

Transition plan shipping

This document describes how the bank practices its role as a driver of green transition for Offshore, Offshore Wind, Shipping and Maritime Aqua-service vessels.

SMN's transition plan for Shipping is designed to progress our efforts to reduce greenhouse gas emissions and at the same time reduce our customers' vulnerability to climate change, particularly in the transition to a low emissions society (net zero).



Climate risk is a growing financial risk

Climate change is an existential risk, and climate risk is a growing financial risk.

There are at least three several reasons why we are increasing the priority of prioritising forward-looking climate risk assessments and financial robustness in relation to escalating climate change:

- 1)** Climate risk is global in scale. The UN climate panel, IPCC, emphasises that for every 1°C increase in temperature, the dangers resulting from warming will become more intense. One danger involves abrupt changes that are irreversible. Tipping points can be reached, species can be eradicated, and ecosystems can disappear. This is why the IPCC states that international, national and local cooperation is critical to achieving the ambitious target of mitigating climate change.
- 2)** The time horizon for climate risk extends beyond the traditional business horizon, credit and loan maturities and/or the political cycle which normally shape our plans and decisions.
- 3)** The actions we take, or omit to take, today will impact the path of climate change over the coming three decades or more. Reports from the IPCC are a wake-up call. Global warming is tending towards 3°C given current behaviour, and the Arctic is warming at twice the rate of the rest of the world. Entire ecosystems are affected, especially the oceans.

Collaboration is needed to meet this ambitious target and to take advantage of opportunities in the transition phase.

Climate risk is integrated into our decision-making processes, and in our united effort to take advantage of the opportunities present in the transition period. This will impact our customers directly:

- We will increasingly consider climate-related factors that will impact financing, advisory activities, insurance and delivery of other financial services to companies that have credible transition plans in place.
- Access to capital will to an increasing degree be contingent on performance in terms of climate-related key indicators (e.g. adjustment to climate change, investment in net zero assets, reduction of greenhouse gas emissions).
- This transition applies across all prioritised to all asset classes (Shipping is prioritised) and will have an increasing impact on all investment and lending activities. Allocation of capital will be adjusted by the intensity of and reductions in greenhouse gas emissions and will affect companies of all sizes across all sectors.

Nature-related and environmental risk are included in this evaluation. Our efforts are guided by six climate and environmental goals

We will support and finance companies across all sectors in their development and implementation of credible transition plans.

Together we make things happen.

SpareBank 1 SMN has committed itself to the goal of net zero greenhouse gas emissions by 2050

SpareBank 1 SMN aims to stimulate a sustainable development of our region. We want to be a driver for the green transition. We want to support our customers' transition to a low emission society through cooperation and dialogue. Our lending portfolio is a major risk driver and where we as bank has a large impact on climate, environment and society.

Transition plans are a part of our toolkit to reach the net zero target by 2050.

We aim to use this document proactively with our Shipping customers.

Most of our Shipping customers are Offshore and Maritime Aqua-service vessel customers. The transition plan focuses therefore on these two segments mainly.

Shipping – framework and dilemmas

Shipping and climate

- Around 80% of world trade is transported on ships, and shipping contributes to ca. 3% of global CO2 emissions.
 - Norwegian offshore vessels emitted 1 million tonnes in 2022 and accounts for ca. 2% of Norway's total emissions.
- Transport by ship is currently the most carbon effective way to transport goods over longer distances.

Framework

- The Shipping industry is regulated by IMO (International Maritime Organization). IMO supports the Paris agreement and established their CO2 strategy in 2018.
- IMO increased their CO2 ambitions in 2023: A reduction of total annual GHG emissions by 20-30% by 2030, 70-80% by 2040 (both compared to 2008) and net zero by 2050.
- To meet their emission targets, IMO has introduced a requirement for ships to record and report their fuel oil consumption. These requirements will initially be relevant for ships of 5,000 gross tonnage and above

European and international shipping operating in Europe is now included in the EU Emissions Trading System (EU ETS)

- Shipping is included in the EU emissions trading system (ETS) from 1 January 2024. From 1 January 2025 there will be a requirement related to the climate intensity in marine fuels (“EEDI”) with a target of reducing climate intensity by 80% within 2050 (vs. 2020). The EEDI level has been tightened incrementally every five years. This requirement applies to new and converted vessels of 400 gross tonnage and above
- Shipping is included in the EU Taxonomy, where green economic activity is evaluated in relation to share of income, operating expenses and capex.

Dilemmas for shipowners and banks

• Risks related to new technologies

It is not clear what will be the future's leading green technology for vessels. This makes investments for vessels, which typically have a lifespan of 20-30 years, uncertain. The net zero technology is not yet fully developed and there is a risk for shipowners to end up with investing in the “wrong” technology.

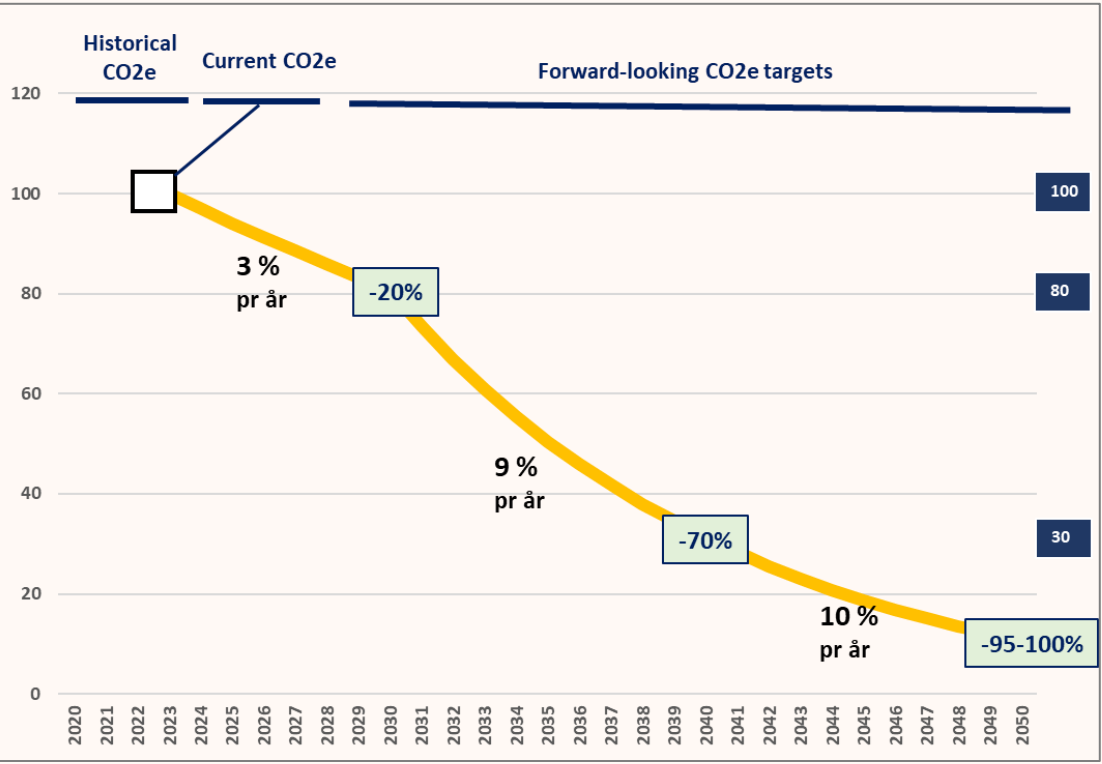
• Profitability as a barrier

High investment costs, availability and price of alternative fuels, lack of infrastructure onshore in addition to a lack of available technologies, are the biggest barriers for taking net zero technologies in use. Additionally, who will cover the additional cost?

Target trajectory

Target trajectory for Offshore and Maritime Aqua-service vessels

SMN's target	Base year	2030	2040	2050
		Emission reduction vs. base year 2023:		
Absolute emissions	2023	20%	70%	95 - 100%
Emission intensity	Awaiting <ul style="list-style-type: none"> • IMO (International Maritime Organization) • "Brønnbåteiernes Forening" (Wellboatowners' union) • "Grønt Skipsfartsprogram" (Green Shipping Programme) and its pilot framework on Offshore 			



General Shipping (transport)

- No KPI set for general Shipping (transport)

The road to reduced GHG emissions for Shipping towards 2030 (estimate)





Offshore

The road to net-zero and the role of Offshore

Background

- The world's energy systems are facing large changes in the years ahead, and the road to net-zero emissions will create several dilemmas and trade-offs. The development of new technologies is key, so are new value chains and new working methods. There are several positive initiatives, but the developments are challenging and will take time.
- Nevertheless, the global society relies on stable and affordable energy. Geopolitical unrest the later years have shown how vulnerable society is when faced with an interruption in energy production. As a result of this, EU has strengthened its energy cooperation with Norway as a measure towards energy security in Europe. See link for EU's press release «[Joint EU-Norway statement on strengthening energy cooperation](#)» *.
- Oil and gas are primary energy sources, but also an input for low carbon fuel such as blue hydrogen and for chemicals. Emerging market economies are currently undergoing urbanisation and industrialisation, both of which require access to reliable and affordable energy. The importance of climate reduction efforts is undeniable, but we also face a dilemma between rapid GHG emission reductions and access to reliable and affordable energy.
- Production of oil and gas from the Norwegian Continental Shelf is among the most carbon effective in the industry. The Norwegian oil and gas industry can utilise its oil and gas experience to develop new industrial value chains, creating a potential to become a world leader within floating offshore wind and carbon capture and storage (CSS).

Offshore

- Our Offshore customers work primarily within services of the extraction of oil and gas. However, increased activity within floating offshore wind has led to higher share of income from services related to building and operating large offshore wind farms. There is also increased activity within decommissioning of oil and gas installations, which is also an important part of phasing out the oil and gas industry.
- Offshore companies have up to 50 years of experience with complex operations under challenging conditions. This experience makes them well positioned to participate in the development of new value chains within offshore wind, particularly floating offshore wind. Offshore companies are expected to be key contributors in the energy transition.
- Rather than pulling out from the carbon intensive sector, we will aim to cooperate with our customers throughout this transition and utilise our experience to finance vessels and projects to reduce emissions. We aim at the same time to build up a portfolio within renewable energy.

Offshore as part of the maritime cluster at Sunnmøre

- The maritime cluster in Norway is a unique cluster in a global context. The cluster is among Norway's most knowledgeable and innovative industries, contributing around 9% of Norwegian industrial GDP. The maritime industry is the largest regional industry in Norway with over 100 000 employees.
- The Norwegian maritime cluster is a key driver in the development of the future offshore energy supplier. The technology developed within the maritime cluster contributes to reducing emissions, creating green transition, new jobs and new industries in Norway. An invaluable resource in the cluster is the competence shared across companies, segments and parts of the cluster.
- The maritime cluster at the Sunnmøre region has its competency within ship design, ship equipment and operating offshore vessels and wellboats. The cluster has a strong link to the competence centre at GCE Blue Maritime Cluster* and research department at NTNU and Marinetek. The cluster has an ambition to become the world's first net-zero emission maritime cluster.
- The maritime cluster at Sunnmøre employed 14 800 workers in 2022 and reported 61 billion NOK in turnover, 26 bn NOK in value creation and export to 68 countries.
- The offshore companies reported turnover of 14 bn NOK with 4 000 people employed. It is a complete cluster consisting of 15 offshore companies, 7 shipyards, 6 ship design companies and 111 equipment providers.

The bank's role in the transition to net-zero

Challenge: Balancing the net-zero target with Norway's important role as a secure energy supplier to Europe

- We are facing several dilemmas on the road to net-zero by 2050. As a leading regional bank, we have to support our customers and their activities in the region, whilst at the same time meeting our stakeholders' needs and expectations. Our strategy remains to cooperate with our customers through the transition.
- Norwegian offshore companies has a large fleet and has therefore influencing power within their industry. These companies are drivers when it comes to developing new technologies and creating demand for new low emission solutions. They are also in the midst of developing a new industry of offshore wind vessels, which is an important part of the green transition.
- We will as a bank support the green transition through financing vessels that can be utilised both within oil and gas and offshore wind. This will reduce the dependency on one single market and at the same time secure a transition towards a low emission .

Cooperation with our offshore customers in terms of transitioning to net-zero

We would like to see our offshore customers focus on:

Measures to reduce carbon emissions

- Phasing out old vessels
- Upgrading vessels (excl. engines)
- Upgrading vessels (alternative fuels)
- Upgrading vessels (batteries)
- Optimizing operations
- Building new vessels

Setting targets for reducing carbon emissions with a transition plan towards net-zero

- Carbon emission reduction targets with a complementing climate transition plan* that outlines strategies and measures to meet these set targets.
- We anticipate our customers report and maintain:
 1. Carbon accounting and operational efficiency on vessel level.
 2. Credible targets and strategies to reduce carbon emissions from its activities.
 3. Share of its economic activity towards oil & gas, share renewable activities (% of turnover).

*We use the GFANZ framework: [Transition planning | Glasgow Financial Alliance for Net Zero \(gfanzero.com\)](https://www.gfanzero.com)



Maritime Aqua- service vessels

The Norwegian aquaculture industry

Aqua-service vessels

The Norwegian fleet of aqua-service vessels consists of wellboats, feeding vessels, harvest vessels and service vessels.

The fleet has developed along with increased salmon production. Aqua-service vessels play a key role in all parts of the salmon and trout production.

The development of modern aquaculture in Norway

Salmon and trout farming is a relatively young industry. In 1971 Norway harvested its first generation of successfully farmed Atlantic salmon. Since then, the aquaculture industry has developed into a major industry when it comes to both technology and biology. Most Norwegian aquaculture companies are nowadays vertically integrated and involved in the value chain from broodstock / breeder fish to harvest and sale.

The biggest carbon footprint from aquaculture stems from:

- Feed production, which is the biggest emission source in aquaculture production. Salmon feed is composed of fish oil, fish meal in addition to soy, which is imported in large amounts from South America. Increased mortality leads to higher carbon emissions per kg salmon sold. However, the carbon emissions of farmed salmon and trout are significantly lower than European beef and pork (SINTEF).
- Transport by aqua-service vessels in all operations up to harvest/slaughter. This activity is part of our transition plan for shipping.
- Transport from slaughter / harvest to end market by truck, sea or air. Air freight has by far the biggest carbon footprint among these transport forms.

Maritime aqua-service vessels in Norway

Status and challenges

There are several challenges in the transition of aqua-service vessels towards net-zero, and wellboats face the largest obstacles.

Wellboats perform energy intense operations such as:

- Water treatment.
- Production of fresh water from sea water.
- Live fish transport.
- Water circulation.

Challenges on the road ahead to net-zero emissions

- The current wellboat fleet use diesel as their primary energy source.
- Lack of infrastructure for alternative energy sources.
- Uncertainty surrounding new technologies.
- Development of new build prices.
- There is currently no emission pathway for the well boat industry.

Maritime aqua-service vessels in Norway (cont.)

Status and challenges

Feeding vessels

- Feeding vessels have regular transport routes and are therefore more stationary.
- The feed producer is the customer. The feed producer hires vessels for feed delivery to fish farming companies along the west coast of Norway.
- Regular routes can enable infrastructure development to be set up along these current transport routes. There is, however, currently very limited infrastructure for charging battery packs or bunkering alternative fuels along these routes.

Service vessels

- This segment is very differentiated, ranging from small vessels, tailored operation vessels and multipurpose vessel.
- Service vessels are more stationary in their operations and can therefore utilise battery as an energy source.
- The majority of newbuilds in this segment are either fully electric or hybrid. A part of the current fleet is being rebuilt from diesel propulsion to fully electric or hybrid operation.
- The service vessels are often on longer-term contracts. Fuel expenses are covered by the customer (fish farming company). The fish farming companies are therefore in charge of logistics and operations, and hence also the usage of fuel.

Harvest vessels

- The harvest vessels perform mainly on-site harvesting. The harvested fish is thereafter transported for gutting and further processing. These harvest vessels therefore transport mainly harvested fish and very little water compared to live fish carriers.
- Some of these vessels are hybrid and can often utilise electric propulsion.

Cooperation with our aqua-service vessel customers in terms of transitioning to net-zero

We would like to see our aqua-service vessel customers focus on:

Measures to reduce carbon emissions

- Phasing out old vessels.
- Upgrading vessels (excl. engines).
- Upgrading vessels (alternative fuels).
- Upgrading vessels (batteries).
- Optimizing operations.
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Together we make things happen

Read more about our sustainability efforts at:

<https://www.sparebank1.no/en/smn/about-us/sustainability.html>