

BNP PARIBAS' POSITION ON VOLUNTARY CARBON CREDITS

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BNP PARIBAS

The bank for a changing world

OUR APPROACH TO VOLUNTARY CARBON CREDITS (VCCS)

VCCs can contribute to reach carbon neutrality

- To reach carbon neutrality, **IPCC's and IEA's scenarios** demonstrate it is necessary to reduce greenhouse (GHG) emissions AND to sequester residual CO₂ emissions
- **VCCs can contribute to finance emissions reduction and carbon sequestration projects**

VCCs can help finance projects that are difficult to finance otherwise

- There are **significant needs of investment** to finance projects related to agroforestry projects and transition to sustainable agriculture, especially in nature-based solutions in emerging countries
- **VCCs are a good means (sometimes the only one) to finance such projects**

But VCCs are also prone to significant controversies

- **Environmental integrity**: low quality projects **capture less carbon** than announced and/or **significantly harm ecosystems**
 - **Delayed emission reduction action**: excessively relying on VCCs can be a **diversion from mitigation**
 - **Social impacts**: local populations can be negatively affected
- Significant **risks of criticisms for greenwashing**



WHY A BNP PARIBAS' PUBLIC POSITION ON VOLUNTARY CARBON CREDITS (VCCS) ?

Stakeholders' expectations

- **Strong expectations from investors** (IIGCC, TPI...) on BNP Paribas to **clarify the role of VCCs in its Net Zero alignment strategy**
- Need for **internal guidelines**, expressed by our business lines :
 - to **benefit from significant business opportunities** related to VCCs
 - to **help our clients in their low-carbon transition**
 - while making sure to have a **real positive impact** and **avoid criticisms of greenwashing**

Main use cases for BNP Paribas

- **Global Markets : Selling VCCs** to our large corporate clients
- **Retail banking** : Helping our clients:
 - offset their GHG emissions with VCCs
 - structure and finance projects generating VCCs
- **Asset Management** : Buying VCCs to offset GHG emissions of specific investment products
- **Group**: Buying VCCs to **offset BNP Paribas' operational GHG emissions**

Main challenges

- **Clients**: Offsetting is important to reach net zero GHG emissions, but **should be included in a robust climate strategy**
- **Transactions**: VCCs should be generated by **high-quality and transparent projects**
- **Communication**: Importance of **disclosing separately gross and net emissions**



PRESENTATION OF THE POSITION

CORPORATE SOCIAL RESPONSIBILITY

POSITION OF BNP PARIBAS ON VOLUNTARY CARBON CREDITS

February 2023

Context

Determined to contribute to global carbon neutrality by 2050, BNP Paribas has made commitments, notably by joining several Net Zero alliances of the GFANZ (Glasgow Financial Alliance for Net Zero), and by steering its financing, investment and asset management activities to align them with the trajectories required to finance a carbon neutral world by 2050.

BNP Paribas actively supports its clients and the companies from its investment portfolio in their transformation to a low-carbon business model. Achieving carbon neutrality requires first and foremost a drastic reduction in greenhouse gas (GHG) emissions everywhere and in all human activities. However, carbon sequestration, notably in soils and plants, will also be necessary to achieve a "net zero" balance. This is especially true for industries for which it is particularly difficult to curb emissions in the short term, in the absence of a low-carbon technological alternative at scale.

Voluntary Carbon Credits (VCCs), associated with voluntary approaches by organizations wishing to reduce their impact on climate change¹ can contribute to these collective carbon neutrality efforts, in particular by enabling the financing of carbon sequestration projects. The trade of voluntary carbon credits can also contribute to a shift of financial and technical resources from developed countries to developing countries, in line with the principles of equity and common but differentiated responsibilities and respective capabilities recognized in the Paris Agreement.

In this context, the solid and rigorous development of voluntary carbon credits has a role to play in the global transition to carbon neutrality, with a specific attention to several sensitive aspects: emission reduction actions should always be a priority over using of carbon credits, the greenhouse gas reductions linked to these voluntary carbon credits should be effective and permanent; the projects generating carbon credits should have also positive impacts on biodiversity and local populations (or at least no negative impacts).

This position aims to define the general principles under which BNP Paribas uses, supports, advises or sells Voluntary Carbon Credits for its own use or for that of its clients.



¹NZAs (Net Zero Banking Alliance), NZAM (Net Zero Asset Manager Initiative) for BNP Paribas Asset Management and NZAMA (Net Zero Asset Owner Alliance) for BNP Paribas Cardif. These alliances were created by the UN Environment Finance Initiative (UNEFI).
²The UN Net-Zero (Net Zero Emissions) scenario foresees the acquisition of 1.6 GtCO₂e in 2050 (of which 1.4 with nature-based solutions (NBS) and 0.2 with CCS) (Carbon Capture Utilization and Storage).
³This paper does not cover carbon credits listed to regulatory frameworks, typically emission trading schemes (e.g. EU ETS in Europe).
⁴Article 2(19) Paris Agreement (United Nations, 2015).



BNP Paribas' position

BNP Paribas' approach to ensuring that the VCCs the Group uses or proposes when accompanying its clients have a positive impact on climate change is founded upon three pillars:

1. Proposing carbon credits to customers with appropriate climate strategies;
2. Handling high-quality carbon credits;
3. Accounting and reporting in a relevant way.

1 Proposing carbon credits to customers with appropriate climate strategies

Given the limited potential for carbon sequestration on Earth, the credibility of a climate strategy requires strict prioritization of actions: first, big emissions, and second, offsetting residual emissions of the initial emissions. VCC can play a role through its banking activities, BNP Paribas and counterparties that implement a serious and credible climate strategy.

- For companies, BNP Paribas will only propose climate strategy is considered not applicable, by an internal assessment.
 - For individual clients and small business even feasible, in this case BNP Paribas prioritizing efforts to reduce GHG emissions.
- While providing investment services to custodial investment portfolios, BNP Paribas commits to efforts to reduce emissions by reallocating their internal guidelines and training plans will be developed in supporting their clients with voluntary carbon

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2 Handling high-quality carbon credits

A voluntary carbon credit shall meet several criteria to be considered of high quality according to BNP Paribas' standards:

- It is generated by a project that will lead to an actual and long-lasting reduction of greenhouse gases. This implies, inter alia, that the emission reduction is very likely to last¹.
 - additional, which means that there is indeed a reduction in emissions compared to a situation where no carbon credits are used²; and
 - permanent, which means that the reduction is not cancelled or diminished by future evolutions of the project.
- The GHG impact of the associated project is measured and verified by an independent third party.
- A reliable registry ensures carbon credits are unique, i.e. that they are not counted or claimed twice.
- The associated project does not have any material negative environmental impacts in particular on local ecosystems and biodiversity.
- The associated project creates positive value for local populations, or at least has no negative impact.

BNP Paribas only deals with high quality carbon credits from high-profile providers. To the extent possible, BNP Paribas relies on standards or labels to assess the quality of the carbon credits³.

¹For example, the assessment by the Science Based Target initiative (SBTi) is relevant.

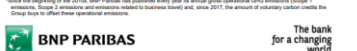


²Additionally, which depends on the choice of a hypothetical scenario, and permanence, which depends on the evolution of carbon storage conditions over at least several decades, cannot be guaranteed by VCCs. BNP Paribas commits to follow best practices in order to address the above-mentioned risks.

³They are avoided emissions compared with a reference scenario, known as a counterfactual scenario, the choice of which is decisive. If the reference scenario represents a stable or decreasing emission level, the avoided emissions will correspond to an actual decrease in emissions.

⁴At the international level, Gold Standard and Verra are two of the most recognized standards to ensure the credibility of emission reduction projects.

⁵Since the beginning of the 2010s, BNP Paribas has published every year its annual gross operational GHG emissions (Scope 1 emissions, Scope 2 emissions and emissions related to business travel) and, since 2017, the amount of voluntary carbon credits the Group buys to offset these operational emissions.



Implementation by BNP Paribas in the context of the alignment of its activities with the collective carbon neutrality target

Operational emissions (Scope 1, Scope 2 and emissions related to business travel): BNP Paribas reduces its operational emissions, notably through efforts to reduce energy consumption and the use of low-carbon energy⁵. In addition, each year BNP Paribas buys VCCs corresponding to its residual operational emissions.

Alignment of the investment portfolio: As part of their commitments under NZAM and NZAMA, BNP Paribas Asset Management⁶ and BNP Paribas Cardif⁷ do not intend to rely on VCCs to achieve their objectives of aligning investment activities with carbon neutrality scenarios.

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BNP Paribas does not intend to rely on VCCs to meet its alignment targets

Context, long-standing commitment of BNP Paribas on climate and the necessity to use offsetting last

- 3 conditions:
1. Proposing carbon credits to customers with **robust climate strategies**;
 2. Handling **high-quality carbon credits**;
 3. **Accounting and reporting** in a relevant way.

Position paper publicly online : [bnpparibas csr voluntary carbon credits position.pdf](https://www.bnpparibas.com/press-releases/2023/02/01/position-paper-publicly-online-bnpparibas-csr-voluntary-carbon-credits-position.pdf)



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