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Sustainability in Yacht Financing

The topic of sustainability is currently at the forefront of most conversations that are taking place within the shipping industry. This is particularly the case within the commercial shipping industry, where financiers and corporate shipowners are facing increased investor scrutiny regarding their commitment to implementing sustainable initiatives.

In contrast, save for notable exceptions, there does not yet seem to be the same level of investor scrutiny present within the yachting industry. However, the industry as a whole needs to be aware of the implications that may derive from the yachting industry not being considered sustainable and be ready to invest more on this subject to flourish and attract new clients. Quite interestingly, change is being driven primarily by lenders and financiers, with new generations of yacht owners also raising the issue of sustainability as they want to have a better understanding about the environmental footprint of their yacht.

Within the commercial shipping industry, it is commonplace for any new financing arrangements to contain some form of sustainability criteria, whether that involves a facility agreement including information covenants (such as the Poseidon Principles) or, for example, a margin ratchet if certain targets for a vessel are met by a borrower. It is, however, obviously difficult to make a full comparison between commercial vessels and yachts, given that commercial vessels are largely built with standard characteristics, whereas yachts are inherently unique and bespoke constructions, built to meet their owner's specific requirements.

The yachting industry does not have an exact equivalent to the Poseidon Principles, and this is primarily because it would be difficult to develop and implement such a set of standardised principles, given that each yacht is different. Notwithstanding this, financiers are increasingly keen for similar elements to be incorporated in their financing arrangements.



For example, financiers can include a covenant within a financing arrangement that requires performance information for a yacht to be provided by the technical manager to the financier. The financier will then send this information to the Water Revolution Foundation, a non-profit organisation that uses the information to benchmark a yacht's sustainability performance against the rest of the worldwide yacht fleet. Finance is therefore a powerful lever for change within the shipping industry, with lenders and financiers taking a clear and leading role in driving sustainability; some lenders and financiers have also become corporate partners of the Water Revolution Foundation.

The Water Revolution Foundation was established as part of The Superyacht Forum in 2018 and is a driving force of sustainability in the yachting industry; it runs sustainability education programmes and has also developed a tool (YETI) that can assess the environmental impact of a yacht using the information

provided by that yacht's technical manager. The Water Revolution Foundation then allocates that yacht with a rating.

Robert van Tol, Executive Director of the Water Revolution Foundation, informed us that YETI uses a yacht's propulsion, electric and heat usage as the relevant parameters that inform the calculation of that yacht's rating. The resulting figure is divided by the yacht's gross tonnage, to ensure that the result is comparable with the rest of the fleet. It is arguable that the annual provision of this information will not be required, given that a yacht's rating will only change if she is retrofitted. This ratings system gives financiers an objective reference by which they can compare a yacht against other yachts within the fleet, or that they are financing, and may also inspire owners to improve their yacht's rating.

Another important way to drive sustainability within the yachting industry is to increase the sustainability of new-build yachts. The Water Revolution Foundation partners with several major shipbuilders, technology companies and design companies in an aim to neutralise the industry's carbon footprint.

There has been serious growth in the past ten years in the number of innovative and sustainable building solutions that are available; this is due to a rise in demand from financiers, buyers and charterers for more sustainable construction. To assist buyers in selecting which innovative solutions are genuine and should be used on their new-build yacht (or for retrofitting an existing yacht), the Water Revolution Foundation has developed a database of sustainable solutions for construction, which it verifies to ensure the environmental credentials are legitimate. This database is not just useful for new-build yacht construction, but it also contains solutions that can improve the environmental impact of existing yachts by retrofitting that yacht. To do this, the Water Revolution Foundation conducts a lifecycle review of the solution, verifying that it is sustainable from the initial sourcing of raw materials to recycling the materials at the end of a yacht's life.

As a result, there are an ever-increasing number of ways in which a sustainability minded owner can mitigate a yacht's environmental impact. Sustainability is clearly not only limited to concerns regarding fuel consumption, but also extends to the choice of materials used in construction and the performance indicators of a yacht (including its speed and range). Ways to mitigate a yacht's impact could include cutting out single use plastics and introducing hydrogen-powered engines, whether as part of the new-build process or as a retrofit.

Sustainability is also about more broadly re-thinking the approach to yachting, and how to make effective use of the yacht when its owner is not on-board. There are several yachts that are currently under construction which are intended to be used for philanthropic endeavours by their owners, whether full time or part time. One such yacht currently under construction is intended to be used as a floating museum for eight months of each year, during which time it will house a vast exhibition space and host art exhibitions with a capacity of up to 2,000 visitors per day. A top Italian builder Benetti also recently delivered a 37m yacht that has the ability to cover approximately 5,000 nautical miles without the need to refuel.



The Monaco Yacht Show 2022 is further evidence that sustainability considerations are being pushed to the forefront and becoming more commonplace, as the Monaco Yacht Show 2022 will mark the unveiling of a Sustainability Hub. This Hub will be an exhibition area for companies that specialise in technology to reduce a yacht's environmental footprint. The Water Revolution Foundation has also been asked by the Yacht Show to verify the stands that are included within the Sustainability Hub, to ensure that they are genuinely sustainable on a lifecycle basis.

There is, therefore, a clear drive within the yachting industry to modernise, one aspect of which is to increase sustainability and neutralise the carbon footprint of a yacht as far as practicable and another is to ensure that more women have access to senior roles within the industry. The Water Revolution Foundation, in particular, is playing a key role in the drive for sustainability by ensuring that proposed innovative solutions are genuine, and by giving financiers and owners an objective method of benchmarking a yacht against the rest of the fleet in terms of environmental impact. The Water Revolution Foundation was also founded by some of the major players within the yachting industry, which

shows that there are clear frontrunners in the industry keen to adopt a collaborative approach towards sustainability and take coordinated action.

Whilst sustainability is not a new concept within the yachting industry, or the wider shipping industry, the majority of sustainability initiatives have, to date, been aimed at the commercial shipping industry. It is, however, now evident that there is a growing traction for sustainability within the yachting industry, which is primarily driven by financiers and lenders, but with clear and increasing support from the rest of the industry. Within the broader maritime industry, the Water Revolution Foundation is the only foundation that has been established with the sole motive of driving sustainability. The increasing influence and role of the Water Revolution Foundation also signals that sustainability considerations are becoming more commonplace and that financiers are likely to routinely require at least a basic level of sustainability awareness within any new yacht financing arrangements.

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