

NAVIGATING ESG COMPLIANCE IN MALAYSIA'S MARITIME INDUSTRY

Introduction

Malaysia has developed and prospered greatly as a result of its advantageous coastline location, the Strait of Malacca. Malaysia is a premier maritime nation due to its great reliance on seaborne trade and its shipping sector, which is exemplified by significant government-owned ports such as Port Klang and Port of Tanjung Pelepas.[1] These ports are among the busiest in the world, demonstrating Malaysia's leadership in the maritime industry.[2] The advantages of the port and shipping sectors have fueled economic growth and established Malaysia as a rising maritime nation.

The shipping industry is witnessing this transformative shift as financial market participants, such as banks, investors, and insurance companies progressively heighten their compliance with Environmental, Social, and Governance ("**ESG**") compliances and regulations. Companies that follow these guidelines have a greater possibility or chances of obtaining financing related to sustainability because funds have invested one hundred and seventy percent (170%) more money in businesses that meet the ESG criteria between 2015 and 2021.[3] After evaluating their environmental footprint, they will next turn their attention to social and governance issues and ultimately, develop a comprehensive ESG strategy plan that will help shipping companies enhance their ESG performance.[4]

However, maritime companies face investor reluctance towards ESG investing, given the industry's perceived slow progress. Many shipowners lose out on ESG reporting practices that are essential for financing prospects, according to Deloitte. By the end of 2022, only sixty-three percent (63%) of companies possessed useful ESG indicators for sustainability ratings.[5] According to PwC, the maritime industry will increasingly embrace public disclosure of ESG performance, highlighting ESG data as a valuable asset. Shipowners need to give priority to ESG reporting in order to secure funding and drive economic growth, in addition to complying with regulations.

Approximately three percent (3%) of greenhouse gas (“**GHG**”) emissions worldwide are attributable to the environmental component of ESG in shipping.[6] Nevertheless, noise pollution, ship discharges, invasions by marine animals and other elements that devastate our ecosystems are also part of the environmental cost of shipping. The International Maritime Organization (“**IMO**”) has established strategic objectives to lower international shipping's carbon intensity from 2008 levels by forty percent (40%) by 2030 and seventy percent (70%) by 2050.[7] To reach these targets, new regulations require all ships larger than four hundred gross tonnages (400 GT) to measure their Energy Efficiency Existing Ship Index (“**EEXI**”). Ships above five thousand gross tonnages (5000 GT) must also be ranked based on their carbon intensity (“**CII**”).[8]

Social challenges are common in the shipping sector, particularly when it comes to seafarers wellbeing. Poor living conditions, long labour hours and low pay are often subjected to among seafarers.[9] The International Labour Organization (“**ILO**”) created the Maritime Labour Convention to address these problems, providing minimum requirements for the living and working conditions of seafarers.[10] Furthermore, the International Safety Management Code (“**ISM**”) of the IMO is crucial in establishing a global norm for the safe administration and operation of ships.[11] Shipping companies are expected to comply with these standards to protect the welfare of their employees.

The governance component of ESG has received more attention in recent years, as a result of demands from stakeholders and investors seeking greater transparency and accountability from companies.[12] This has led to the development of a range of guidelines and standards, for example, the Sustainability Accounting Standards Board (“**SASB**”) and the Global Reporting Initiative, which offer a framework for evaluating and reporting a company's governance practices in relation to its overall ESG performance.[13]

Main Pressing Issue in the Maritime Industry in Malaysia

Emphasising the interconnected nature of maritime challenges, the Chairman of Maritime Institute of Malaysia (“**MIMA**”), underscores MIMA's alignment with the objectives of the IMO and United Nations Sustainable Development Goals (“**UNSDGs**”), guided by the Ministry of Transport. The foremost challenge is the issue of climate change, where rising sea levels and storms imperil Malaysia's maritime sector, necessitating alignment with UNSDG 13 for climate action.[14] Additionally, addressing marine pollution and habitat degradation becomes imperative for safeguarding biodiversity and coastal communities. Yet, substantial investments in technology, infrastructure, and training are pivotal to meeting stricter IMO regulations and national standards, demanding strategic planning to ensure compliance.[15] This comprehensive approach aligns with ESG principles, as MIMA endeavours to steer Malaysia toward a sustainable and resilient maritime future.

ESG Compliance in the Shipping Industry?

The maritime sector's current evolution in Malaysia is intrinsically linked to the growing emphasis on ESG principles. Collaborations and partnerships, including triple-helix collaborations, are seen as pathways for innovation in sustainable shipping technology, aligning with the broader ESG framework.[16] Recognising the significance of financial institutions in the net-zero transition, the industry's shift towards sustainability is regarded as a crucial aspect of ESG investing.

The demand for financing and investment in climate adaptation, coupled with initiatives like Bank Negara Malaysia's Low Carbon Transition Facility, underscores the intersection of financial support and ESG objectives.[17] Moreover, the sector's commitment to decarbonisation aligns with global goals and industry-specific disclosures, contributing to societal and economic well-being, a key aspect of ESG reporting.[18]

As the maritime industry navigates the challenges of transformation, the incorporation of ESG measures not only opens up financing opportunities but also ensures a holistic and responsible approach towards environmental and social impact in Malaysia.[19]

IMO Regulations and ESA - A Comparison with Singapore's Maritime ESG Efforts

Singapore is at the forefront of the ESG initiatives in the maritime industry, having just signed a memorandum of understanding with Norway and the IMO to assist developing nations in reducing emissions.[20]

The country has received recognition for its dedication to zero-emission ports by requiring that all new harbour crafts in its waters be entirely electric, able to run on B100 biofuel, or compatible with net-zero fuels by 2030.[21] Although vessel electrification is acknowledged as a major trend and a sustainable development, concerns are raised over allocation of funds and whether sustainability goals might overshadow evolving industry demands for competitive business advantages.[22] Prominent experts, such as Dr. Yuen Kum Fai, Captain Tan Kim Hock and Professor Chan Siew Hwa of Nanyang Technological University ("NTU"), maintain that electrification is necessary for sustainability even though it is expensive and that the government's endeavour is a long-term investment for the future generations.[23]

The debate on the effectiveness of hydrogen versus ammonia in pursuing sustainability in shipping is also discussed, taking safety, production costs, and storage into account. Despite obstacles, Singapore's maritime industry is deemed ahead in sustainability efforts. [24] This is because of its excellent collaboration, financial alignment through initiatives such as the Poseidon Principles and strategic advantage in adopting low-carbon fuels due to its reliance on fuel imports.[25]

Overall, Singapore's proactive steps and collaboration in maritime sustainability position it as a leader in the global push towards a cleaner and more environmentally friendly maritime industry.[26]

Sustainable Methods in the Shipping Industry

The shipping sector in Malaysia is proactively embracing a transformative shift towards sustainability by adopting key objectives for ESG compliance. One crucial element is transitioning to sustainable fuels sources, such as liquefied natural gas (“LNG”), biofuels, and electric drivetrains, which are in line with long-term economic sustainability and environmental goals. Energy efficiency measures, including advanced hull designs and route optimisation through digital technologies, contribute to environmentally responsible operations.[27]

Compliance with carbon intensity reporting requirements, set by the IMO 2023, ensures transparency and continuous advancement in adherence to environmental standards.[28] Furthermore, the adoption of slow steaming practices, where vessels reduce speed to achieve fuel savings and lower emissions contributes to a smaller carbon footprint for the industry.[29]

This strategy is in line with global initiatives to curb greenhouse gas emissions, such as the IMO regulations to reduce carbon intensity.[30] Innovative green technologies should be invested by the shipping industry as well. This may include solar energy, wind-assisted propulsion and advanced ship designs that contribute to energy efficiency and emissions reduction.[31]

Conclusion

The IMO's carbon neutrality policy is the source of ESG which acts as a launchpad for the realisation of balanced development that considers the future needs of social development, economic expansion, and environmental preservation. Shipping businesses will continue to face problems such as rising ship-induced pollution, waste treatment costs and losses caused by marine pollution if they fall behind in global efforts for sustainable growth.[32] This presents possible new risks that may negatively impact corporate reputation, resulting in losses or even influencing investments from financial investors.[33]

Domestic shipping companies in Malaysia are still in the early stages of implementing ESG management and they have not progressed beyond copying the ESG practices of international shipping corporations. There is a significant growth in the ESG landscape in Malaysia, as corporations and investors are driven by heightened awareness of sustainability issues, signalling a promising trajectory toward a more responsible and sustainable future, which also includes corporations and investors in the shipping industries.

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