



Green taxonomy sector series

Automotive

2023

Introduction

For the automotive industry, 2023 marks the second year of publishing their European green taxonomy eligibility ratio. As a reminder, the European Union's "Taxonomy" regulation came into effect on 1st January 2022, concerning the two climate objectives (the Climate Delegated Act).

The objective of the European taxonomy is twofold: to encourage companies to determine their position in relation to the EU's sustainable transition trajectory and, in doing so, allow financial actors to prioritise the allocation of funding to projects and assets recognized as being the most contributory to this trajectory.

This analysis gives a review of the ratios required by the Taxonomy Regulation for the automotive sector, with a specific spotlight on automotive. The panel of companies selected for this study is as follows:

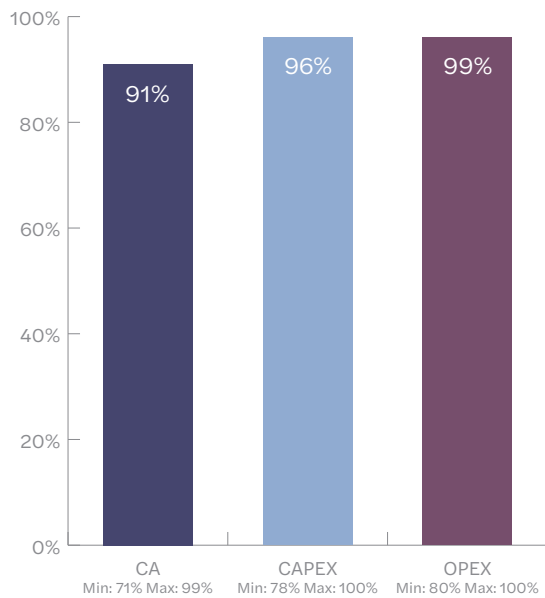
Companies composing the panel	2022 turnover (in billion euros)	Listing place
BMW	142.6	Germany
Mercedes-Benz	150.0	Germany
Renault	46.4	France
Stellantis	179.6	Netherlands
Volkswagen	279.2	Germany
Volvo	44.5	Sweden



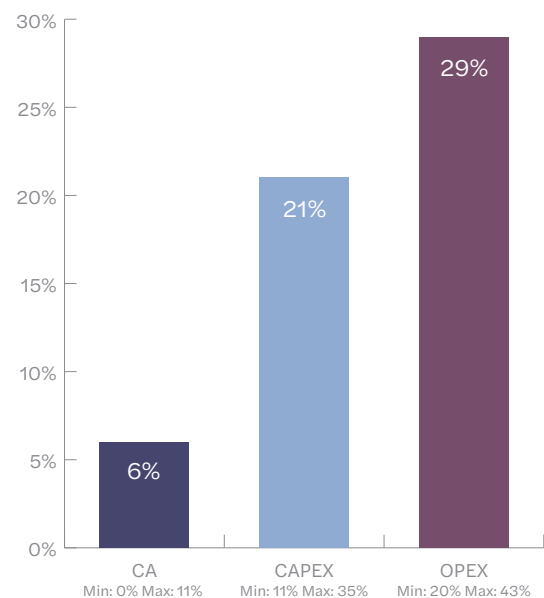
1 Ratios of the eligibility and alignment presented by car manufacturers on the three key performance indicators

Industry averages

Sectoral average of eligibility



Sectoral average of alignment



Each manufacturer confirmed that all their vehicles, regardless of their engine, were eligible for the 3.3 “Low-carbon manufacturing technology for transportation”. This leads to high eligibility ratios.

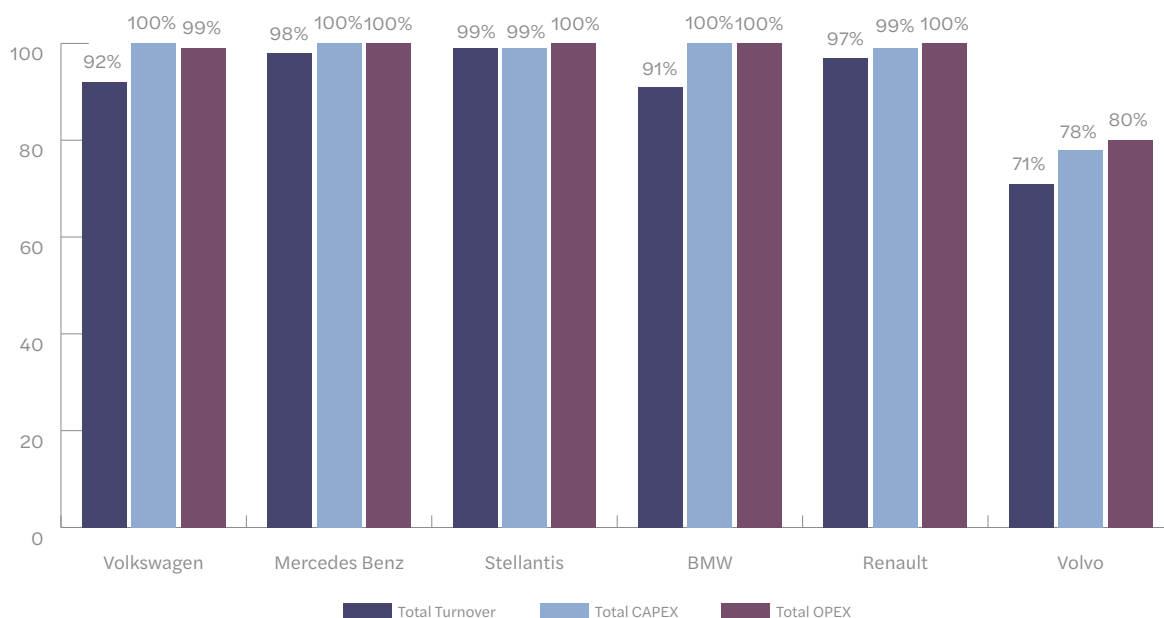
In general, we see that manufacturers are taking a lot of precautions about the level of uncertainty surrounding the publication of indicators – 2022 being the first year in which they had to publish alignment ratios in addition to eligibility ratios – to accommodate for the different possible interpretations of the texts (highlighted later in this study and concerning DNSH in particular (see page 9).

Here is quote on these uncertainties, taken from Mercedes-Benz’s annual report:

“The EU taxonomy regulation and the adopted delegated acts along with the supplementary interpretation documents of the European Commission contain formulations and terms that are still subject to considerable uncertainties and for which clarifications have not yet been published in all cases. Among others, this refers to the classification of economic activities, interpretation of do-no-significant-harm-criteria and to the assessment of the economic substance of financial investments. Due to the immanent risk that uncertain legal terms could be differently interpreted; uncertainty is attached to the legal certainty of the interpretation.”

1 Eligibility and alignment ratios presented by car manufacturers on the three key performance indicators

Eligibility ratios



The results in terms of eligibility ratios are relatively alike. This leads to high eligibility-to-turnover ratios ranging from 71% (Volvo) to 99% (Stellantis). Volvo excluded the production of non-transport vehicles from eligibility but included them in a voluntary indicator under activity 3.6 (other low-carbon manufacturing technologies). Taking this complementary business into account, Volvo's eligible turnover increases from 71% to 96%. Volvo also points out that this voluntary indicator has no impact on the percentage of its turnover aligned (only on eligibility).

It should be noted, however, that the activity of selling spare parts has not been treated in the same way by all manufacturers. For example, BMW explicitly excluded them, considering that this activity was not covered by the delegated acts. On the other hand, Volvo says it has expanded the scope of its eligible activities in 2022 compared to 2021, now including spare parts (as well as some used vehicles and services). Sales of spare parts are considered aligned by Volvo when they

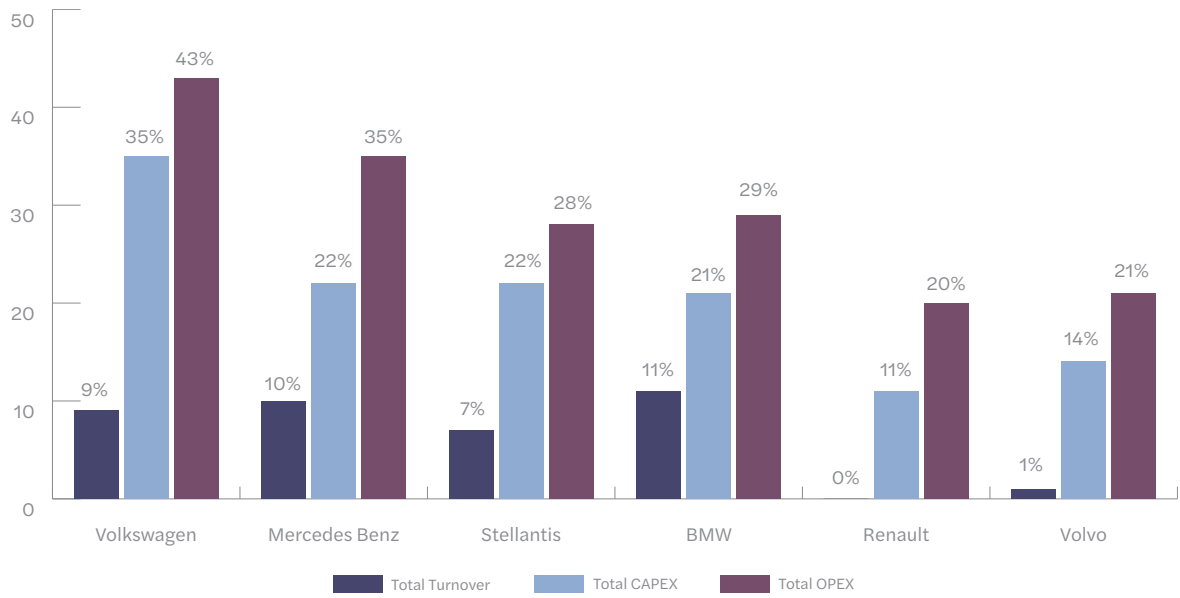
approach). Renault states that it has included sales of spare parts and determined the substantial contribution of this activity in proportion to the workshop turnover generated for low-emission vehicles (in the absence of direct identification of parts mounted on low-emission vehicles in its information systems). In the same way, Mercedes states that it made a flat-rate allocation of turnover relating to spare parts, service and maintenance to the various vehicles.

On 13 June, the European Commission made targeted amendments to the Climate Delegated Act to extend its scope to new economic activities that were not yet included. As such, an activity has been added, outlined as "*Manufacture of automotive and mobility components (3.18)*", which specifically includes both automotive maintenance and spare parts. This should allow greater convergence of manufacturers on this subject from the 2023 publications.

are intended for in-line vehicles (destination

1 Car manufacturers on the three key performance indicators

Alignment ratios



There is a greater disparity in alignment ratios, first published in 2022. They vary from 0% (Renault) to 11% (BMW) for turnover, from 11% (Renault) to 35% (Volkswagen) for CAPEX and from 11% (Renault) to 43% (Volkswagen) for OPEX.

The lower ratios presented by Renault are explained by the group's cautious position on the DNSH relating to the objective "Pollution prevention and control" (see page 9).



2 Analysis of eligible activities

Eligible activities by issuer for turnover

	Volkswagen	Mercedes-Benz	Stellantis	BMW	Renault	Volvo	Total
3.2 Manufacture of equipment for the production and use of hydrogen	1	0	0	0	0	0	1
3.3 Low-carbon manufacturing technology for transportation	1	1	1	1	1	1	6
3.6 Other low-carbon manufacturing technologies	1	0	0	0	0	1	2
6.5 Transport by motorcycles, passenger cars and light commercial vehicles	0	1	0	1	1	0	3
6.6 Road freight transport	0	1	0	0	0	0	1
9.1 Near-market research, development and innovation	1	0	0	0	0	0	1

Unsurprisingly, the most frequently cited activity and the biggest contributor to the ratios is activity 3.3. In second place is activity 6.5, which relates to vehicle purchasing, financing and leasing activities by the financial captives of certain carmakers.

The alignment ratios are higher for business 3.3 than for business 6.5. This can be explained by energy mix and the fact that the leased vehicle fleets contain a lower proportion of

low-emission vehicles than new vehicle sales, considering the new vehicle sales, given the time lag required to renew fleets of leased vehicles.

In addition, rental fleets may also include vehicle models from other brands. BMW states that it has excluded these vehicles in the absence to assess the alignment of these vehicles.



2 Analysis of eligible activities

Eligible activities by issuer for CAPEX

	Volkswagen	Mercedes-Benz	Stellantis	BMW	Renault	Volvo	Total
3.2 Manufacture of equipment for the production and use of hydrogen	1	0	0	0	0	0	1
3.3 Low-carbon manufacturing technology for transportation	1	1	1	1	1	1	6
3.6 Other low-carbon manufacturing technologies	1	0	0	0	0	1	2
6.5 Transport by motorcycles, passenger cars and light commercial vehicles	0	1	0	1	0	0	2

The CAPEX alignment ratio also calls for the following comments:

- Several manufacturers indicate that some investments benefit both aligned and non-aligned vehicles, for example when electric and combustion vehicles are produced on the same platform. In this case, manufacturers used allocation keys based on the proportion of aligned / non-aligned vehicles produced.
- In addition, the manufacturers have all followed the perimeter of financial consolidation, thus excluding partnerships. As a result, where investments in batteries are made in partnership activities, these investments are de facto excluded from the CAPEX indicator. Stellantis thus points out that the CAPEX indicator does not consider all capital expenditures made in the electrification of its vehicles, and in particular those made through its participation in battery manufacturing plants held in Joint Venture.
- It is not always easy to frame CAPEX Taxonomy with accounting, in the absence of reconciliation tables. In one out of six cases, IFRS 16 usage rights were not considered. In addition, one issuer has retained a “cash” concept of CAPEX by integrating the variation in debts on fixed assets and referring to the cash flow statement.



2 Analysis of eligible activities

Eligible activities by issuer for OPEX

	Volkswagen	Mercedes-Benz	Stellantis	BMW	Renault	Volvo	Total
3.2 Manufacture of equipment for the production and use of hydrogen	1	0	0	0	0	0	1
3.3 Low-carbon manufacturing technology for transportation	1	1	1	1	1	1	6
3.6 Other low-carbon manufacturing technologies	1	0	0	0	0	1	2
6.5 Transport by motorcycles, passenger cars and light commercial vehicles	0	0	0	1	0	0	1

3 Methodological findings and comments

All manufacturers in our panel have used the table formats (“templates”) provided by the European Commission, which are mandatory from 2023. Depending on the manufacturer, these tables have been placed in the body of the text, or at the end,

for layout constraints. It should be noted that two manufacturers, Volkswagen and BMW, have added summary tables summarizing the main information in addition to the mandatory templates.

	Volkswagen	Mercedes-Benz	Stellantis	BMW	Renault	Volvo
Number of pages in the publication	16	9	4	11	10	4
Use of European Commission templates	✓	✓	✓	✓	✓	✓
Existence of summary tables (in addition to templates)	✓	✗	✗	✓	✗	✗
Publication of N-1 comparisons for eligibility	✓	✗	✗	✗	✗	✗
Use of OPEX exemption terms	✗	✗	✗	✗	✗	✗
Direct reading reconciliation of CAPEX Taxonomy with financial statements (e.g., via a reconciliation table)	✓	✗	✗	✗	✗	✗
Detailed analysis of the technical criteria for alignment	✓	✓	✓	✓	✓	✓
Detailed analysis of DNHS in the methodological note	✓	✓	✓	✓	✓	✓
Detailed analysis of minimum safeguards in the methodological note	✓	✓	✓	✓	✓	✓
Publication of voluntary eligibility and alignment ratios (“APIs”)	✗	✗	✗	✗	✗	✓

4 Highlighting sector-specific features

DNSH relating to the objective “Pollution prevention and control”

- After pointing out that it complies with the European Reach regulation, the Renault group nevertheless indicates that the taxonomy also requires that the use of non-regulated substances of very high concern (SVHC) and substances of concern (SOC) must meet an essential use for society (sub-sections (f) and (g) of Annex C of the Delegated Regulation). As this concept is not legally defined, Renault states that it would not be able to say whether the Groups use of these substances meets this criterion and has therefore, out of an abundance of prudence, reported a zero aligned turnover. The Group nevertheless specifies that all its electric vehicles (EV) and plug-in hybrid (PHEV) meet the selection criteria used to measure the substantial contribution to the climate change mitigation objective and indicates that these vehicles represent 11.3% of sales of the Group.

The Volvo Group also mentions the issue of substances of high concern under DNSH Pollution and indicates that it has deployed its own methodology to define the uses corresponding to an essential use for society.

There is also lower alignment at Volvo. At the same time, the other manufacturers have adopted a different approach. Thus, Stellantis indicates that it is not able to apply the criteria due to uncertainty about the term where their use has been proven to be essential for the society, without compromising alignment.

- Activity 6.5 contains its own DNSH for noise pollution caused by tyres. Indeed, only certain higher classes of tyres make it possible to comply with the criteria set by the taxonomy. Thus, Renault indicates that it does not currently have the information relating to the references of the tyres currently fitted to the fleet of financed and leased vehicles and therefore cannot make a robust estimate of turnover meeting these criteria. Mercedes, for its part, states that it has determined the proportion of vehicles equipped with highest tyre classes, which meet these requirements.



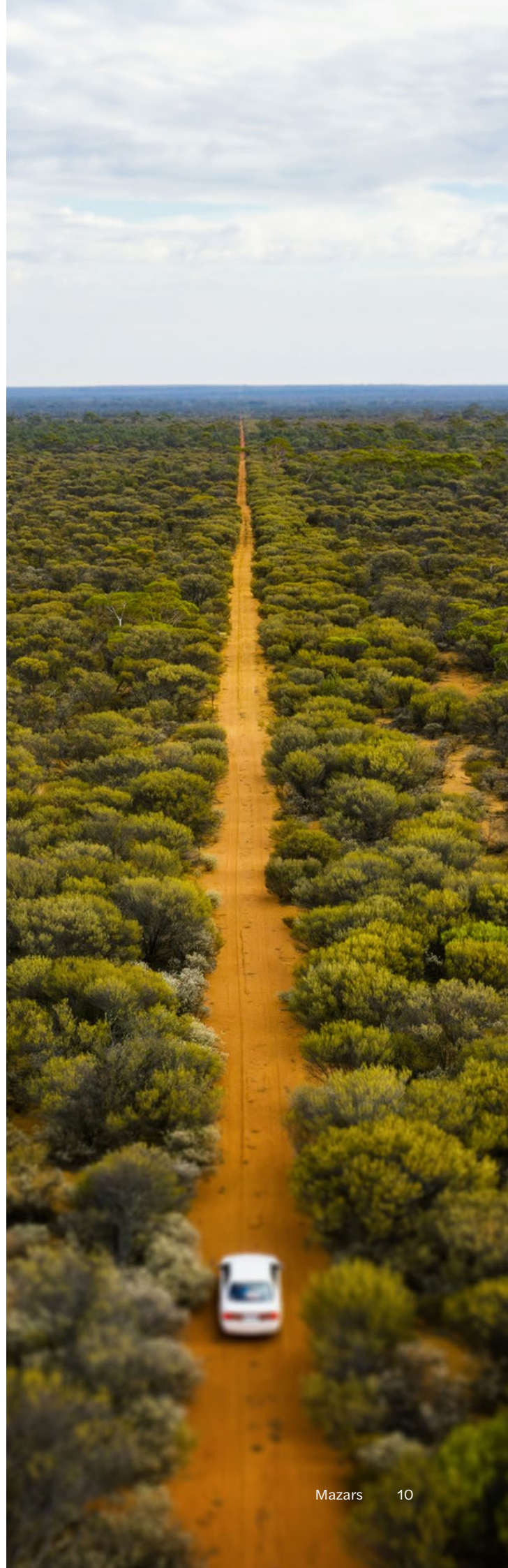
Conclusion

The analysis of the ratios published by these car manufacturers reveals differences in interpretation. This may be linked to the lack of guidance, or slow adoption of these new obligations. It is reasonable to think that these differences in interpretation will disappear in the coming years as market practices emerge, and certain clarifications are applied by the legislator.

Similarly, the alignment ratios published by manufacturers (none of which exceed 11% of turnover in 2022) are set to increase, given the commitments made by manufacturers in terms of carbon neutrality and the expected increase of low-emission vehicles in the sales mix.

In addition, the challenge for manufacturers in 2023 will be to identify which of their activities are eligible for the four other environmental objectives adopted by the European Commission through delegated acts on 13 June 2023, and those relating to the circular economy.

The 2023 publications, which for the first time will have to include comparative information, will make it possible to follow these sectorial trends.



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