

**CSR SECTOR POLICY – SHIPPING**  
**UPDATED OCTOBER 2021**

## **1. Scope**

The present policy (the « Policy ») applies to all loans and investments and more generally to all Crédit Agricole CIB (the « Bank »)'s operations in connection with maritime industry.

Maritime activity as covered by this Policy encompasses:

- (i) building, repair or dismantling of merchant vessels by clients of the Bank,
- (ii) acquisition and operation of merchant vessels by clients of the Bank.

As far as this Policy is concerned, merchant vessels are ships used for transportation of passengers or goods as well as other ships used for a civil or industrial activity such as:

- passenger liners<sup>1</sup>,
- dry cargo ships<sup>2</sup>,
- tankers<sup>3</sup>,
- special purpose ships<sup>4</sup>,
- port or coastal service boats<sup>5</sup>.

The following categories of ships do not fall under the scope of this Policy, due to their technical specifications and to ad-hoc regulations:

- Scientific ships,
- Boats intended solely for on-shore operation (waterways, river transport),
- Leisure boats,
- Military ships,
- Civil or military submarines,
- Fishing boats,
- Ice breakers,
- Oil rigs and drillships,
- Hydrocarbon floating storage units (FSO, FPSO).

Building, operation and management of ports and harbours are not addressed in the Policy.

Only those activities that the Bank would carry out from the Policy issuance date are concerned. Therefore, outstanding commitments as well as activities already documented or at an advanced stage of negotiation are excluded from the scope of the Policy.

This Policy will be reviewed periodically.

<sup>1</sup> Such as cruise ships, ocean liners, car ferries, passenger launches and high speed passenger boats.

<sup>2</sup> Such as container carriers, bulk carriers, ro ros, cargo ships and sea river cargo ships

<sup>3</sup> Such as products or crude oil, gas and chemicals carriers.

<sup>4</sup> Such as sand dredges, deep sea tugs and cable layers

<sup>5</sup> Such as dredgers, harbour tugboats and pilot boats and technical assistance boats

## **2. Policy issues and objectives**

The sea covers over 70% of the total surface of our world. Since sea transportation is very cost effective<sup>6</sup> total exchanges by sea more than tripled<sup>7</sup> from 1970 to 2010, on the back of the development of international trade. In tons' terms, 90% approximately of international trade is shipped by sea.

Approximately 50,000 merchant vessels<sup>8</sup> sail worldwide, of which circa 90% cargo carriers and the remaining circa 10% passenger carriers<sup>9</sup>. Merchant vessels have had a steady growth all along the last century due to the brisk growth in demand.

Worldwide fleet is registered under more than 150 flags but only a small number of countries account for the bulk of ship registrations (particularly Panama, Liberia and Hong Kong S.A.R.)<sup>10</sup>.

Shipping involves environmental, health, social and safety issues.

Sea transportation is highly energy efficient per ton mile (i.e. in terms of volumes of goods and shipped distances). Merchant navy currently generates approximately 3% of the world's CO<sub>2</sub> emissions, a level which could increase in case of absence of attenuation measures.

Other environmental issues include the emission of other pollutants (sulfur dioxide, NOx, black carbon, tank cleaning operations...), incidental pollutions (hydrocarbons or other spills), the nature of anti-fouling coatings, ballast water issues and ship recycling and scrapping.

Seafarers total over 1 million<sup>10</sup>, with the Philippines accounting for over 20%<sup>10</sup>. Main social issues are related to safety at sea, working conditions and crew training.

## **3. Reference framework**

Loans or investments in Maritime industry will be analyzed accounting for identified issues and taking particularly into account the works and standards issued by or resulting from the following conventions, initiatives or organizations:

- United Nations Organization (UN),
- International Maritime Organization (IMO)<sup>11</sup>, a specialized UN agency,
- Comité Maritime International (CMI)<sup>12</sup>,
- The Paris MoU on Port State Control,
- The International Labour Organization (ILO).

All conventions, regulations and maritime codes adopted by IMO, ratified by countries, valid and binding upon arrangement of a new loan are to be considered as good practice standards. Amongst them, it is worth mentioning in particular:

- the SOLAS (Safety Of Life At Sea) international convention,
- the MARPOL (MARine POLLution) international convention for the prevention of ship pollution,
- the international convention on training, certification and watch standards (STCW),
- the BWM convention relative to the control and management of ships' ballast waters and sediments.

International Finance Corporation (IFC)'s Performance Standards are considered as references as well, amongst which:

- the General, Environmental, Health and Safety (EHS) Guidelines,
- the Environmental, Health and Safety Guidelines for Shipping.

The UN Convention on the Law of the Sea (UNCLOS) signed at Montego Bay provides a global frame for International Maritime Law. This convention prevails over IMO's regulations.

<sup>6</sup> For instance, the cost of shipping a 20 ft container which can take up to 20 tons of goods between Asia and Europe is about equivalent to airfare for one passenger in economy class for the same route.

<sup>7</sup> Increasing from 2.5bn tons in 1970 to over 8 .4bn tons in 2010 (Source: Armateurs de France)

<sup>8</sup> Source: Armateurs de France as of 01/01/2012

<sup>9</sup> Source: Armateurs de France

<sup>10</sup> Source: shipping fleet per state flag and per type of ship in 2021 according to CNUCED

<sup>11</sup> A UN specialized agency aiming at improving security at sea and at the prevention of pollution by ships.

<sup>12</sup> An independent non-profit organization aiming at unifying maritime rules at worldwide level.

A more detailed list of the conventions considered as good practice is provided in section 9 below.

In 2019, the Bank signed the Poseidon Principles, with the major banks that finance maritime transport. This initiative is in line with the ambition of the initial Strategy on greenhouse gas (GHG) emissions adopted in April 2018 by IMO member states, i.e. a reduction in total annual GHG emissions of at least 50% by 2050, with a strong orientation towards a goal of zero emissions over time.

#### **4. Important analysis criteria**

The Bank relies upon good practice referred to in the above mentioned framework when assessing the environmental and social management of its clients.

##### **4.1. Analysis criteria relating to the building / extension of ship building or dismantling yards**

The Bank will assess each financing or investment project relative to the building or extension of a ship building or dismantling yard based on the following criteria in addition to the implementation of the Equator Principles, when appropriate:

Capacity and commitment of the project or the client to dialogue with stakeholders and to manage environmental and social risks:

- quality of the assessment of environmental and social impacts,
- quality of the management plans of these various impacts,
- quality of the management plans of accidents/hazards (including particularly intervention plan in case of spillage of toxic waste),
- consultation of affected populations and, as the case may be, consent from indigenous people,
- devising of a grievance management mechanism at project level.

Environment related commitment:

- potential impacts on biodiversity and ecoservices,
- emissions of pollutants (particularly management of industrial waste),
- management of water resources.

Social commitment in terms of human rights:

- labour law and working conditions including particularly compliance with the fundamental conventions of International Labour Organization<sup>13</sup>, workforce' health and safety,
- communities' health and safety,
- impact on local communities (people's physical or economic displacements),
- incidence on cultural heritage.

The quality of the assessment and management by the client of environmental and social impacts will be assessed against IFC's Performance Standards and applicable Environmental, Health and Security Guidelines<sup>14</sup> including in particular the set up and maintenance of an environmental and social management system adapted to the nature and size of the environmental and social risks concerned and designed to monitor over time the impacts and mitigating measures. Besides, certain aspects may also be assessed based on the recommendations issued by the organizations mentioned above.

Regarding existing plants, the analysis will mainly focus on the environmental and social management plans.

<sup>13</sup> ILO's 8 fundamental conventions concern the elimination of any form of forced or compulsory 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>14</sup> Particularly « General EHS Guidelines » and « EHS Guidelines for Shipping ».

## 4.2 Ship Finance for the acquisition and operation of merchant vessels

Ship operation triggers environmental and social concerns, o/w the following issues are currently deemed important:

- Safety of life at sea,
- Compliance with labour law and with living standards on board the vessels,
- Quality of crew training (STCW convention),
- Prevention of incidental pollutions (through structural regulations such as a double hull oil tankers<sup>15</sup>),
- Monitoring of ship's greenhouse gas emissions and energy efficiency (EEDI<sup>16</sup> and SEEMP<sup>17</sup> monitoring in accordance with the Marpol convention, and Average Efficiency Ratio according to Poseidon Principles<sup>18</sup>),
- Emissions of other pollutants,
- Anti-fouling coating (without tributyltin) (TBT),
- Responsible ship recycling and scrapping,
- Quality of the shipowner's fleet management.

These concerns are regulated by above-mentioned conventions and regulations: Solas and Marpol conventions, Paris Memorandum of Understanding, as well as the ILO's and IMO's conventions.

Compliance with environment, social and security related regulations resulting from these conventions is sanctioned by various Certificates (see section 9).

First and foremost, the assignment of an identification number provided by IMO to a dedicated vessel is relying upon relevant compliance certificate<sup>19</sup>, security management certificate, the synopsis record under Rule XI of the Solas Convention and the International Ship Safety Certificate<sup>20</sup>.

Moreover, Insurance Companies have prerequisite and conditions as to ship's classification, ISM<sup>21</sup> and ISPS<sup>22</sup> certificates. Three insurance policies are mandatorily required:

- Hull and Machinery<sup>23</sup>,
- Cargo insurance<sup>24</sup>,
- Protection and Indemnity (P&I)<sup>25</sup>.

The Hong Kong International Convention for Safe and Environmentally Sound Recycling of Ships was adopted in 2009. It will come into force 24 months after being ratified by 15 States whose fleet accounts for 40% of worldwide gross tonnage, and whose annual recycling volume over the last ten years accounts for at least 3% of worldwide fleet gross tonnage.

An end-of-life policy for ships, so as to respect dismantling conditions and the environment, will be considered by the Bank as good practice.

<sup>15</sup> Except, as the case may be, for Floating Storage Units

<sup>16</sup> Energy Efficiency Design Index

<sup>17</sup> Ship Energy Efficiency Management Plan

<sup>18</sup> The annual GHG emissions data for each vessel (also called IMO DCS data) communicated by shipowners to the IMO, and certified by authorized classification agencies, are used to calculate the unit Average Efficiency Ratio (AER) per vessel, i.e. total carbon emissions reduced to the distance traveled in the year and the weight of the vessel (deadweight or DWT). This ratio is compared to a reference trajectory, established by asset class and size, showing the gradual and linear reduction in emissions. The gap between the vessel's AER and the target trajectory is called the AER ratio. A positive AER ratio reflects a carbon footprint superior to the trajectory (therefore too high) while a negative AER ratio indicates that the vessel is aligned with the trajectory, or even more favorable. As a signatory of the Poseidon Principles, the Bank is committed to measuring the AER ratio of its maritime finance portfolio. To do this, the Bank collects the IMO DCS data annually for each of the financed vessels, then determines the AER of the portfolio by applying a weighting of the unit AERs in relation to the outstanding amounts.

<sup>19</sup> Or a temporary document in accordance with the international Security Management Code (ISM Code)

<sup>20</sup> Or the temporary document according to the International Ship and Port Security code (ISPS code)

<sup>21</sup> Security Management Certificate under the Solas Convention,

<sup>22</sup> International Ship Safety Certificate under the Solas Convention.

<sup>23</sup> This insurance policy covers damages and loss relative to the hull and engines (machinery) of the insured sea going unit, as well as the ship dependencies and accessories.

<sup>24</sup> This insurance policy covers from end to end damage and loss concerning shipped goods.

<sup>25</sup> The risks covered by this insurance policy are claims in respect of damage to persons (protection) or cargo (indemnity) caused by the carrier or shipowner. Some damages can entail very significant costs and shipowners' mutual societies exist to take care of these (Protection and Indemnity Club or P&I Club which covers some 90% of all marine Civil liability risks). In 2013, the International Group of P&I Clubs includes 13 of the largest P&I Clubs).

## **Due diligences processed by the Bank:**

Mortgage loan financing allows the Bank to process following due diligences for each financed vessel.

### **1 – Ship Identification: IMO number**

Identifying the ship is a mandatory prerequisite (a unique identification number- the IMO number - is assigned to each ship while it is being built).

The identification process is under IMO's<sup>26</sup> responsibility.

The Bank is recording the IMO number of each financed and mortgaged vessel at sea (but for shipbuilding process).

### **2 – Classification**

Classification is a necessary prerequisite for financing. The client undertakes to maintain an acceptable classification of the vessel throughout the duration of the loan.

Classification relies upon all required certificates, ensuring compliance with IMO's quality and safety standards and with Solas and Marpol conventions (see detailed list in section 9 below). Such certification is granted by an authorized classification company.

The Bank is very attentive to the quality of classification companies, taking into account Paris MoU<sup>27</sup> quality assessment and International Association of Classification Societies membership (IACS)<sup>28</sup>.

### **3 – Insurance**

Insurance policies are a mandatory prerequisite as well. This includes in particular Hull and Machinery insurance, War Risk insurance and P&I cover.

The Bank pays a great attention to the quality of insurance companies and to the review of insurance policies. The Bank requires P&I cover to be granted by a Protection & Indemnity Club (P&I Club) member of the International Group of P&I Clubs.

### **4 – Vessel age**

The Bank takes into account the age of financed vessels as an assessment criterion with regards to the safety level and greenhouse gas emissions as well as emissions of other pollutants (particularly SO<sub>2</sub> and NOx).

### **5 – Quality of the shipowner**

The Bank pays a great attention to the quality of shipowner's commercial operation and technical management of their fleet.

Under lease financing structures, the Bank specifically ensures a satisfactory legal and operational transfer of all liabilities in connection with technical and commercial management of the vessels.

Under Paris Memorandum of Understanding, safety audits may be conducted on all ships calling at the ports of member States.

<sup>26</sup> In accordance with the 1969 International Tonnage Measurement Convention

<sup>27</sup> The Paris MoU assesses the degree of performance of classification companies on a four level scale (High, Medium, Low, Very Low).

<sup>28</sup> In 2013, 12 classification companies are part of the International Association of Classification Societies. Founded in 1988, the IACS has a brief to promote safer standards and to cause them to be implemented evenly worldwide.

Frequency and seriousness of potential incidents or sanctions imposed by competent authorities are assessment criteria which can justify referral to the CERES Committee<sup>29</sup> (see sections 7 and 8).

## **5. Exclusion criteria**

### ***5.1 Exclusion criteria relative to the building or extension of ship building or dismantling yards***

The Bank will not participate in loans or investments directly related to the development, building or extension of shipyards if it is aware of any of the following:

- critical impact on a protected area or a wetland of international importance covered by the Ramsar Convention,
- location in a Unesco World heritage classified site, or a site meeting the criteria for designation by the Alliance for Zero Extinction (AZE),
- lack of policy regarding anti-fouling paints and aiming at the gradual elimination of tributyltin and triphenyltin in accordance with the EHS Guidelines for Shipping,
- lack of management policy for paint waste resulting from anti-fouling treatment,
- lack of scrap recycling policy in case of dismantling,

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

- the IFC's Performance Standards (or equivalent standards in case of co-financing alongside an export credit agency or a multilateral institution) or Environmental, Health and Security Guidelines<sup>30</sup>,
- the public consultation or, as the case may be, the consent from indigenous people.

### ***5.2 Exclusion criteria related to Ship Finance***

The Bank will not participate in a mortgage loan or investment related to the acquisition or operation of merchant vessels if it is aware of any of the following at the time the loan is granted or investment made:

- the ship is lacking the mandatory identification (IMO number),
- the ship is registered in a country on the Paris MoU blacklist,
- the ship is on the Paris MoU list of detained or banned ships,
- the ship is lacking its classification certificate (issued by a classification company acceptable to the Bank),
- the classification has not been made by a classification company recognized by the Paris MoU,
- the classification society appears on the list of classification societies whose performance level is assessed as Low or Very Low by the Paris MoU,
- the ship is not covered by one of the following insurance policies:
  - hull and machinery insurance,
  - war risk insurance,
  - P&I cover,
- P&I cover is not provided by a P&I Club member of the International Group of P&I Clubs,
- the quality of the shipowner regarding safety rules is considered as inadequate by the Bank,
- the age of the ship (or the average age of vessels) is superior to 15 years (from delivery date) upon financing request,
- for an oil tanker: no double hull / double sides,
- the financed vessel will be directly and exclusively operated for the transport of thermal coal.

## **6. Implementation**

<sup>29</sup> CERES: Crédit Agricole CIB's Evaluation Committee for transactions involving an Environmental or Social Risk

<sup>30</sup> Compliance with these Standards and Guidelines is taken for granted/assumed in High Income OECD countries, except for Performance Standard 7 Indigenous People.

When the loan or investment is directly related to the acquisition or operation of merchant vessels or to the building or extension of a merchant vessel building or dismantling yard, the project will be examined in light of all the above indicated analysis criteria and the Bank will try to determine whether or not an exclusion criterion exists.

When an exclusion situation is identified or when the general analysis proves negative, the Bank will not participate in the transaction in question. Any exception must be dealt with in accordance with section 8 below.

In case of financial advisory assignments, the Bank will seek to promote the principles set out in this Policy. The Bank will not accept such an assignment if it is aware of the definite and final existence of an exclusion criterion. The Bank will comply with the Policy to participate in contemplated financings, particularly regarding compliance with exclusion criteria.

## **7. Bank's operations not related to the financing of a ship or of a specific industrial plant**

Some transactions are not directly related to the acquisition or operation of merchant vessels or to the building or extension of a ship building or dismantling yard but nevertheless come within the scope of the Policy. This is particularly the case for activities of a "corporate" nature in favour of shipowners or companies operating existing ship building or dismantling yards.

The Bank expects its clients to have good practices and behavior that limit their environmental and social impacts in accordance with section 4 of the Policy.

The regulatory framework in which the Client operates should entail compliance with the principles set out in the Policy for activities located in High Income OECD countries (regarding shipyards).

In other cases, the Client's policy will be assessed against the principles set out in the Bank's Policy on the occasion of the annual review. If a significant difference is noted between the Client's and the Bank's policies, the CERES Committee's recommendation will be required.

A decision to start a relationship with a new counterparty within the scope of the Policy will be made only after due analysis of the above criteria. This analysis will have to confirm, if appropriate during a CERES committee meeting, that the Client's practices are in line with the principles set out in the Bank's Policy.

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

## **8. Exceptional circumstances**

Those transactions which would involve significant uncertainties in terms of 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, it will be referred to Crédit Agricole CIB' Executive Management for final decision following the credit process (Counterparty Risk Committee).

## **9. References and glossary**

The certifications under the Solas convention are as follows (they depend on the type of ship):

- Passenger Ship Safety Certificate (PSSC),
- Cargo Ship Safety Certificate (CSSC),
- Cargo Ship Safety Construction Certificate (CSSCC),
- Cargo Ship Safety Equipment Certificate (CSSEC),
- Cargo Ship Safety Radio Certificate (CSSRC),
- Cargo Ship Safety Radiotelegraphy Certificate,
- Cargo Ship Safety Radiotelephony Certificate,
- Minimum Safe manning document,
- ISM document of compliance,
- Safety management certificate (ISM code).

The certificates under the Marpol convention also depending on the type of ship are:

- International Certificate of fitness for the carriage of dangerous chemicals in bulk,
- International Certificate of fitness for the carriage of liquefied gases in bulk,
- International oil pollution prevention certificate (IOPP certificate),
- International pollution prevention certificate for the carriage of noxious liquid substances in bulk (NLS certificate),
- Hazardous good stowage plan,
- International Energy Efficiency Certificate.

IMO compulsory certificates, also depending on the type of ship:

- International tonnage certificate (1969),
- Class certificate,
- International Load Line Certificate,
- Certificate of insurance and other financial security in respect of civil liability for oil pollution damage,
- Anti Fouling Systems (AFS).

The following conventions and rules may be mentioned (some of them depending on the type of ship):

- Load Line Convention (LLC),
- United Nations Convention on the Law of the Sea,
- Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW Convention),
- Maritime Labour Convention (MLC),
- International Convention for the Control and Management of Ship's Ballast Water and Sediments (BWM Convention),
- Collision Regulations Convention (COLREG),
- IMO's Convention on Assistance, 1989,
- International Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC Convention),
- Civil Liability Convention for oil pollution damages (CLC),
- International Convention on the Control of Harmful Anti-Fouling Systems on Ships (AFS Convention),
- International Ship and Port Facility Security Code (ISPS Code),
- International Safety Guide for Oil Tankers and Terminals (ISGOTT),
- Basel Convention on the control of transboundary movements of hazardous wastes and their disposal,
- Rotterdam Convention on the prior informed consent procedure for certain hazardous chemicals and pesticides in international trade (Prior Informed Consent Convention),
- ILO's Merchant shipping minimum standards convention,
- International Convention on Maritime Search and Rescue (SAR Convention),
- International Oil Compensation Fund.

## **Institutions**

United Nations Organization (UNO)

International Maritime Organization (IMO), a specialized UNO agency

International Maritime Committee (IMC)

Paris Memorandum of Understanding on Port State Control (Paris MoU)

International Labour Organization

International Chamber of Shipping

United Nations Educational, Scientific and Cultural Organization (UNESCO)

Alliance for Zero Extinction

## **Websites**

Equasis: internet site giving information about a host of information about the ships sailing on the world's seas ([www.equasis.org](http://www.equasis.org))

Paris Memorandum: to obtain the white, grey and black lists of countries as well as the list of ships banned from the harbours of Paris MoU member States ([www.parismou.org](http://www.parismou.org)).