeguards is expected to be assessed as part of a due diligence process in the initial stages of a financing process.

Since the EU Taxonomy is under continuous development, updates on how these Guidelines promote a path towards EU Taxonomy alignment will be undertaken in accordance with updates made by the EU.

## Criteria

To promote alignment with the EU Taxonomy, the company shall report on DNSH criteria under the environmental objective of climate change mitigation in the EU Taxonomy on a yearly basis, specifically on the following EU Taxonomy DNSH criteria going beyond existing international regulations:

### Transition to a circular economy

- The company shall report on measures taken to manage

waste in accordance with the requirements of Annex 1 to Commission Delegated Regulation (EU) .../...<sup>13</sup> [in particular, implementation of Regulation (EU) 1257/2013].

- If scrap ships are not recycled in facilities included on the European List of ship recycling facilities as laid down in Commission Decision 2016/2323, the company shall report the following for each facility:
  - Whether the ship recycling facility has applied for inclusion on the EU list:
    - If yes, where in the process is the application (desk assessment, site inspection, second site inspection)? How are non-compliant items followed up by the facility?
    - If no, has the ship recycling facility achieved a Statement of Compliance with the Hong Kong Convention?<sup>14</sup>
  - What steps the company has taken to support improved practices at the ship recycling facility, particularly related to downstream waste management and medical assistance.

- The company is encouraged to:
  - Assume responsibility for the ship from cradle to grave, also in case of sales to a third party if part of the recycling process.
  - Follow up the recycling process through inspection, measurements, reporting, etc.
  - Pay particular focus to avoid forced labour and or child labour in the selection of recycling yard and the yard's value chain.

### Protection and restoration of biodiversity and ecosystems

- The company shall provide a short description of how they manage biofouling and whether this includes use of, or implementation of the IMO Biofouling Guidelines.
- The company shall describe which, if any, approaches are taken to reduce noise and vibration, and whether this includes the use of the IMO Guidelines for the Reduction of Underwater Noise.<sup>15</sup>

<sup>13</sup> [https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf](https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf)

<sup>14</sup> The Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships, 2009 (the Hong Kong Convention).

<sup>15</sup> The IMO Guidelines for the Reduction of Underwater Noise are available at [imo.org](http://imo.org)



*Green Shipping Programme*

The Green Shipping Programme, a public-private partnership, aims to advance the Norwegian government's maritime strategies and plans. The programme's vision is to develop and strengthen Norway's goal to establish the world's most efficient and environmentally friendly shipping.

[grontskipsfartsprogram.no](http://grontskipsfartsprogram.no)

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