# FAQs about CBI’s Shipping Criteria:

[Questions on Scope: 2](#_Toc47190612)

[Why are LNG and Crude Carriers excluded from these criteria? 2](#_Toc47190613)

[But dry bulk carriers can be used for coal, so why are these allowed? 2](#_Toc47190614)

[What about LPG Vessels? 2](#_Toc47190615)

[What about supporting infrastructure on ports? Are these assets eligible for Certification? 2](#_Toc47190616)

[Are Cruise Ships allowed?  2](#_Toc47190617)

[Is the financing of retrofits to vessels eligible? 3](#_Toc47190618)

[Questions on market and finance 3](#_Toc47190619)

[Do you see these criteria being used by the bond market? 3](#_Toc47190620)

[Does CBI view securitisation as green if the backed assets are green and/or the proceeds from the securitisation are used for green purposes? 3](#_Toc47190621)

[There are other investments that can make shipping more sustainable in other areas (beyond climate change) why are these not recognised by the criteria? 3](#_Toc47190622)

[What about leasing of equipment on board? 3](#_Toc47190623)

[Can assuers use the weighted average of a portfolio to meet the Certification criteria? 3](#_Toc47190624)

[Can Covered Bonds be Certified? 3](#_Toc47190625)

[Questions about the MRP 4](#_Toc47190626)

[The MRP presents an unknown burden on issuers. Such documentation does not exist in market. Can you provide some clarity on what is expected of issuers? 4](#_Toc47190627)

[How should biofuels/bioLNG be treated in the MRP? 4](#_Toc47190628)

[How do issuers who use a portfolio approach produce an MRP? 4](#_Toc47190629)

[Questions about propulsion fuels and technology 4](#_Toc47190630)

[Does switching the LNG mean the asset is eligible?   4](#_Toc47190631)

[Are you proposing Ammonia as the end fuel solution? Why? 5](#_Toc47190632)

[Are Methanol and Ethanol on the list of climate resilient fuels? 5](#_Toc47190633)

[Why are synthetic hydrocarbons and alcohols not included in the list of eligible zero emission fuels? 5](#_Toc47190634)

[Questions on metrics: 6](#_Toc47190635)

[The criteria require that “design deadweight” is used. Are you referring to the dwt that corresponds to the design draft or the deadweight that corresponds to the scantling draft? 6](#_Toc47190636)

[How was the trajectory of the criteria produced? 6](#_Toc47190637)

[What reference data are your emissions intensity values based on? 6](#_Toc47190638)

[Why are you using tank-to-wake metrics instead of well-to-wake metrics? Well-to-wake metrics have their benefits. However, such metrics are currently unavailable. The CBI criteria require measurement, not estimation of emissions. Such measurement is not currently available for the upstream emissions associated with the different energy systems that the transition will require. 6](#_Toc47190639)

[That said, the shipping criteria will be reviewed on a biennial basis and we look forward to incorporating a more robust metric. 6](#_Toc47190640)

[Will your initial reference line be affected from the upcoming IMO GHG committee No4 scheduled to take place September/October 2020? 6](#_Toc47190641)

[What are the requirements for Wind Turbine Installation Vessels (WTIVs)? 7](#_Toc47190642)

## **Questions on Scope:**

### Why are LNG and Crude Carriers excluded from these criteria?

We recognise that LNG vessels and crude carriers represent a significant portion of the world’s fleet, excluding them from Certification is a missed opportunity to transition this sector.

However, the CBI Standard and Certification scheme is designed to provide a binary label on what assets are (or are not) aligned with the Paris Agreement. Such assets are simply not aligned with the Paris Agreement.

CBI has a blanket ban on assets and activities that are dedicated to supporting the fossil fuel sector. Currently, dedicated fossil fuel carrying vessels are excluded because such assets do not provide a substantial contribution to the Paris Agreement.

The criteria are reviewed biennially, this exclusion can be reviewed if there is evidence that such assets can also be used to support activities that are aligned with the Paris Agreement.

But dry bulk carriers can be used for coal, so why are these allowed?
Dry bulk carriers are eligible for certification, however, we recognise that there is a risk that a borrower might use the proceeds to finance a vessel which may be used to transport coal. As such the criteria require that, for bonds where proceeds will be used for dry bulk carriers, issuers must show that (a) coal did not constitute more than 25% of dry bulk by tons carried by the firm over the previous 3 years, based on the bills of lading, and (b) coal does not constitute more than 25% of dry bulk carried by the asset and the firm during the lifetime of the bond, reported annually and based on the bills lading.

A fundamental principle of the Climate Bonds Standard is to avoid lock-in of carbon-intensive investments, the right types of investments are required today to facilitate deeper cuts tomorrow. This means recognising incremental reductions in carbon emissions while also taking a long-term strategic view while doing so. Excluding this asset class completely would have severely limited the applicability of our criteria.

### What about LPG Vessels?

LPG Vessels are currently included within scope because they can also ammonia, which will be an important fuel for decarbonisation.

While the more valuable and more highly traded volumes are currently for LPG, the assets can be re-assigned to ammonia later in life and so these assets will have an important role to play in enabling future global ammonia supply chains.

### What about supporting infrastructure on ports? Are these assets eligible for Certification?

Currently we have limited the scope of the shipping criteria to ships that are compliant with the threshold, as well as assets which are dedicated to supporting zero-emissions ships. Investments into port infrastructure, such as electric cranes and vehicles for managing cargo will be reviewed as we widen the scope of the CBI Taxonomy.

### Are Cruise Ships allowed?

Yes cruise ships are eligible. A cruise ship, and other types of passenger ships can be considered aligned with the climate trajectory, provided they meet the respective criteria.

### Is the financing of retrofits to vessels eligible?

Yes, retrofits (and programmes of retrofits) are eligible, provided that the asset meets the criteria (e.g. not for ships which are dedicated to the carriage of fossil fuels).

## **Questions on markets and finance**

### Do you see these criteria being used by the bond market?

Green Bonds have already been issued by NYK, MOL and Teekay, proving that the Use of Proceeds approach is applicable in the shipping sector. Remember, the CBI Standard and Certification scheme is an additional layer of information which gives investors an indication of whether this bond’s Use of Proceeds are aligned with the Paris Agreement.

The criteria are ambitious, and only the most ambitious assets will be eligible for certification. But this is precisely the point, we need to be more ambitious if we are to tackle climate change. As the technology and market develops, we hope that more assets will be eligible for certification.

### Does CBI view securitisation as green if the backed assets are green and/or the proceeds from the securitisation are used for green purposes?

it is our view that the actual use of proceeds should be green, not necessarily the securitised assets. In other words, it is the projects and assets which the proceeds are allocated to that have to pass the requirements of the Standard. While we encourage the use of green receivables for securitised bonds, it is not a prerequisite.

### There are other investments that can make shipping more sustainable in other areas (beyond climate change) why are these not recognised by the criteria?

We are primarily concerned with climate change mitigation and adaptation. While recognising other environmental objectives (such as water, biodiversity, ozone depletion, etc) these are not within the remit of the CBI Standard and Certification scheme.

These criteria are applicable to other debt instruments, provided the meet the Climate Bonds Standard.

### What about leasing of equipment on board?

Yes, there is no reason that these criteria could not be applied to certify debt instruments used to cover leasing of equipment on board a ship, provided that the ship meets the criteria.

Unfortunately, given the structure of these criteria, we do not certify debt issued by the lessor of the technology. This will be reviewed as we expand the scope of the CBI taxonomy.

### Can issuers use the weighted average of a portfolio to meet the Certification criteria?

No, we do not see there being a need to allow for emissions to be averaged across a pool of assets. Issuers would have to collect the emissions intensity performance of each individual asset in any case so there is no data constraint. Allowing for an averaging implies that at a certain point in time, there will be a ship operating at an emissions intensity level that is not aligned with the Paris Agreement.

### Can Covered Bonds be Certified?

Yes, covered bonds can be certified. Provided that the assets to which the proceeds will be used are compliant with their respective emissions intensity thresholds. However, we **do not require** that the pool of assets used as collateral in the covered bond are compliant with the respective threshold.

## **Questions about the Managed Reduction Plans (MRP)**

### The MRP presents an unknown burden on issuers. Such documentation does not exist in market. Can you provide some clarity on what is expected of issuers?

The MRP seeks to encourage issuers to continue their decarbonisation efforts throughout the operating life of an asset, even after the Certified bond matures.

We are concerned that issuers might Certify a bond which matures well before the end of the asset’s operating life, and that the asset’s emissions intensity will stop decreasing to zero by 2050.

To that end, we have provided five questions which issuers must answer. These responses would constitute the issuer’s ‘MRP’. Submission of an MRP is mandatory but given the novelty of this document we are (at this stage) unable to point to ‘best practice’. We expect that over time, as the volume of Certified bonds grows, we will be able to provide more guidance on what is required. This will be reviewed biennially.

To clarify, we will not at this stage, withhold certification on the basis of an MRPs quality, provided that the relevant information is made available by the issuer.

### How should biofuels/bioLNG be treated in the MRP?

There is a significant risk that an issuer will today, certify a bond against an asset which is currently propelled by LNG, without having a genuine intent or strategy to switch to using BioLNG or other fuel types after the bond matures.

To reduce this risk, we encourage issuers to submit certificates of origin that verify the source and feedstock of the biofuels consumed on board.

We recognise that this information may not be available always be present at the time of bond issuance, nevertheless, we encourage issuers to provide this information where possible.

### How do issuers who use a portfolio approach produce an MRP?

Recognising that it would be unduly burdensome for an issuer to produce an individualised MRP for each asset within a portfolio, we will accept the MRP for such products to take a portfolio-wide approach.

This can reflect the issuer’s overall strategy in pursuing net-zero emissions across the fleet and can be evidenced by planned investments/capex in any of the fuels outlined in the MRP, while also explaining how they will maintain flexibility across the assets.

## **Questions about propulsion fuels and technology**

### Does switching the LNG mean the asset is eligible?

Assets using LNG as a marine fuel are included in scope, just as assets using any other fossil fuel (HFO, MDO, LSFO). An asset designed to initially use fossil fuel (or any fuel for that matter) can be eligible if it meets all the criteria.

However, **simply using LNG for propulsion does not automatically qualify you for certification**. The vessel must still show that emissions intensity is below the declining threshold.

At some point in the future, depending on the efficiency and efficiency improvement potential of the asset, switching to an alternative fuel may be necessary.

Furthermore, even after the Certified bond matures, the issuer must show that there are plans to ensure that any asset that is not already net-zero emissions, will be upgraded or modified to use a fuel with a significantly lower carbon intensity (see the requirements for the Managed Reduction Plan for details).

A number of fuels are eligible for inclusion in the Managed Reduction Plan, including biomethane if produced according to the definition of Advanced Biofuel (EU Renewable Energy Directive II (2018/2011)). Alternatively, the asset can be retrofitted to use a number of candidate zero emission fuels.

### Are you proposing Ammonia as the end fuel solution? Why?

No we are not proposing that one fuel or the other will be the ‘end fuel solution’, we are only interested in whether an asset is able to perform below the emissions intensity threshold throughout its lifetime.

Furthermore, we recognise the importance of flexibility between fuel types, and encourage issuers to explain how their assets will be designed for multi-fuel solutions.

There is a list of eligible future fuels included in the details on the Managed Reduction Plan and the list will be reviewed and updated as further evidence on future fuels becomes available.

The decision to keep LPG vessels in scope was to widen the applicability of these criteria as much as possible, without ensuring lock-in of fossil fuels (hence our exclusion of only ‘dedicated’ fossil fuel carriers).

### Are Methanol and Ethanol on the list of climate resilient fuels?

Methanol and ethanol as biofuels are included (as products from bioenergy feedstocks that would be eligible as Advanced Bioenergy).

### Why are synthetic hydrocarbons and alcohols not included in the list of eligible zero emission fuels?

Synthetic hydrocarbons and alcohols are produced by combining very low / zero carbon sources of both hydrogen and carbon, and in the case of synthetic alcohol, oxygen. This is as opposed to an extraction and refining process for the hydrocarbons used today.

However, based on current evidence, synthetic hydrocarbons are not likely to be cost-competitive zero emission fuels. If they are produced using carbon captured from fossil fuel use (e.g. including the emissions from a gas power station or from plastics recyclate), then they are not zero emission fuels. There may be some other sources of supply of non-fossil carbon but the evidence at present is that these will be limited and therefore will become supply and price constrained in the event of any volume demand.

Given other zero emission fuels have much higher production scalability (e.g. hydrogen, ammonia, electricity), the expected competitive disadvantage for synthetic hydrocarbons and alcohols under current technology, is assumed to mean that they will not receive significant investment. Under current evidence, relying on synthetic hydrocarbons/alcohols as a future fuel therefore presents a risk that the asset will need a significant and unplanned for retrofit in order to ensure they are compatible with the zero emission fuels which do become available in large volumes. These assumptions will be reviewed as evidence on future fuels increases.

## **Questions on metrics:**

### The criteria require that “design deadweight” is used. Are you referring to the dwt that corresponds to the design draft or the deadweight that corresponds to the scantling draft?

The scantling draft is required for calculation, this is consistent with the Poseidon Principles.

### Why are you using tank-to-wake metrics instead of well-to-wake metrics? Well-to-wake metrics have their benefits. However, such metrics are currently unavailable. The CBI criteria require measurement, not estimation of emissions. Such measurement is not currently available for the upstream emissions associated with the different energy systems that the transition will require.

### That said, the shipping criteria will be reviewed on a biennial basis and we look forward to incorporating a more robust metric.

### How was the trajectory of the criteria produced?

The linear decline/slope is a function of both the climate science which defines what would be required for a proportionate response by shipping to the overall mitigation challenge across the whole economy and the potential pathway for GHG reduction in the shipping sector.

Temperature rise is a function of cumulative emissions. The pathway of emissions reduction is therefore as important as the year in which zero emissions is reached. The commonly referenced target (for all sectors) of zero emissions before 2050 is only aligned to the Paris Agreement temperature goals if accompanied with a high rate of reduction to that target.

Different climate models have some variance in exactly how steep the rate of reduction in emissions needs to be for different levels of certainty in achieving minimum temperature rise. And the exact contribution to the overall rate of GHG emission reduction from each sector is not easily definable. A linear reduction in carbon intensity may not be sufficient for an exactly proportionate response by shipping (e.g. a constant share of total GHG emissions), especially if seaborne trade grows rapidly over the coming decade. But it strikes an appropriate compromise between some of the extremes of different models and pathway assumptions.

The pathway for each ship will differ, it can be a mix of efficiency improvements (technical and operational), and reductions in the carbon intensity of the fuel. A linear reduction pathway allows for some continued use of fossil fuels as marine fuels this decade, in combination with further energy efficiency improvements, but will necessitate a switch away from fossil fuels later in the decade. A linear carbon intensity reduction enables the switch from fossil fuels may be done gradually to manage cost and supply/availability.

### What reference data are your emissions intensity values based on?

The carbon intensity pathways are based on The Third IMO GHG Study and a subsequent report on carbon intensity produced using the same data: MEPC 68 inf. 24. They will be updated with information from The Fourth IMO GHG Study as appropriate.

Will your initial reference line be affected from the upcoming IMO GHG committee No4 scheduled to take place September/October 2020?
Yes, the Criteria will be reviewed and updated following the release of The Fourth IMO GHG Study.

## **What are the requirements for Wind Turbine Installation Vessels (WTIVs)?**

During the development of the CBI Shipping criteria, the eligibility of WTIVs and Jack-up rigs was the subject of much discussion.

On the one hand, provided that WTIVs and Jack-up rigs are dedicated to installation and maintenance of offshore wind energy facilities, then such vessels are providing a substantial contribution to the Paris Agreement because they are enabling electrification.

On the other hand, we also recognise the need to accelerate the transition. In principle, a company directing capital towards renewable energy should also be electrifying its operations. In this sense, the requirement for these assets to be net-zero themselves was also considered.

There is also a practical reason around establishing decarbonisation trajectories, and validation of the emissions. Unlike other types ships, WTIVs and Jack-up rigs do not report data and are not considered in detail in any of the IMO’s GHG studies. Thus, there is no data to establish a baseline for their current emissions intensity (as a fleet) and therefore what their decarbonisation trajectory would be, against which (validated) data could then be measured. While it is technically possible to develop a metric and threshold similar to the general Shipping Criteria, but this will be a costly solution.

Given these challenges, we have at this stage determined that all WTIVs and Jack-up rigs that are *dedicated* to the installation and operation of offshore wind energy, are eligible for certification. Please refer to CBI’s offshore renewable energy criteria for more information.