

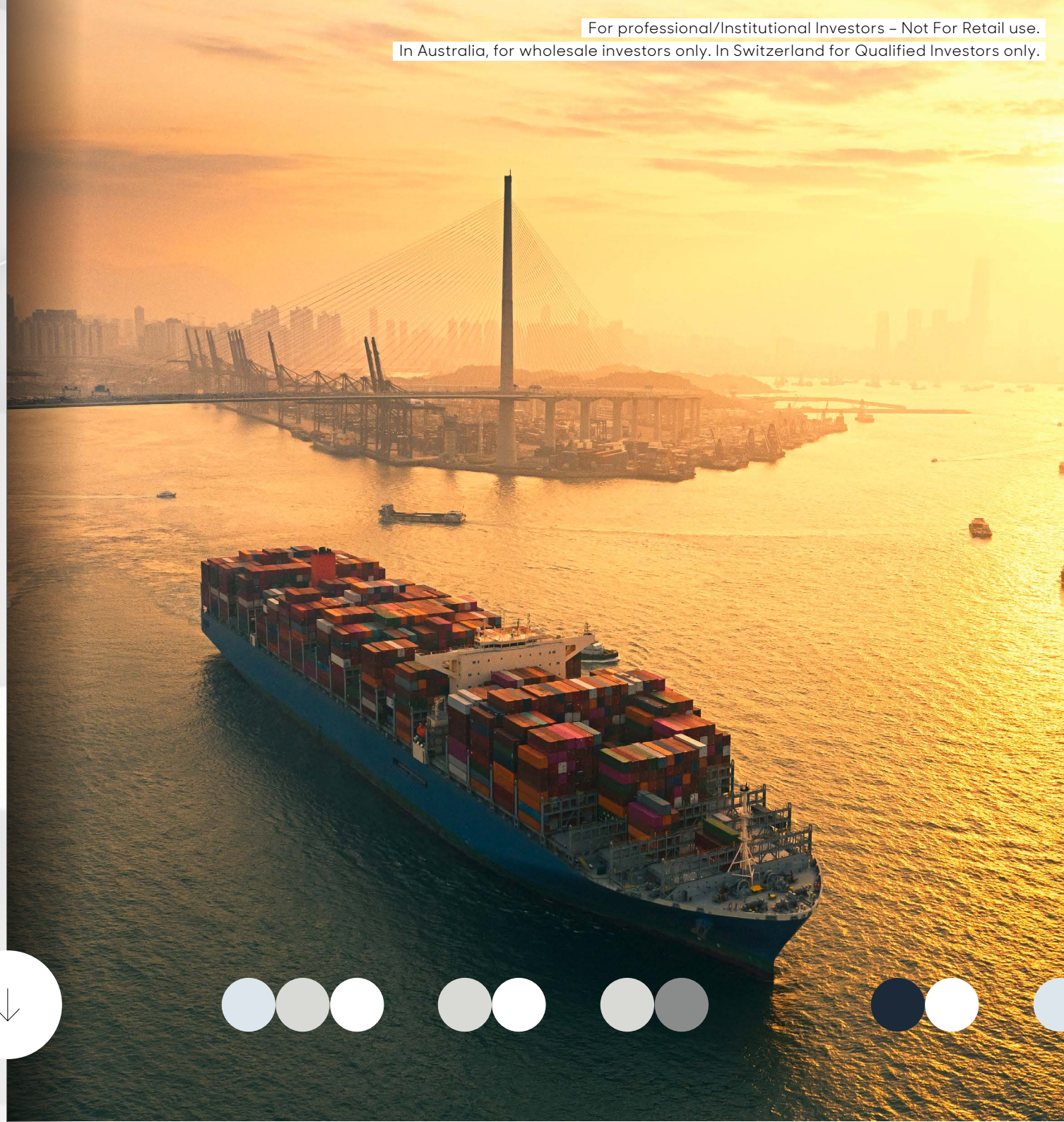
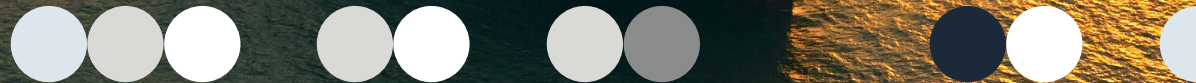


Case Study:
Pacific Basin Shipping

How we consider ESG factors in our investment analysis and company engagement

June 2023

abrdn.com





Spotlight

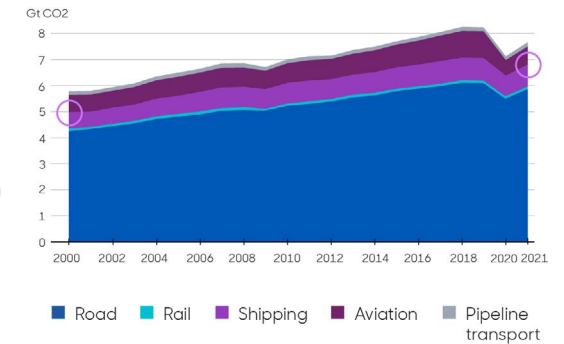
Hong Kong-based bulk shipping business, **Pacific Basin Shipping (PBS)**.

Opportunity

Regulatory action to reduce greenhouse gas emissions should **reduce industry over-capacity**. The shipping industry will need to embark upon a **large investment cycle to replace fossil fuel vessels** with green propulsion solutions.

Global CO2 emissions from transport by sub-sector, 2010-2021

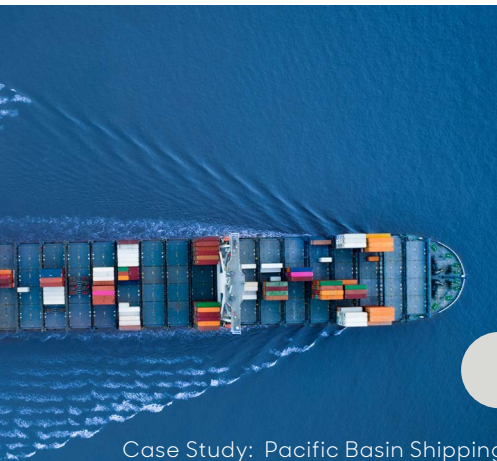
The year 2021 witnessed a notable rebound in global CO2 emissions from the transport sector, primarily driven by the lifting of pandemic restrictions.



Source: IEA, 2022

A stacked line graph showing the steady growth of global CO2 emissions by transport sub-sectors Road, Rail, Shipping, Aviation and Pipeline transport between 2000 and 2020. In this time shipping related transport emissions grew from 0.63 GT CO2 (2000) to 0.84 GT CO2(2021).

In 2020 global CO2 emissions from the transport sector sharply decreased due to pandemic restrictions. In 2021 emissions rebounded, growing by 8% to nearly 7.7 Gt CO2, up from 7.1 Gt CO2 in 2020, as pandemic restrictions were lifted and passenger and goods movements increased.



Case Study: Pacific Basin Shipping

Materiality assessment by abrdn



Environmental factors represent the most material **ESG risks and opportunities** for the bulk shipping industry.



We think PBS **excels in reducing its environmental impact** with demonstrated policies and investment.



PBS benefits from a high 'laden-to-ballast' ratio, with its ships **laden with cargo over 90% of the time**, helping improve fuel and energy efficiency.



The company also has a **strong track record of adopting energy-efficient operating measures and technologies**.



PBS also aims to **mitigate social risks**, ensuring worker safety, community engagement and corporate governance.

Active engagement



We engaged with PBS on the **impact of new International Maritime Organisation regulations** to be introduced in 2023.



Stricter rules will likely impact the business and therefore adaptive measures must be taken.



PBS aims for its fleet to consist of **zero-emission vessels by 2050**.

Minimising risk, maximising opportunity



PBS will invest in low or zero-emission ships when commercially viable for minor bulk.



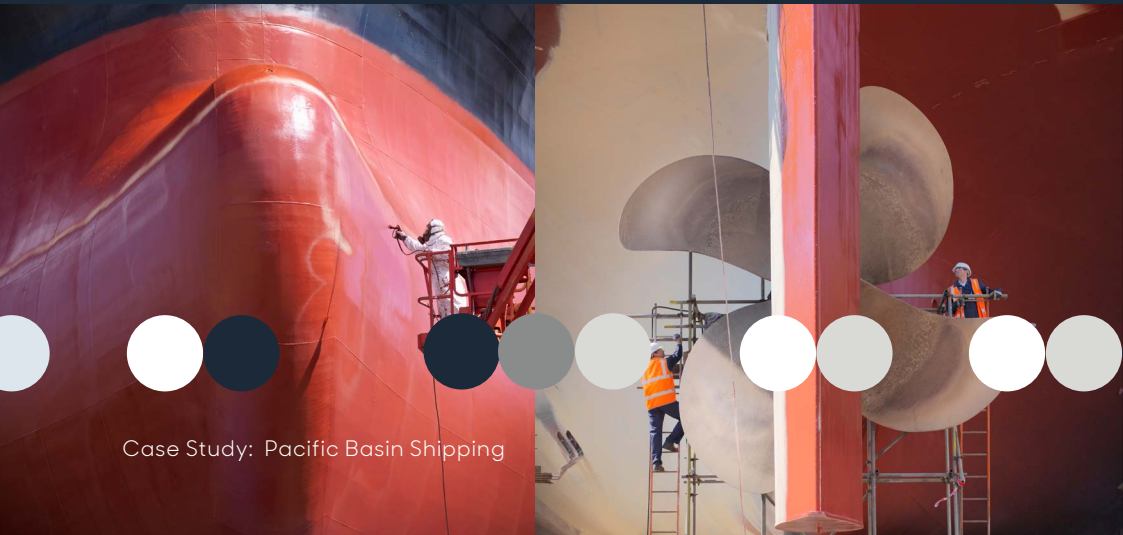
PBS has identified **e-methanol vessels as their green propulsion solution**. These should be commercially available from 2026 meaning PBS does not expect a large capex cycle in the coming five to six



This supports the industry's goals of improving **global shipping's carbon efficiency by 40% by 2030** and **halving greenhouse gas emission by 2050**.



Higher freight rates are bringing forward the commercialisation of green fuels. From a practical perspective this is still probably 4-5 years away but arguably this has been brought forward by 10 years.





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