Case Study: BNP Paribas – Application of the EU Taxonomy for a loan granted to an SME in the transport sector

Introduction

Group V is a family SME created more than 100 years ago, specialised in the transport of liquid food (wine, milk and derivatives, juice, alcohol, glucose, oil, chocolate). For several years now the SME has been consciously making progress in the quality of food safety, environment sustainability and transport of organic products.

BNPP granted a loan to finance: 4 Bioethanol trucks + 1 diesel tractor + 5 semi-trailers

This company has implemented a strong environmental approach based on initiatives that aim to reduce the CO2 emissions through:

- monitoring its fuel consumption;
- the choice of economical tyres;
- the training of its drivers in eco-driving;
- the optimisation of travel by geolocation;
- the development of alternative transport to road (transport by tank container using modal road-rail transfer).

EU Taxonomy assessment

We used the Mitigation Taxonomy (H-Transport and storage – 64. freight transport services by road).

Principles and criteria

Demonstrate substantial GHG emission reduction by:

- increasing the number of low- and zero emission vehicles, and improving vehicle efficiency;
- increasing substitution of fossil fuels with sustainable alternative and net-zero carbon fuels.

CO2 emissions per vehicle kilometre (g CO2 /km) or g CO2 KWh:

- zero direct emission heavy-duty vehicles which emit less than 1g CO2/kWh (or 1g CO2 /km for certain N2 vehicles) are automatically eligible;
- low-emission heavy-duty vehicles, with specific direct CO2 emissions of less than 50% of the reference of CO2 emissions of all vehicles in the same subgroup, are eligible;
- dedicated vehicles solely using advanced biofuels or renewable liquid and gaseous transport fuels of non-biological origin as defined in Art. 2 (34) and Art. 2 (36) as well as low indirect land-use change-risk biofuels as defined in Art 2(37) in line with Directive (EU) 2018/2001), guaranteed either by technological design or ongoing monitoring and third-party verification; in addition, for an investment in new vehicles, only vehicles with efficiency corresponding to direct CO2 emissions (gCO2/ km) (biogenic CO2) below the reference of CO2 emissions of all vehicles in the same subgroup are eligible; eligibility should be reviewed by 2025 at the latest or when Directive (EU) 2018/2001) is reviewed;
- fleets of vehicles dedicated to the transport of fossil fuels or fossil fuels blended with alternative fuels are not eligible.
Brief rationale

Road freight transport with zero direct emissions vehicles (e.g. electric, hydrogen) is eligible because the generation of these energy carriers is assumed to become low or zero carbon soon. The definition is aligned with the heavy-duty CO2 regulation, which provides the most recent legislative point of orientation. Road freight transport with low emission heavy-duty vehicles defined in the same regulation and dedicated vehicles solely using a narrowly defined range of bio- or other renewable fuels are also eligible due to the relatively high challenges in electrifying this vehicle category. Substantial contribution to climate mitigation from fuel substitution is in line with the agreed taxonomy regulation.

Detailed Rationale

Key reference point for thresholds: Heavy-Duty CO2 Regulation


- zero emission heavy-duty vehicle means a heavy-duty vehicle without an internal combustion engine, or with an internal combustion engine that emits less than 1g CO2/kWh (or 1g CO2/km for certain N2 vehicles).
- low-emission heavy-duty vehicle means a heavy-duty vehicle, which is not a zero emission heavy-duty vehicle, with specific CO2 emissions of half of the reference of CO2 emissions of all vehicles in the sub-group to which the heavy-duty vehicle belongs. The reference of CO2 emissions shall be based on the monitoring data reported pursuant to Regulation (EU) 2018/956 for the period from 1 July 2019 to 30 June 2020.

Do No Significant Harm assessment

| The main potential significant harm to other environmental objectives | • Direct emissions to air from the exhaust gases of internal combustion engine: nitrogen oxides (NOx), total hydrocarbon (THC), non-methane hydrocarbons (NMHC), carbon monoxide (CO), particulate matter (PM) and particle number, and from tyre abrasion and brakes friction and noise emissions.
| • Waste generation (hazardous and non-hazardous) during maintenance and end-of-life of the vehicle. |
| Adaptation | • Refer to the screening criteria for DNSH to climate change adaptation. |
| Circular Economy | • Compliance with EU and national legislation on hazardous waste generation, management and treatment for both the use and the end-of-life phases of the vehicles. Particular focus on critical raw materials' recovery from batteries.
Pollution

- Vehicles must comply with the current Euro VID and from 2022, the Euro VIE stage. Tyres must comply with the (revised) Tyre labelling regulation. It includes noise labelling requirements but not requirements on tyre abrasion. However, the proposal of revision envisages a test method to be developed: a suitable testing method to measure tyre abrasion is not currently available. Therefore, the Commission should mandate the development of such a method, taking into full consideration all state-of-the-art internationally developed or proposed standards or regulations, with a view to establishing a suitable testing method as soon as possible.
- Tyres must comply with the noise requirements set by Regulation (EC) No 661/2009 on type-approval requirements for the general safety of motor vehicles.
- Vehicles must comply with Regulation (EU) No 540/2014 on the sound level of motor vehicles and of replacement silencing systems.

Outcome

- Our interpretation is that the financing of bioethanol trucks meets the requirements of the criteria and thresholds of the EU Taxonomy.
- We consider we meet the Social Safeguards’ Assessment as the SME is based in Europe.
- However, the Do No Significant Harm Assessment is very difficult to carry, hence we are not sure whether the loan meets all the requirements.
- It is not clear which portion of the loan can be considered as EU Taxonomy compliant: only the 4 bioethanol trucks (40% of the loan) or the 4 bioethanol trucks plus 4 semi-trailers (90% of the loan)?

Challenges

- How to assess the “Reference of CO2 emissions of all vehicles in the subgroup to which the heavy-duty vehicles belong”?
- How to assess the DNSH based on multiple EU regulations such as on tyre abrasion, tyre noise or motor noise?
- How to assess a global analysis of the client's energy transition? How to estimate the proportion of turnover / capex / aligned with the taxonomy? If the energy trajectory is committed and clear, can we consider the company as an actor of the energy transition and validate in principle that all its investments are green?
- The complexity of the criteria and the pending underlying methodologies make the process in banks’ systems totally manual, with poor economies of scale.

Benefits of applying the EU Taxonomy

- Higher commercial visibility with a sort of common ‘super green’ label.
- Meeting the expectations from BNPP customers, shareholders, employees.
- Enrichment of our KYC processes.
- Ability to propose other products labelled ‘green’ such as green bonds.

Recommendations

- Further details should be given as to the criteria, principles, and thresholds for an easier assessment of eligible projects.
- Flexibility should be allowed for DNSH criteria.