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Second Party Opinion

# Los Cipreses S.A.'s (Buquebus) Blue Finance Framework

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**Location:** Argentina and Uruguay | **Sector:** Transportation

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

**Dark green**

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

## Strengths

**By promoting the transition from diesel-powered to electric ferries (e-ferries), Buquebus goes beyond regional and global standards and contributes to the energy transition of the transportation sector, while also reducing other air pollutants.** The electrification of the Latin American transportation sector is low, given the lack of infrastructure. Zero-direct-tailpipe emissions are essential to promote all modes of clean transportation in 2050.

**Buquebus's environmental and social safeguards are widely based on industry-specific international conventions and frameworks.** This alignment enhances the company's environmental and social risk-mitigation practices, which includes waste management, biodiversity, safety, and supply-chain considerations.

## Weaknesses

**No weaknesses to report.**

## Areas to watch

**The e-ferry will be charged from the grid, which in Argentina has a 65% non-renewable installed capacity.** The deployment of alternative sustainable sources of energy to supply charging stations in Buenos Aires could further enhance the project's climate benefits.

**The e-ferry will also transport vehicles, which are mostly internal combustion engine (ICE) cars, vans, and motorcycles.** Although the e-ferry represents a less intensive mode of transport when compared to using highways, we still highlight that the e-ferry will play a role in the transportation of fossil fuel-powered vehicles.

**Buquebus's physical climate risk identification and sustainability strategy are nascent.** The issuer has not yet formalized the climate scenario analysis or adaptation plans. That said, the company demonstrates awareness of physical climate risks, and the International Finance Corporation (IFC) has conducted specific analyses for the project being financed. Still, we have limited visibility on the entity's preparedness to address potential climate and sustainability-related disruptions.

## Eligible Green Projects Assessment Summary

Eligible projects under issuer's blue finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

| **Sustainable Shipping** | **Dark green** |
|---|---|
| Procurement of electric vessels | |
| Installation of associated infrastructure necessary for the operations of electric vessels (e.g., charging infrastructure, terminal retrofits, transmission lines) | |
| Operations and maintenance of electric vessels | |

See Analysis Of Eligible Projects for more detail.

# Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

## Company Description

Buquebus is a privately-owned transport operator founded in Uruguay in 1979. Currently, it operates a fleet of three vessels connecting Argentina and Uruguay across the Rio de la Plata waterway. The company has consolidated its position as the only provider for the Montevideo (Uruguay) – Buenos Aires (Argentina) route and retains more than half of the market share of the Colonia del Sacramento (Uruguay) – Buenos Aires route. The vessels transport vehicles and passengers. Buquebus also operates a fleet of 36 buses, eight microbuses, and one pick-up truck, as well as passenger terminals and car rental services.

## Material Sustainability Factors

### Climate Transition Risk

Transportation accounts for about a quarter of global greenhouse gas (GHG) emissions, as 95% of the world's transport energy still comes from fossil fuels, according to the United Nations. Although vehicles and ships do not burn fuel as intensively per weight carried as aircraft, their total number is much larger. Therefore, surface transport modes represent most of the emissions in this sector. Regulation of fuel efficiency or emissions has begun emerging in some markets and may tighten further to address climate goals. This could lead to higher regulatory costs and require investments in new engine technologies as well as the use of more expensive alternative fuels (such as liquified natural gas, green hydrogen, and biofuels), or new supporting infrastructure.

### Physical Climate Risk

Buquebus's operations are in countries with mapped exposure to acute weather events--like droughts, heavy rains, and floods. This could eventually pose risks to operations and immobilize assets, including but not limited to, vessels. Acute weather events may also limit the accessibility to the essential infrastructure, including roads, ports, and depots, and increase the risk of accidents. Over time, both acute and chronic risks--changing precipitation patterns, for example--could shorten the useful life of vehicles and infrastructure. Implications for stakeholders could be spread over the region or service area of the damaged infrastructure (or beyond), suspending passenger transportation and disrupting supply chains. Uruguay is exposed to climate hazards, such as droughts and flooding, while flooding, heat waves, and extreme precipitation are hazards of highest concerns identified by the Argentine government, according to the World Bank. The Paraná-La Plata basin, which drains into the river where Buquebus operates, recently faced the worst drought since 1944.

### Pollution

Pollution in the shipping sector can take multiple forms: airborne emissions (such as nitrogen oxides and soot), accidental spills, ground pollution at facilities such as gas stations, and excessive noise. These have severe effect, especially for people living near major sea, river, or road transportation routes. Air and water pollution caused by marine transportation creates regulatory and reputational risks, and regulation has been tightening in recent years. For example, in 2020, the International Maritime Organization (IMO) lowered the maximum allowable sulfur content for ship fuel oil to 0.5% from 3.5%. Pollution is also a concern during decommissioning. Scrapping ships poses environmental risks including the release of hazardous substances that are no longer permitted. The industry has made some progress toward reducing pollution through regulation; engine improvements; safety procedures; and, in some cases, changes to equipment. Shipping vessels can face accidental spills and the periodic discharge of oil, wastewater containing invasive species, or other toxic substances, or through noise pollution.

### Workforce Health and Safety

The health and safety of employees and passengers is critical, given that the transportation industry sees regular incidents and accidents, especially on roads. Workplace incidents can result in injuries and fatalities, which can also affect companies' operations, legal exposure, and reputation. There are also risks linked to supply chains, for example, in the production of new engine technologies and fuels. The production of electric vehicle batteries involves mining, smelting, and the refining of raw materials, often in regions where risks of human rights violations and safety hazards are high.

### Access and Affordability

Transport infrastructure enables travel for work, health care, education, and reliable movement of goods. Given the essential nature of transport infrastructure, access and affordability of services are highly material, since they could weigh on household purchasing power, affect access to a means of livelihood or to essential services, and limit economic activity. Projects that extend or improve transport services for select communities, while potentially isolating others, may prompt public opposition; these are regional issues and can have severe adverse effects on vulnerable populations. Rate increases for mass transit are subject to stringent regulatory oversight and, if considered excessive, could lead to strong opposition from users or communities, as well as regulatory or political actions that reduce demand. This could also limit the infrastructure provider's ability to make ongoing investments to maintain reliable service.

## Issuer And Context Analysis

**Eligible projects have a direct connection to mitigating Buquebus's exposure to climate transition risks, while also addressing pollution aspects, which are material sustainability factors for the company.** Considering that currently 99% of the international shipping fleet relies on fossil fuel, according to the International Renewable Energy Agency (IRENA), Buquebus is promoting efforts toward decarbonization of shipping in the region by replacing two existing diesel-powered vessels with an electric ferry (e-ferry). In addition, given its direct connection to the company's core business, the vessels generate a significant share of the company's Scope 1 and 2 emissions. The entity plans to continue replacing its remaining diesel-powered fleet with cleaner technologies, although we're uncertain when this will occur.

**In addition to existing policies on environmental and social risk management that align to local regulations, the company commits to develop an Environmental and Social Operating Procedure (ESOP) under the financing.** This will include additional Environmental and Social policies, procedures, the monitoring of key performance indicators and performance targets based on the IFC's Performance Standards and the World Bank Group's guidelines. Internal audits to verify compliance will be regularly conducted, and Buquebus's president will oversee E&S performance periodically. We believe this will further support the company's management of air and water pollution, as well as biodiversity loss risks.

**Buquebus's sustainability strategy is relatively nascent, but recent developments demonstrate progress.** In 2022, the company launched its corporate sustainability strategy, based on a comprehensive review of areas of opportunity and defined three core pillars aimed at reducing GHG emissions, solid waste generation, and electricity consumption. In our view, these pillars are consistent with the most material sustainability factors faced by the industry. The entity has adopted a series of actions, such as the installation of solar panels to power its Buenos Aires terminal and charging stations for passenger electric vehicles. Moreover, the company established recycling and composting practices (i.e., via the recycling of plastic bottles at the "El Ceibo" cooperative) and began using biodegradable and compostable products. We note, however, the lack of public sustainability reporting practices limits our visibility on further metrics, targets, and initiatives. Moreover, there's a short track-record in execution of this strategy.

**The project supports Uruguay's ambition to become carbon neutral by 2050.** A first-stage transition more focused on greening electricity has resulted in an average 97% renewable energy generation between 2017 and 2020 in the country. As a next step, the government has put efforts in reducing GHG emissions of the transport and industrial sectors, with the focus on electrification. This aligns with Buquebus's strategy of investing in a zero-direct-emission tailpipe vessel and associated infrastructure, aiming to offer an environmentally-friendly waterway alternative to the road and air transportation modes.

**Buquebus demonstrates awareness of physical climate risks, yet adopting a systematic approach to identify and manage these risks would strengthen the company's risk management processes.** Although some physical climate risk analyses concerning the risk of river-level rise were performed as per financing requirements and did not reveal significant exposure, we found no evidence of a company-wide climate risk and vulnerability assessment. The company has yet to implement climate scenarios or the adaptation and resilience strategies and measures.

**Measures to prevent and mitigate pollution, noise and biodiversity disturbance are on track.** The introduction of an electric ferry will allow the company to reduce emissions of particulate matter (PM), nitrogen oxides (NOx), and sulfur oxides (SOx). Noise levels are also decreased, which generates less disturbance in water habitat. In addition to following the International Convention for the Prevention of Pollution from Ships (MARPOL), especially in terms of oil, air, and sewage pollution, Buquebus has adopted a waste management plan and implemented improvements related to recycling, although it has not committed to zero-discharge operations yet. Furthermore, all decommissioned vessels are required to follow the IMO's guidelines on ship recycling, which will occur locally. Moreover, end-of-life and defective batteries will follow a reverse logistics process to the manufacturer, which we view as a strength.

**Social safeguards are in place to guarantee the user and crew safety.** The e-ferry will be equipped with life and fire safety procedures, which will be annually verified by a third party. Safeguards include a mechanism to purge oxygen from the cabin in case of fire, regular drills to test alarms, and communication of emergency evacuation plans to passengers, which are in line with industry practice and with the company's safety policy.

**Buquebus's actions targeted to enhance access and affordability are yet to be improved**. It is the only provider of this type of transport in the Buenos Aires-Montevideo route, serving passengers who visit their families or go on business trips, in addition to tourists. Although frequent customers can get discounts, the entity does not apply discounts to vulnerable or low-income population groups. However, it is positive that Buquebus plans to lower prices for the transportation of electric vehicles (EVs). In addition, the e-ferry is adapted for, and its crew is trained to support, people with disabilities, especially during emergencies.

**The framework specifically references the IFC's Guidelines for Blue Finance.** According to the guidelines, the chosen category of sustainable shipping has the strongest impact on the Green Loan Principles' pollution prevention and control, as well as climate change mitigation categories. Please refer to our Analytical Considerations for our perspective on the environmental benefits of the financing.

# Alignment Assessment

This section provides an analysis of the framework's alignment to Green Loan principles.

## Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

### ✓ Use of proceeds

The framework's green project category is shaded in green, and the issuer commits to allocate the net proceeds issued under the framework exclusively to finance or refinance eligible green projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds.

### ✓ Process for project evaluation and selection

Buquebus identifies relevant objectives for all eligible green projects. Buquebus's Blue Finance Committee, comprised of finance and sustainability managers, is responsible for evaluating and determining if an investment is eligible under the entity's blue finance framework and allocate proceeds to selected projects. Eligible projects are aligned with Buquebus's corporate policies, including its environmental, safety, maintenance, and repair policy. In addition, the framework excludes vessels running fully on fossil fuels, those exceeding limits for NOx and SOx emissions, or non-compliant with the IMO's Ballast Water Treaty, which we view positively.

### ✓ Management of proceeds

Buquebus commits to track and earmark net proceeds under a Blue Project Register. The entity intends to allocate an amount equal to net proceeds from any issuance under the framework to eligible projects. Proceeds are expected to be allocated immediately. In case an eligible project is sold or loses eligibility, proceeds will temporarily be placed in Buquebus's general liquidity account until relocation to other eligible projects.

### ✓ Reporting

Buquebus commits to annual reporting, through an Allocation and Impact Report, which will include the outstanding amount of assets, aggregate size of projects funded, distribution between new and refinanced projects, as well as unallocated proceeds. Additionally, examples of impact metrics that may be included are annual reductions of GHG, NOx, and SOx emissions. The report will be audited by an external party. We view positively that the issuer commits to align its reporting practices, where relevant, to ICMA's Harmonized Framework for Impact Reporting.

# Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Buquebus and its subsidiaries expect to allocate 100% of the net proceeds, or an amount equal to them, exclusively to finance the acquisition of the electric vessels, future maintenance costs, and to finance or refinance expenditures related to the installation of associated infrastructure.

## Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Buquebus's Blue Finance Framework, we assess the framework as Dark Green.

**Dark green**

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

## Green project categories

**Sustainable Shipping**

| Assessment | Description |
|---|---|
| Dark green | • Procurement of electric vessels<br>• Installation of associated infrastructure necessary for the operations of electric vessels (e.g., charging infrastructure, terminal retrofits, transmission lines)<br>• Operations and maintenance of electric vessels |

**Analytical considerations**

- Zero-direct-tailpipe emissions are essential to promote all modes of clean transportation in a 2050 future. Investments in the electrification of river passenger transport support the decarbonization of the transportation sector and generate increased climate benefits stemming from efficiency gains promoted by this mode when compared to those of air and road. By replacing two existing diesel-powered vessels by an e-ferry, Buquebus aims to contribute to climate mitigation through the prevention of 37,545 tons of carbon dioxide emissions annually.
- Buquebus's e-ferry is expected to make three full round trips a day across a 50-kilometer stretch of the Río de la Plata waterway, between Buenos Aires (Argentina) and Colonia del Sacramento (Uruguay), with capacity for transporting 2,100 passengers and 225 vehicles per trip, which will include mostly ICE vehicles. Despite transporting ICE vehicles, in our view, Buquebus is having a positive impact by offering a zero-direct-tailpipe emission river water transport alternative to individuals and vehicles that would otherwise use highways or airplanes over a longer distance.
- The e-ferry will be powered by an integrated energy storage system comprised of more than 5,000 lithium-ion batteries that will be supercharged in around 80 minutes at two charging stations, one in each port. Overnight, slow charging may be used at the Buenos Aires port. As per local requirements and for safety reasons, the e-ferry will be equipped with a back-up diesel-powered generator, which will be solely used for emergency purposes to ensure essential systems are functioning properly. We view positively that the e-ferry will have supporting systems to save power, such as a navigation system that adjusts course in response to waves, river currents, and wind conditions, as well as energy-efficient lighting, heating, and air conditioning. We note that mining of lithium, cobalt, and other raw materials required to produce batteries can have substantial adverse environmental and social impacts.
- In the production of the e-ferry, steel was replaced by an aluminum hull, a lighter material with higher corrosion resistance, which results in lower energy demand and reduced pollution in the vessel's operations. In addition, the replacement of diesel engines for electric ones significantly reduces NOx, Sox, and PM emissions, while also contributing to a reduction in noise levels. However, we still highlight that aluminum production has high emissions intensity, and we found no evidence of GHG emissions thresholds for aluminum suppliers. However, as an alternative to steel, its application brings positive aspects, such as a higher recyclability

rate and durability. It is favorable that Buquebus commits to disclose the actual reductions in NOx, SOx, PM, and GHG emissions promoted by the project in its annual impact reporting to lenders.

- Buquebus will ensure that sewage is offloaded at the terminal and food waste is composted. A waste management plan will be in place, with authorized third-party collection and disposal of hazardous waste. In addition, we view positively that Buquebus has established contact with the sponsors and managers of the Ecológica Costanera Sur Reserve, adjacent to the Buenos Aires terminal, to collect perceptions on any biodiversity disturbance from the project. In addition, by operating under the Uruguayan flag, the e-ferry will be subject to regular third-party inspections to ensure compliance with relevant standards, such as the IMO Guidelines on Ship Recycling, the MARPOL Annexes I (oil pollution), IV (sewage pollution), VI (air pollution), and the World Bank Group's Environment, Health, and Safety Guidelines for Shipping and for Electric Power Transmission and Distribution.
- Buquebus has not developed an in-house climate risk and vulnerability assessment for its operations. That said, due to financing requirements of the project, the risk of flooding and other physical risks, the exposure was assessed by the IFC. According to the issuer, a 60-centimeter river level elevation could be expected but would not endanger Buquebus's floating structures. Impacts related to waves were also found to be non-significant. Similarly, seawater intrusion risks do not represent a material potential impact due to the aluminum's resistance to corrosion. However, we still lack visibility on how extended droughts would be managed. While these have been common in the northern part of the La Plata basin, considering Buquebus's operations are situated at the confluence of the La Plata River and the Atlantic Ocean, the drought risk has not been usual in this location.
- The project also includes financing for the expansion of transmission lines to supply power to the company's terminal in Buenos Aires and to the port in Colonia. The construction of an 8-kilometer transmission line from the Colonia substation to the port will require prior authorization from the local government and oversight by Buquebus. The company will hire a consultant to verify compliance with environmental and social contractual requirements. We view positively that power supplied from the Uruguayan grid, which runs on more than 90% renewable energy. On the other hand, the 600-meter transmission line expansion in Argentina will be conducted by the local energy company, with limited supervision from Buquebus, and will use energy from the national grid, which has approximately 65% non-renewable installed capacity. In our view, this does not limit our assessment, given the transmission lines will be fully dedicated to supplying power to charge the e-ferry, enabling the transition to electric mobility.
- In addition, Buquebus will not manage embodied emissions (meaning all the carbon dioxide emitted when producing building materials or when using fossil fuel-powered equipment) from the construction of the transmission lines. However, in our view, given this is small-scale construction, potential negative impacts stemming from these activities will be negligible.
- Buquebus has evaluated all the suppliers in this project under its Code of Ethics, while also contractually requiring them to comply with a specific Supplier Code of Conduct. The battery supplier for the e-ferry has its own supply chain safeguards in place, such as on-site audits and due diligence processes, to guarantee traceability and alignment with its environmental and social risk mitigation procedures, while also monitoring and publicly disclosing information required by the Responsible Minerals Initiative. At the end of their 10-year lifecycle or when defective, batteries will be collected and replaced by the manufacturer.

## S&P Global Ratings' Shades of Green

| Assessments | Dark green | Medium green | Light green | Yellow | Orange | Red |
|---|---|---|---|---|---|---|
| Description | Activities that correspond to the long-term vision of an LCCR future. | Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions. | Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions. | Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures. | Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets. | Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets. |
| Example projects | Solar power plants | Energy efficient buildings | Hybrid road vehicles | Health care services | Conventional steel production | New oil exploration |

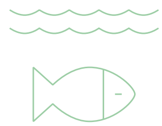
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

# Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

| Use of proceeds | SDGs | |
|---|---|---|
| Sustainable Shipping |  **13. Climate action** |  **14. Life below water** |

*The eligible project categories link to these SDGs in the ICMA mapping.

# Related Research

- Analytical Approach: Second Party Opinions: Use Of Proceeds, July 27, 2023
- Analytical Approach: Shades Of Green Assessments, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions, July 27, 2023
- S&P Global Ratings ESG Materiality Map, July 20, 2022

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