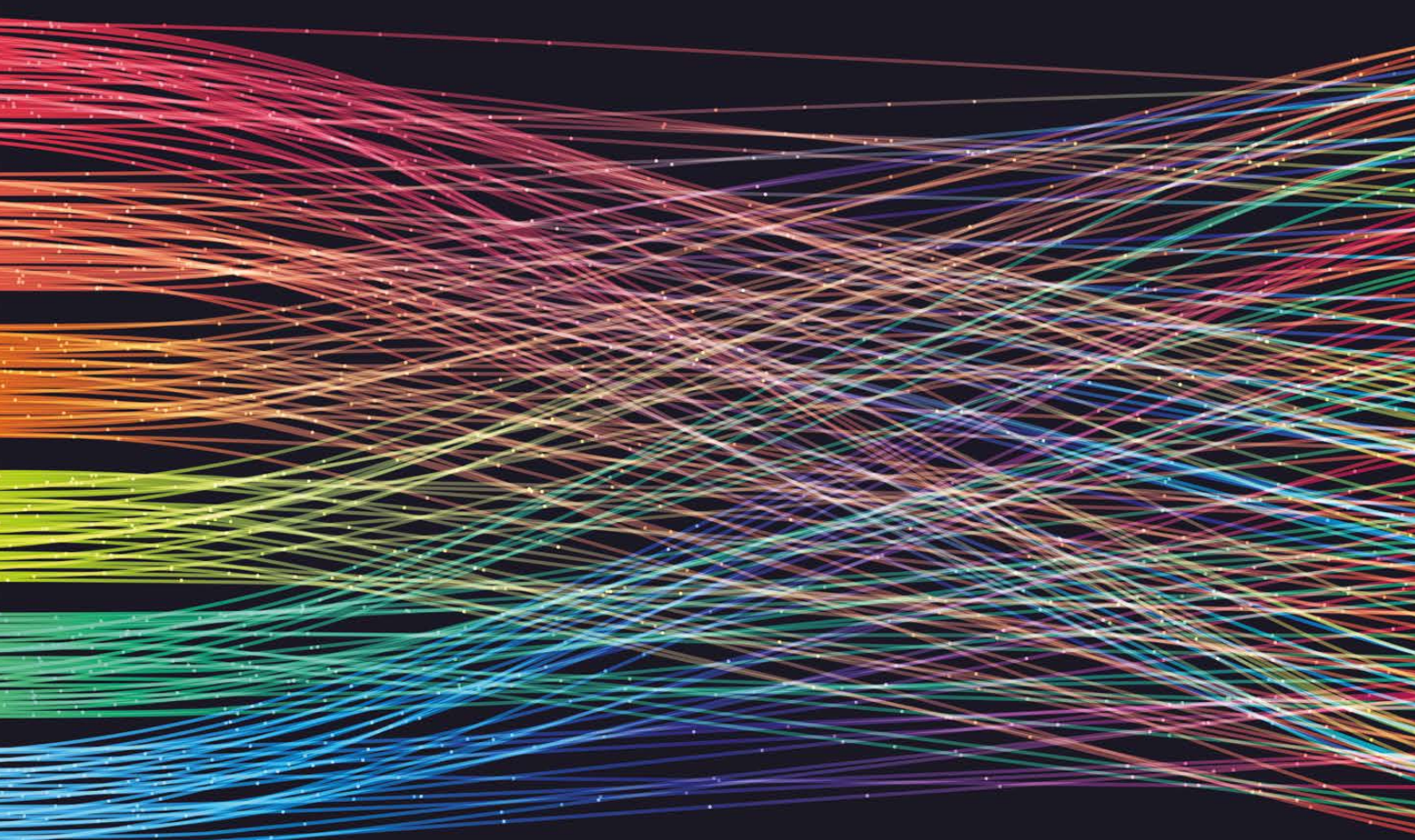


BUNKERSPOT

DATA IS KING

BUILDING THE CASE FOR MASS FLOW METERS



INSIDE:

MARINE LUBRICANTS

DEBT RECOVERY

BIO-LNG

ELECTRIC PROPULSION



Quality not assured

With participation in the Voluntary Carbon Market still in its infancy and the full extent of its opportunities and exposures yet to transpire, Infospectrum's **Clare-Marie Dobing** finds that a greater understanding of entities buying and selling carbon credits – as well as the complex ecosystem of third parties serving the market – can enable bunker suppliers to effectively evaluate their approach

It has often been said that the international shipping industry and its supply chain possess intrinsic characteristics that present significant and ongoing risk-related challenges, as well as unique opportunities, to market participants. While this observation applies to trading and credit decisions made every day, a similar phenomenon could also be present when it comes to the sector's interaction with new Environmental, Social, Governance (ESG) related markets such as the Voluntary Carbon Market (VCM).

Overarchingly, the VCM is perceived as playing a key role in enabling non-state actors (industry, financial institutions, cities, and regions) to work towards net zero goals designed to align an entity's activities with the temperature goals of The Paris Agreement. In this context, a carbon credit (which is a transferable instrument that represents the reduction or removal of one tonne of carbon dioxide equivalent (tCO₂e) from the atmosphere) is purchased in the VCM to offset unabated carbon dioxide emissions from a buyer's activities. Carbon credits traded in the market are often known as Verified Emission

Reductions (VERs) and are uniquely serialised, issued, tracked, and cancelled by means of electronic registries maintained by Carbon Standard Setting Bodies (CSSBs)¹. The current number of global net zero commitments is reported to stand at 11,309 ([Race To Zero campaign](#) – September 2022 count) and these pledges are viewed as a catalyst behind the recent growth in the VCM. According to [The World Bank's State and Trends of Carbon Pricing 2022](#) report, the total annual value of the market now exceeds \$1 billion².

SHIPPING DIVERTS FROM THE GLOBAL NARRATIVE

Notwithstanding this, the global narrative surrounding the VCM does not tell the entire story of its present status within shipping. One recent survey suggested that only a minority of top ship owners (less than 35%) have publicly committed to a net zero goal and no comprehensive studies are available for the bunkering sector. Low uptake could be a result of the lack of an explicit reference to maritime transportation in [The](#)

[Paris Agreement](#). Instead, shipping follows a decarbonisation trajectory driven by international policy developed by the International Maritime Organization (IMO). The IMO's initial strategy on the reduction of GHG emissions from ships and its supporting regulations prioritise 'in sector' decarbonisation that keeps capital flow from emissions reduction within the sector itself, as opposed to encouraging the offsetting of emissions elsewhere through the VCM. This approach is mirrored by voluntary decarbonisation initiatives within the industry such as the [Poseidon Principles](#) and [Sea Cargo Charter](#) and the growing emphasis on delivering a sustainable and reliable supply of low and zero-carbon fuels.

Consequently, key drivers fuelling growth in the VCM elsewhere may bear less influence on shipping and bunkering at present. However, the VCM is still gaining some traction, with its acceptance likely being driven by several factors. These include the potential role of the market in enabling companies to achieve competitive differentiation, establish new revenue streams and provide a tangible decarbonisation

strategy for customers under pressure from stakeholders seeking environmental improvements within their supply chains.

BUYING AND SELLING VERS

In the bunkering sector, players have started buying VERs to meet internal ESG goals. For instance, purchased carbon credits are used to offset CO₂ emissions generated from the consumption of marine fuel on barges used to distribute the bunkers (i.e., a marine fuel provider's Scope 1 emissions, which are direct emissions from sources that a business owns and controls). Market feedback suggests that bunker suppliers undertaking this approach are currently buying their carbon credits from third parties. However future aspirations could see these organisations establish themselves as project developers, potentially through the acquisition of a carbon credit generating project, with the credits generated retired against their own operational emissions or sold on to customers.

While this is a future aspiration, bunker industry players are already trading VERs from independent sources. Those adopting this approach may see the VCM as an opportunity to turn environmental pressure into a potentially revenue-generating opportunity that is realised through the sale of VERs to customers looking to offset emissions from their chosen fuel choice. One supplier also recently cited further ESG benefits from VER trading, highlighting their intention to 'provide social, economic and health benefits to some of the poorest areas of the planet'. Demand for this service is limited but appears to be driven by bunker fuel purchasers facing pressure from their customers to decarbon-

ise their supply chain. In such a scenario, the VCM offers a potential interim solution while customers await the widespread availability of low and zero-carbon fuels and compatible vessels. This approach appears to have gained the most traction in the container shipping segment, which operates more closely to end-consumers and therefore faces more significant calls for environmental action.

In terms of structuring a commercial offering to sell VERs to bunker customers, our market dialogue suggests there are several approaches. Sources at some entities spoke of subcontracting the service out to a third-party consultant due to low transaction volumes, while another source stated that some bunker suppliers have signed contracts with a ship broker that has an established carbon trading desk to take advantage of their experience in the carbon credits markets. Other bunker suppliers have established their own carbon desks whereby the bunker supplier could either work in the capacity of a broker or carbon credit retailer.

LIMITED DUE DILIGENCE LEAVES PLAYERS EXPOSED

The highly fragmented nature of VER supply, as well as the lack of regulatory oversight, can make it difficult to thoroughly identify, evaluate and verify all available information related to carbon credits being sold, and the same applies to the ecosystem of third parties (including consultants, Validation and Verification Bodies (VVB), and retailers, etc.,) serving the sector. Some level of due diligence appears to be undertaken in the market by CSSBs and supporting consultants with findings delivered at the point a project developer seeks certification of their carbon credit-generating project. Once a project is certified, further due diligence prior to trading appears to be limited, with no fixed approach or best practice, and buyers often relying on the perceived good reputation of the CSSB as an assurance of the quality of the carbon credit purchased.

Experience in the aviation industry suggests that this approach does not mean buyers are immune to adverse media and associated reputation risks. For example, a 2021 joint 'Unearthed' investigation by *The Guardian* newspaper and Greenpeace highlighted perceived problems with the calculation (additionality) of carbon savings generated by VERs purchased by the aviation industry and certified by VERRA, the CSSB with the largest current market share. The same investigation also reported alleged conflicts of interest seemingly not identified by the CSSB, including a carbon credit-generating project run by two logging

'The VCM offers a potential interim solution while customers await the widespread availability of low and zero-carbon fuels and compatible vessels'

companies reported to have cut down ancient trees. While conflicts of interest are likely to be circumstance specific, it is possible that the likelihood of a similar reputational issue arising in shipping could be reduced through up-to-date due diligence checks that seek to establish any newly emerged areas of concern (i.e., conflicting business activities undertaken since the certification of the project).

Separately, and unrelated to the aviation industry, The Taskforce on Scaling Voluntary Carbon Markets has spoken of the potential for money laundering and fraud within the VCM, which in turn has prompted market participants to undertake their own independent counterparty screening of VCM projects. This could cover aspects such as ultimate beneficial owners and/ or persons with significant control, shareholders, directors, legal identity and domicile checks, sanctions checks, and adverse media.

THOROUGH INVESTIGATION REQUIRED

While VCM transactions are currently low, enhanced due diligence before committing to VER transactions is essential, ensuring participation in the VCM remains compliant, fit for purpose, and complementary to a business' overall approach.

1. CSSBs develop and promote standards that must be adhered to by the voluntary carbon credit project developers, and also maintain an electronic registry of the carbon credits that they issue. Key CSSBs include Verra, The Gold Standard, Climate Action Reserve and the American Carbon Registry.

2. *State and Trends of Carbon Pricing 2022*, Page 38

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Infospectrum's whitepaper, *The role of the voluntary carbon market in decarbonising shipping – a practical guide to leveraging opportunities and managing risks*, is available to download via infospectrum.net