



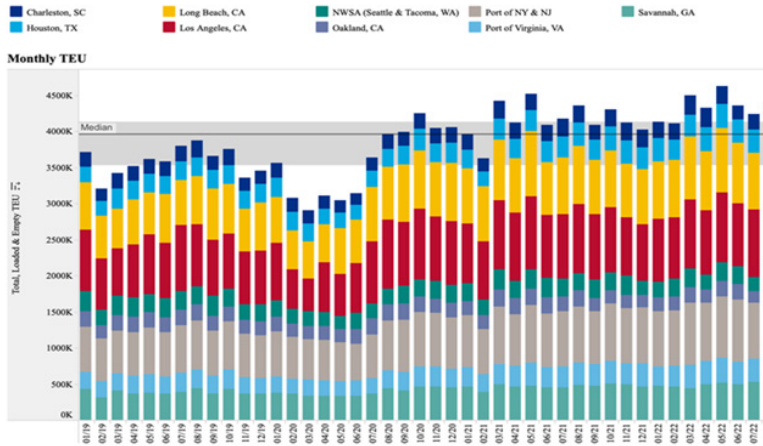
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Moving Towards Decarbonization—A Look at Freight ABS

Sea freight plays a pivotal role in global trade. This was painfully evident in 2020 and 2021 as the freight industry’s struggle to balance a surge in consumer demand with a shortage of workers, equipment, and port facilities resulted in a backlog of containers and imported goods at U.S. ports, railyards and warehouses across the country. Globally, shipping carries 80% of all traded goods by volume, or 70% by value. Shipping is the leading transportation mode for [U.S.-international trade](#) moving \$1.1 trillion (43% of total trade value), two-thirds of which is containerized.

20-Foot Equivalent Units (TEU) Handled by Select U.S. Container Ports: January 2018 to November 2022



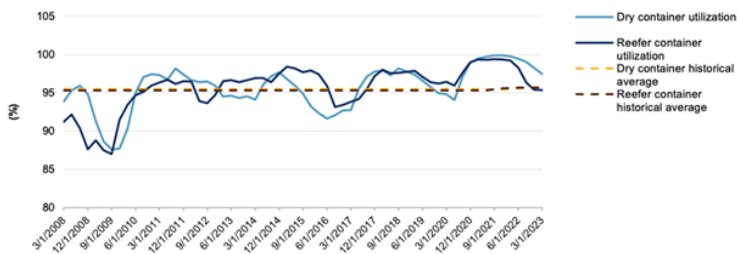
Source: U.S. Department of Transportation, Maritime Administration ([MARAD](#))

Shipping containers are stackable standardized containers that allow goods to be moved easily between ship, rail, and truck. First used in the 1950s, container shipping transformed the freight transport industry, resulting in improved efficiencies and economies of scale. Container leasing companies, which own 50% of the containers in circulation, have been relying on the securitization market for funding since the 1990s as investor see this asset class as a way to diversify away from consumer debt. There are currently \$13.5 billion of container ABS outstanding, according to [S&P Global](#), of which \$12.7 billion is rated single-A.

In June, CLI, doing business as Seacube Container Leasing, one of the 10 largest marine cargo container leasing companies with nearly 800,000 containers under management, issued the first container ABS of the year. CLI Funding 2023-1 is a \$293 million securitization backed by a portfolio of marine cargo containers and their respective term leases. The most senior tranche has a 5.76 average life (defined as the average time it takes for the principal to be repaid) and was rated A- by S&P. With a pricing spread of 250bp over benchmark, the bond offered 75bp more yield than similarly rated subprime auto ABS with a shorter average life.

Collateral for container ABS are typically leases on dry and refrigerated (reefer) containers, which transport perishable goods. Cash flow to the transactions is determined by utilization rates, per diem lease rates, container sales, interest rates and lessee defaults. As leases expire, the transaction’s servicer will remarket the containers to continue to generate cash flow for the trust. The ability of the servicer to do this successfully depends mostly on domestic demand and international trade. Utilization rates, which were higher following pandemic-related lockdowns, have since moved closer to historical averages.

Aggregate Dry and Reefer Fleet Utilization for S&P Rated ABS Deals (2008-2023)



Source: Standard and Poor's Financial Services LLC, [Presale: CLI Funding VIII LLC \(Series 2023-1\)](#)

In early July, the International Maritime Organization (IMO), a specialized agency of the United Nations responsible for both improving the safety and security of international shipping and preventing pollution from ships, is expected to finalize a revised strategy to reduce ships' CO2 emissions in July. Proposed goals are expected to include a net zero emissions target by 2050 with interim targets of a 37% emissions cut by 2030 and 96% by 2040. This is an important step toward decarbonizing the footprint of shipping transportation, of which the merchant fleet--which includes oil tankers, bulk carriers, general cargo, and container ships--is a large part. If adopted and successfully implemented by member countries, the impact would be meaningful: shipping contributes 3% of the world's greenhouse gas emissions – or put another way – [“if shipping were a country, it would be the world's sixth biggest greenhouse gas emitter.”](#)

Railcar ABS—The Leader in Low-Carbon Freight Transport

Railcar lessors have been turning to the ABS market for their funding needs since 2001. According to [S&P Global](#), there are \$7.4 billion railcar lease ABS outstanding, of which nearly \$7 billion is rated single-A. Since 2017, there have been 22 railcar ABS deals with a median size of \$800 million. Trinity Industries Leasing Company, a major railcar lessor, issued the last railcar ABS issued in 2022. The \$327 million TRP 2022-1 financed or refinanced the purchase, leasing, and/or refurbishment of freight railcars. The offering was issued as part of Trinity Leasing's [Green Financing Framework](#) and is supported by a second party opinion from Sustainalytics.

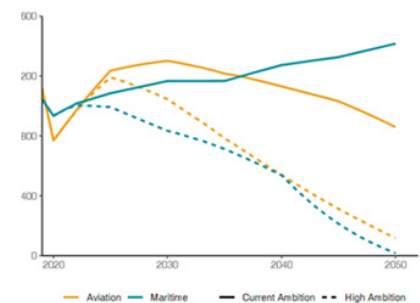
The maritime freight industry has been moving towards decarbonization by improving efficiencies and exploring innovation in fuels. Since 2008, the industry has been practicing slow steaming, the reduction of speed to improve fuel efficiency, albeit while slowing delivery times. The practice was formally adopted by the International Maritime Organization (IMO) in 2011. Shipping customers facing pressures to curb Scope 3 emissions have been driving these efforts-- 71% responding to a 2021 BCG Shipping Decarbonization Survey said they are willing to pay a 2% premium, on average, for carbon-neutral shipping. More recently French President Macron proposed a tax on the GHGs produced from international shipping. So far, the proposal has garnered the support of over 20 countries. The levy, which may raise as much as \$100 billion annually, would be the first for the shipping industry and is expected to hasten the industry's efforts to a green transition.

Certain sectors, such as manufacturing, mining, construction, agriculture, and wholesale and retail trade, are particularly dependent on freight transport. To the extent that decarbonization proposals are executed, container ABS, could join railcars to facilitate the decarbonization transition.

Maritime Freight's Carbon Footprint

The Organization for Economic Co-operation and Development (OECD) tracks the trends in global transport through their International Transport Forum, reporting annually with updated projections for a sustainable transport future. Their [Outlook 2023](#) report states that, “While the maritime sector does not produce a significant share of global passenger emissions, it accounted for 29% of freight emissions in 2019.” The steady increase in volume of global freight shipping is expected to lead to a 35% increase in emissions from maritime freight under the ‘Current Ambition’ scenario. Due to the long distances involved, decarbonization is expected to rely on “large-scale adoption of alternative low-carbon fuels.”

Aviation and Maritime Freight Transport Emissions—Current- and High-Ambition Scenarios (2019-2050)



Source: OECD ITF Transport Outlook 2023