

## **CSR SECTOR POLICY – AVIATION UPDATED DECEMBER 2022**

### **1. Scope**

This policy (the « Policy ») applies to all loans and investments and more generally to all Crédit Agricole CIB's (the « Bank ») operations relative to the civil aviation industry and to the transportation of goods by air (air freight).

Passenger planes, cargo carriers/freighters and business planes over 5.7 tons as well as helicopters for civilian uses are “aircraft” coming within the scope of this Policy.

The aviation industry covered by this Policy includes (i) the purchase and leasing of new or used aircraft for the civilian transportation of passengers or freight, (ii) the operation of such aircraft by airlines or private operators (such as corporate customers) as well as (iii) their manufacturing<sup>1</sup>.

Construction and operation of airports are not covered by the Policy.

Only those activities that the Bank shall have to carry out from the date of issue of the Policy are concerned. Outstanding obligations and all commitments already made or activities whose commercial negotiation is at a fairly advanced stage do not come within the scope of this Policy.

This Policy will come up for review at regular intervals.

### **2. Policy stakes and objectives**

The aviation industry involves a number of stakes of an environmental, social and safety nature.

This industry is responsible for ca. 2-3% of the world's GHG emissions.

Air traffic grew annually by over 5% in the period from 1973 through 2019<sup>2</sup>. It should double again over the next 25 years<sup>3</sup>, supported by the growth in Asia-Pacific, the Middle East, Latin America and Africa, while still significant growth potential remains in North America and Europe.

To address the growing demand, the world's fleet of aircraft has developed significantly, and is expected to continue its expansion. In the next two decades (2019-2039), worldwide fleet is expected to almost double, from ca. 26,000 units in 2019 to ca. 48,000 units by 2039 according to Boeing's latest forecasts (incorporating the impact of Covid-19)<sup>4</sup>.

Against this backlog of continuous growth of the aviation industry and of the need to replace many old planes, the significant technological improvements achieved by the industry allowed to reduce CO2 emissions by passenger-kilometers by ca. 3% p.a. since the 1990s – initially mainly driven by the imperative to reduce fuel bill for airlines.

<sup>1</sup> Including the manufacturing of engines but excluding other equipment manufacturers.

<sup>2</sup> Source: World Bank, IATA.

<sup>3</sup> Source: Air Transport Action Group – Central scenario of 3% growth p.a. from 2019 until 2050, taking into account Covid-19 impact on longer term growth trends.

<sup>4</sup> Source: Boeing Commercial Market Outlook 2020 – October 2020.

In the meantime, aircraft leasing has significantly developed – aircraft lessors' fleet now represent close to 45% of worldwide aircraft fleet (in number, and ca. 50% by value) vs. 25% in 2000<sup>5</sup>. This proportion increases with new deliveries, which mainly involve operating lessors.

In order to face energy transition issues, airlines are increasingly driven to reduce their carbon footprint through i) transition to latest technology aircraft, ii) improvement of the efficiency of their operations, iii) carbon offsets and iv) investment in the development / commitment for the use of Sustainable Aviation Fuels. Jet fuel combustion being, by far, the main impact of airlines' operations to the Environment, the most efficient lever immediately available to airlines today remains the investment in latest technology aircraft.

Safety issues are also a significant item in this Policy.

### **3. Frame of reference**

Loans and investments in this area will be analyzed taking into account identified stakes including particularly the works and standards resulting from the following agreements, initiatives or organizations:

- International Civil Aviation Organization (ICAO)
- Committee on Aviation Environmental Protection (CAEP). Currently the ICAO's work on environmental issues is to a large extent performed/attended to by CAEP
- European Commission
- European Aviation Safety Agency (EASA): assistance on technical issues for lawmaking purposes (Europe)
- Federal Aviation Administration (FAA) (USA)
- World Bank's standards and particularly the International Finance Corporation (IFC)'s Performance Standards and Environmental, Health and Safety guidelines<sup>6</sup>,
- International Air Transport Association (IATA)
- IATA Operational Safety Audit (IOSA): the first worldwide standard regarding the control of the security of airlines' operating procedures.
- European Clean Sky Joint Undertaking, a public-private partnership between the European Commission and the European aeronautics industry that coordinates and funds research activities to deliver significantly quieter and more environment friendly aircraft,
- Ramsar Convention: Convention on wetlands (Ramsar, Iran, 1971)
- UNESCO: the United Nations Educational, Scientific and Cultural Organization.
- Alliance for Zero Extinction.

### **4. Criteria retained in the analysis**

The Bank will analyze each loan, investment, or relationship, as the case may be, in the aviation industry based on the relevant criteria listed below:

#### **4.1 Aircraft / Fleet related criteria**

These are:

- the greenhouse gas emissions released by the aircraft and particularly carbon dioxide,
- emissions of other pollutants such as carbon monoxide, NOx, fine particles (particularly PM10 and PM2.5), volatile organic compounds, 1,3 butadiene, benzene, polycyclic aromatic hydrocarbons,
- the sound level of the aircraft.

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<sup>5</sup> Source: Boeing, Cirium.

<sup>6</sup> General EHS Guidelines and EHS Guidelines for Airlines.

Emissions of other pollutants and the sound intensity of the aircraft are assessed on the occasion of the aircraft certification process as determined by ICAO<sup>7</sup>.

Greenhouse gas emissions will primarily be assessed based on the age of the aircraft or the average age of the fleet. The objective is to finance recent and fuel efficient aircraft.

#### **4.2 Criteria relative to the manufacturing of aircraft**

These include particularly:

- taking the above criteria into account in the design of aircraft,
- the manufacturer's ability and commitment to engage with stakeholders and to manage environmental and social risks related to its industrial activity (impacts assessment and management, consultation of populations concerned...)
- commitment relative to environmental issues (potential impacts on biodiversity and eco(system) services, emissions of pollutants, management of water resources...)
- commitment vis a vis social and human rights issues (compliance with the ILO's<sup>8</sup> fundamental policies, health and security of local populations).

The quality of the assessment and management of environmental and social impacts will be measured against the IFC's Performance Standards and Environmental, Health and Safety guidelines applicable to the Client, and particularly the set up and maintenance by the Client of an environmental and social management system adapted to the nature and size of environmental and social risks and designed to assess and monitor over time the impacts and mitigating measures. Regarding existing industrial plants, the analysis will focus on management issues.

#### **4.3 Criteria related to the operation of aircraft**

These particularly include:

- safety,
- energy efficiency,
- the operator's ability and commitment to engage with stakeholders and to manage the environmental and social risks involved in its activity (including fleet renewal or energy efficiency enhancement plans/initiatives),
- its commitment vis à vis the environment (noise pollution, emissions of pollutants, aircraft recycling),
- its commitment vis-à-vis the society and in terms of human rights (including particularly compliance with the domestic laws and regulations applicable to it or with ILO's fundamental Conventions).

These criteria are particularly measured against the IFC's Performance standards and Environmental, Health and Security guidelines<sup>9</sup> (in particular General EHS Guidelines et EHS Guideline for Airlines) and with the recommendations of the organizations referred to above.

The assessment of safety issues will relate in particular to:

- the airline's commitment to meet the domestic and/or international administrative conditions necessary to operate the fleet,
- the airline's commitment to allocate the resources and implement the organization to apply the rules and the procedures issued by the organizations listed above (particularly regarding training, operation, maintenance...),

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<sup>7</sup> Noise emissions particularly are assessed based on the 3 noise levels determined in the International Civil Aviation Organization's (ICAO) procedures. The three noise levels correspond to approach, full power take off and overflight.

<sup>8</sup> The ILO's fundamental policies concern the elimination of any form of compulsory or forced labour (C29 and C105), the effective abolition of child work (C138 and C182), the elimination of discrimination in respect of employment and occupation (C100 and C11) and freedom of association and the effective recognition of the right to collective bargaining (C87 and C98).

<sup>9</sup> Compliance with these Standards and Guidelines is assumed in High income OECD countries, except for Performance Standard 7 Indigenous People.

- compliance with the operating and maintenance specifications issued by the manufacturers and the competent authorities,
- the findings of the IATA's Operational Safety Audit, if appropriate,
- the airline's track record in terms of incidents or accidents.

The assessment will also take into account sanctions and/or convictions, if any, imposed by competent authorities. The seriousness and recurrence of these sanctions are assessment criteria involving, when appropriate, a submission to the CERES Committee in accordance with the provisions of sections 7 and 8.

Energy efficiency will be measured in grams of carbon dioxide/per passenger kilometer/mile or grams of carbon dioxide/per seat kilometer/mile, as regards the transportation of passengers, and grams of carbon dioxide/per ton kilometer/mile, as regards the transportation of freight, particularly as determined by the airline or the manufacturer. It results in particular from the age and structure of the fleet, the engines selected and, as the case may be, the load factor.

There is currently no international standard governing aircraft recycling<sup>10</sup>. Participation to initiatives such as the Aircraft Fleet Recycling Association (AFRA) is considered as good practice.

## **5. Excluding criteria**

The Bank will not participate in loans or investments which are directly intended for the acquisition or leasing of aircraft if it is aware of either of the following:

- the aircraft does not meet the certification standards as adopted by the ICAO Board<sup>11</sup> in force as of the date it goes through the certification tests,
- the age of the aircraft itself and the average age of the financed fleet is superior to, as of the date the loan is considered<sup>12</sup>:
  - 6 years in the case of business planes,
  - 12 years for the transportation of passengers, in the context of Covid crisis,
  - 15 years for the transportation of goods.

The Bank will not participate in loans and investments that are directly linked to the development, erection or extension of industrial plants (particularly aircraft manufacturing plants) if it is aware of any of the following:

- critical impact on a protected area or wetlands of international importance covered by the Ramsar Convention,
- location in a Unesco World Heritage Site or a site meeting the criteria for designation by the Alliance for Zero Extinction (AZE),

or, when a significant non-compliance risk has been identified, unless it has received, according to its own judgment, a satisfactory reply concerning:

- the IFC's Performance Standards (or equivalent standards in case of co-financing along with an export credit agency or multilateral organization) or Environmental, Health and Security Guidelines<sup>13</sup>,
- public consultations or, as the case may be, the consent from affected Indigenous People.

The Bank will not participate to a loan or investment directly related to an airline if, on the date of the transaction:

- the airline is on the European Commission's blacklist of airlines unless it has committed to perform an IATA Operational Safety Audit and to follow the latter's recommendations.

<sup>10</sup> In Europe, the dismantling of aircraft comes under the regulations applicable to motor vehicles.

<sup>11</sup> These standards cover particularly the noise and emissions of various pollutants including emissions of carbon dioxide.

<sup>12</sup> Refinancing operations may exceptionally concern older aircraft when they are in favour of companies which implement a fleet energy efficiency control and age management policy consistent with the set limits or for conversions (passenger planes converted into cargo or business planes) or to finance companies specialized in the dismantling of aircraft or engines at the end of their life cycle; forced refinancing situations can also lead the Bank to set up a transaction for older device(s).

<sup>13</sup> Compliance with these Standards and Guidelines is assumed in High income OECD countries, except for Performance Standard 7 Indigenous People.

## **6. Implementation**

When the loan or investment is directly linked to the acquisition or leasing of aircraft, the project will be examined before the loan is granted or investment made, giving due consideration to all the criteria described above and the Bank will try and determine whether or not any excluding criterion exists. At each annual review, the relationship will be analysed in the light of all the criteria, it being understood that the age criterion of the fleet will relate to the average age of the fleet financed for this relationship, which should not exceed 8 years, 15 years or 20 years for business aviation, commercial passenger transport, or freight transport respectively.

When the loan or investment is directly linked to the building or extension of an aircraft manufacturing plant, the project will be examined before the loan is granted or investment made, and at each annual review in case of a loan, giving due consideration to all the criteria described above and the Bank will try and determine whether or not any excluding criterion exists.

When an excluding situation is identified and when the analysis is overall negative, the Bank will not participate to the contemplated transaction. Any exception will be treated in accordance with section 8 below.

In the case of advisory services, the Bank will tend to promote the principles included in this Policy. The Bank will refrain from accepting an advisory assignment if it is aware of the existence of a certain and final excluding criterion<sup>14</sup>.

## **7. Bank's involvement unrelated to an aircraft or to a specific industrial plan**

Some transactions are not directly related to the acquisition or leasing of aircraft or to the erection or extension of an aircraft manufacturing plant but nevertheless come within the scope of the Policy. This is particularly the case for activities of a "Corporate" nature in favour of airlines, lessors or aircraft manufacturers.

The Bank expects its Clients to apply good practice and to have a behaviour apt to limit their environmental and social impacts in accordance with the provisions in Section 4 of the Policy.

The regulatory framework in which the Client operates permits to assume that the principles described in the Policy are duly observed regarding activities located in OECD High Income countries.

In other cases, the Client's policy will be assessed against the principles in the Bank's Policy on the occasion of the annual review of the loans and guarantees in place.

For airlines, being IATA (and particularly IOSA) members and their support to the organizations and initiatives referred to in section 3 above will be a strong assessment criterion.

For lessors, primarily investing in aircraft (or engines) from reputable manufacturers (incl., inter alia, for aircraft - Airbus, ATR, Boeing, Bombardier, Embraer, De Havilland Canada, Superjet – and for engines - Safran, GE, Pratt&Whitney, CFM, IAE, Engine Alliance, Rolls-Royce) and their support to the organizations and initiatives referred to in section 3 above will be a strong assessment criterion.

The analysis will also focus on the implementation by the Client of an energy efficiency control / carbon intensity assessment & mitigation approach. Any significant difference between the Client's and the Bank's policies will be submitted to the CERES Committee, for recommendation.

Any on-boarding decision concerning a new counterparty coming within the scope of the Policy will be taken only after due analysis of the same criteria. Such analysis will have to confirm, if appropriate in CERES Committee meeting, that practices are in line with the principles underlying the Bank's Policy.

These assessments will be made on the basis of public information or information provided to the Bank by the Client.

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<sup>14</sup> This does not concern advisory services aimed at eliminating any such excluding criterion (e.g to advise on the renewal of the fleet).

## **8. Exceptional circumstances**

Those transactions which would involve significant uncertainties as to their compliance with the Policy will be submitted to the CERES Committee, for recommendation. If the Committee considers that the transaction does not comply with the Policy, the latter may nevertheless be escalated to Crédit Agricole CIB's Executive Management, for arbitration.

## **9. Reference documents and glossary**

- [IATA: International Aviation Transport Association](#)
- [ICAO: International Civil Aviation Organization \(Europe\)](#)
- [FAA: Federal Aviation Administration \(USA\)](#)
- [EASA: European Aviation Safety Agency](#)
- [International Finance Corporation's Performance Standards](#)
- [IFC's Environmental, Health and Safety guidelines](#)
- [IFC's Environmental, Health and Safety guidelines / airlines](#)
- [European Clean Sky Joint Undertaking](#)
- [Aircraft Fleet Recycling Association \(AFRA\)](#)
- [Wetlands of international importance covered by the Ramsar Convention](#)
- [Unesco's World Heritage sites](#)
- [Alliance for Zero Extinction](#)