

POSITION OF BNP PARIBAS ON VOLUNTARY CARBON CREDITS

February 2023



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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)¹, 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” balance². 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 (VCC), associated with voluntary approaches by organizations wishing to reduce their impact on climate change³, 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 Agreement⁴.

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.

¹NZBA (Net Zero Banking Alliance), NZAMI (Net Zero Asset Manager initiative) for BNP Paribas Asset Management and NZAOA (Net Zero Asset Owner Alliance) for BNP Paribas Cardif. These alliances were launched by the UN Environment Finance Initiative, UNEP-FI.

²The IEA's NZE (Net Zero Emissions) scenario foresees the sequestration of 7.6 GtCO₂e in 2050 (of which 1.4 with nature-based solutions (NBS) and 6.2 with CCUS (Carbone Capture Utilization and Storage)).

³This paper does not cover carbon credits linked to regulatory frameworks, typically emission trading schemes (e.g. EU ETS in Europe).

⁴ Article 2.2 (Paris Agreement, United Nations, 2015)



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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, significantly reducing direct and indirect greenhouse gas emissions; and second, offsetting residual emissions, which should eventually represent only a small share of the initial emissions. VCC can play a role in offsetting these residual emissions.

Through its banking activities, BNP Paribas supports approaches to sell voluntary carbon credits to counterparties that implement a serious and credible climate approach:

- For companies, BNP Paribas will only propose voluntary carbon credits to counterparties whose climate strategy is considered robust by a recognized external assessment⁵, or, if none is applicable, by an internal assessment;
- For individual clients and small businesses, such an assessment does not seem relevant or even feasible. In this case, BNP Paribas commits to informing its clients about the importance of prioritizing efforts to reduce GHG emissions before resorting to compensation.

While providing investment services to customers willing to compensate the emissions of their investment portfolios, BNP Paribas commits to informing them about the importance of prioritizing efforts to reduce emissions by reallocating their assets before resorting to compensation.

Internal guidelines and training plans will be developed as needed to back the businesses of BNP Paribas in supporting their clients with voluntary carbon credits.

⁵ For example the assessment by the Science Based Target initiative (SBTi), the Transition Pathways initiative (TPI) or the Climate Action 100+ (CA100) initiative.



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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 be⁶:
 - o **additional**, which means that there is indeed a reduction in emissions compared to a situation where no carbon credits are used⁷; and
 - o **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 credits⁸.

3 Accounting and reporting in a relevant way

Carbon accounting requires the implementation of robust and transparent methodologies. In an organization's carbon reporting, it is particularly important to explicitly distinguish between gross emissions (including emission reductions) and net emissions (also including offsets). In its own reporting, BNP Paribas explicitly reports its gross emissions, separately from the quantities of voluntary carbon credits it purchases⁹.

BNP Paribas supports these good practices, and requests that they be respected by those of its clients who plan a public communication mentioning the services provided by BNP Paribas in relation to voluntary carbon credits.

⁶ Additionality, 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 at 100%. BNP Paribas commits to follow best practices in order to obtain the best guarantees.

⁷They are avoided emissions compared with a reference scenario, known as a counterfactual scenario, the choice of which is decisive. If this reference scenario assumes a stable (or decreasing) emission level, the avoided emissions will correspond to an actual absolute decrease in emissions. If this scenario assumes an increase in emissions, the avoided emissions correspond to a smaller increase in emissions.

⁸ At the international scale, Gold Standard and Verra are two of the most recognized standards to ensure the credibility of emission reduction projects.

⁹Since 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 energy¹⁰. In addition, each year BNP Paribas buys VCCs corresponding to its residual operational emissions.

Alignment of the credit portfolio: As part of its commitment under NZBA, BNP Paribas does not purchase VCCs to offset emissions related to its credit portfolio and hence meet its alignment targets.

Alignment of the investment portfolio: As part of their commitments under NZAMI and NZAOA, BNP Paribas Asset Management¹¹ and BNP Paribas Cardif do not intend to rely on VCCs to achieve their objectives of aligning investment activities with carbon neutrality scenarios.

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¹⁰ Divided by the Group's total headcount, operational GHG emissions came out at 1.5 tCO₂e/FTE in 2021, down by 19% versus 2020 and by 53% versus 2012.

¹¹ At end of May 2022, BNP Paribas Asset Management manages less than €2bn of assets under management in specific funds where carbon footprint is offset. Such funds remain marginal (0.4% of total BNP PAM's assets under management) and we do not foresee to use carbon offsetting practices for Net Zero portfolio alignment.



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