



## Sub-sectoral Environmental and Social Guidelines: Leasing of Vehicles

### ***PROCESS DESCRIPTION***

Leased vehicles may include cars for private hire, road tankers, agricultural vehicles (e.g. tractors), industrial vehicles (e.g. forklift trucks) and vehicles involved in construction or demolition activities (e.g. bulldozers.)

Activities undertaken by vehicle leasing companies may include (but are not restricted to) the following:

- vehicle purchase;
- warehouse/storage of vehicles;
- vehicle cleaning, maintenance and repair;
- contractual leasing;
- vehicle sale and/or disposal.

Leasing agreements differ based on the type of vehicle, form of leasing, national regulations and whether the lessee is a business or individual. Based on these factors, the leasing contract outlines the rights and obligations of each party.

In the case of vehicle leasing, the leasing company typically remains the owner of the leased vehicle throughout the transaction, but collateral duties of the owner, such as maintenance and repair, may be contractually assigned to the lessee.

### ***KEY ENVIRONMENTAL, HEALTH AND SAFETY RISKS/LIABILITY ISSUES***

#### ***Contractual agreement***

The contractual agreement between the leasing company and lessee outlines the risks and liabilities of each contractual party. These include provisions related to environmental and safety conditions, such as vehicle maintenance, accidents and injuries. The types and levels of risk associated with the leasing company depend therefore on its responsibilities as laid down in the lease agreement.

The conditions of the lease agreement should be understood by both parties prior to signing the lease. Note that local customer protection laws may prohibit the leasing company from

contracting away some or all of the above responsibilities.

#### ***Climate change***

Climate change is widely regarded as one of the greatest challenges facing the world today. The scientific community has now achieved broad consensus on the role human society is playing in accelerating climate change through the release of greenhouse gasses associated with activities such as burning fossil fuels and deforestation. This has led to growing action on and expectations for climate change mitigation and adaptation.

The transportation sector as a whole contributes approximately 23% of the world's greenhouse gas emissions. Three-quarters of this originates from road transport. Businesses operating in the transportation sector are therefore vulnerable to regulation and market trends as a result of growing concern and awareness of climate change risks and consequences. Some jurisdictions have already taken measures to curb emissions from the transportation sector. These measures include investments in alternatives to road transport, such as railways, and stricter fuel efficiency standards.

The effects of climate change on the transportation industry are significant. Increases in fuel prices and more stringent environmental standards are likely to affect the value or saleability of assets of transportation companies slow to respond to the changing economic and environmental trends. Examples are the growing demands for fuel efficient vehicles, pollution restrictions, and regulation surrounding alternative fuel sources. High compliance costs as well as investments in older technologies, which are being phased out may affect the profitability of a leasing company.

#### ***Environmental Standards and Pollution***

Vehicle emissions comprise a variety of gases and particulates such as carbon dioxide, sulphur dioxide, carbon monoxide, lead and benzene, all of which have an environmental impact. The polluting effects of these emissions have led to



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air pollution, smog, human health impacts and in particular have contributed to climate change. Most countries are introducing vehicle exhaust emission standards, or are encouraging the use of more environmentally friendly fuel types through taxation and legislation.

Leasing companies should evaluate their fleets to establish the impact from emerging and potential regulatory measures such as taxes based on CO<sub>2</sub> emissions and market demands for more environmentally friendly vehicles.

### ***Vehicle Operation***

A hired vehicle must be both suitable for its intended purpose, safe and without significant risks when correctly operated for its intended purpose. This places considerable responsibility on the leasing company to ensure that the vehicles leased are maintained and supplied in a safe condition and that the lessees are provided with all relevant information to enable them to operate them in a safe manner. The lessor also owes a duty of care to take reasonable steps to confirm that the lessees are competent to operate the equipment in a safe manner.

### ***Oil and Chemical Spillage***

During the servicing and maintenance of vehicles, spillages of oil and chemicals may occur. Depending on the nature of the local hydrology and underlying geological conditions, chronic spillage may result in soil, groundwater and/or surface water contamination.

### ***Fuel Storage***

Any fuel stored on the leasing company's site poses the risk of fire and environmental contamination. Local regulations may restrict the quantity of fuel permitted to be stored on-site as well as the conditions for safe storage.

Basic environmental and safety rules need to be in place for storing and handling fuel, such as the prohibition of smoking, decanting in open air rather than inside a garage and bunds for

above-ground storage. Underground storage tanks may leak undetected over time; they require integrity testing, cathodic protection and preferably should be surrounded by a double wall. Fuel spills and leakage can result in ground and water contamination as well as posing a health and safety risk to employees and the local community.

### ***Occupational health and safety***

Where the leasing company is responsible for vehicle maintenance and repair, its employees may be exposed to occupational health and safety risks such as exposure to chemicals and cleaning agents, dangerous machinery and workplace accidents. Leasing companies should have appropriate occupational health and safety measures in place relevant to the types of vehicles being leased.

### ***Waste Disposal***

The main source of waste from a vehicle leasing company occurs during maintenance and servicing activities. Wastes may include oil filters, used oil, asbestos brake liners, pressurised vessels, electrical equipment and tyres. Many of these waste types are likely to be designated under local regulations as hazardous and require specific procedures for handling and disposal.

Effluent discharged from vehicle washing bays may contain contaminants, for example oils and detergents. If the insides of tankers are washed there may be a wide range of potential chemical pollutants present. National legislation will normally require the facility to hold an effluent permit which specifies limits for various contaminants. This effluent permit may be applicable to effluent discharges to sewer and/or to surface water (in many countries the authorities responsible for the discharges to sewer differ from those responsible for surface water).

Failure to maintain a properly functioning waste management system may result in fines and penalties.



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### ***End-of-life vehicles***

The disposal of end-of-life vehicles can, if done improperly, have serious social and environmental impacts. Vehicles and their components contain a variety of substances and materials, including hazardous materials, ferrous metal, plastic and vehicle oils. In addition to the consequences of increasing waste in landfills, improper disposal can result in the leaching of hazardous materials into soil and water. This has environmental and human health impacts. Legal and illegal transport of waste to developing countries has led to human health consequences and environmental damages in parts of Africa, China and India.

The European Union has implemented a directive called the End-of-Life Vehicle Directive, which governs the disposal of end-of-life vehicles in its Member States. A related directive called the Landfill Directive bans tyre disposal from landfill sites. Regulatory developments such as this are likely to be forthcoming in other countries. In addition, they may affect leasing companies operating in multiple locations or their geographically diverse suppliers and customers.

A large percentage of vehicle components can be recycled or re-used and leasing companies should evaluate these options for end-of-life vehicles.

### ***OTHER ENVIRONMENTAL, HEALTH & SAFETY RISKS***

#### ***Historical contamination status of site***

Start-up leasing companies or those moving premises need to conduct environmental due diligence on site facilities to ensure that they are not significantly contaminated, and to seek advice on potential clean-up requirements according to existing or planned local legislation. This is particularly important where companies intend to lease derelict/rehabilitated land for vehicle storage.

### ***KEY SOCIAL, LABOUR AND COMMUNITY RISKS/LIABILITY ISSUES***

#### ***Labour standards***

Labour standards are rules that govern working conditions and industrial relations. They may be formal, such as national level regulation and international agreements, or informal, expressed through norms and values. In general, developed countries have more robust labour standards than developing countries where the associated risks are higher. The commonly accepted rights and principles, enshrined in the International Labour Organisation's conventions, are the right to collective bargaining, elimination of forced or compulsory labour, abolition of child labour and elimination of all forms of discrimination. In addition fair wages and working hours and acceptable working conditions should be expected.

Poor labour conditions and standards pose a legal, reputational and financial risk to employers. Market opportunities may also decline, as businesses are increasingly raising their expectations of labour standards in their supply chains.

### ***OTHER SOCIAL LABOUR AND COMMUNITY RISKS/LIABILITY ISSUES***

#### ***Controversial Use of Vehicles***

Leasing companies may face criticism and protest from community groups or NGOs against the use of their vehicles to carry out perceived or real human rights violations, crimes, or environmentally damaging activities such as demolitions or illegal deforestation. Leasing companies with vehicles branded with their name or logo may face reputational risk issues if their products are used for controversial purposes.

### ***FINANCIAL IMPLICATIONS***

#### ***Regulatory Risks***

Leasing companies may face fines or penalties if found negligent of their contractual or legal



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obligations to meet environmental and health and safety standards. Leasing companies which are slow to adapt also face compliance costs associated with increasingly stringent regulations with respect to environmental and social standards.

### **Litigation**

Leasing companies face the risks of civil suits due to a number of environmental and social risks. These may include failure to clearly detail responsibilities in the leasing agreement, failure to meet regulatory or legal obligations, and/or negligence causing injury or harm. Suits may be brought by individuals, communities, customers or government and can have significant financial implications.

### **Loss of Business**

The reputation risk associated with poor environmental and social management can result in loss of business and social licence to operate. For example, vehicles not maintained according to product standards may not be authorised for lease, resulting in loss of business. Accidents caused by poor health and safety practices can result in productivity loss.

### **Remediation**

Site contamination may result in leasing companies being held responsible for site clean-up. This has financial consequences for the business. Businesses should conduct pre-acquisition environmental impact assessments to avoid unforeseen liabilities and costs.

### **IMPROVEMENTS**

#### ***Environmental, Health & Safety***

- Facilitate recycling and reuse in the disposal of end-of-life vehicles and components where technically and economically viable. Ensure disposal is conducted in an environmentally and socially safe manner.

#### ***Labour, Social and Community***

- Review the intended use of products being leased prior to release. Identify whether the lessee faces material unresolved environmental or social issues and consider these factors in deciding to lease products to such businesses.

### ***GUIDE TO INITIAL DUE DILIGENCE SITE VISITS***

The issues and risks associated with a vehicle leasing site will vary depending on contractual liabilities of the company, size of operation, types of vehicles, site location, country of operation and quality of management.

Conduct a review of the leasing company's policies and leasing agreements. If the leasing company owns multiple leasing sites, select one site with possibly higher environmental and social risks based on initial discussions.

A due diligence visit should consist of a tour of the entire site. When assessing the site consider the following issues:

#### ***Environmental, health and safety***

- If the site is being used as collateral for the loan, check current and past uses of the site and neighbouring properties. This may reveal material environmental or social issues to be considered by the current management. For example, if the site was previously used by heavy industry, the property may be contaminated.
- Has the leasing company conducted pre-acquisition environmental and social impact assessments for all its sites? If these are available, review them for any significant issues and follow up on any recommended actions by the company.
- Discuss terms in the lease contract relating to the liabilities assigned to the leasing company, particularly in relation to environment, health and safety issues. For example, is the company responsible for vehicle servicing?



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- Does the leasing company have Environment, Health and Safety policies and/or plans to make improvements to these areas where relevant to its business activities?
- Where the leasing company cleans or services vehicles, what is the status of the company's environmental permits at the site? Does the company have permits for effluent discharges, disposal of waste and noise?
- Have there been any recent (within the last three years) incidents on its leasing premises such as serious injuries, fires/explosions, spills? Is there insurance cover in place for such incidents?
- Have the portfolio sites been inspected recently (within the past 2 years) by the regulatory authorities for health, safety and environment? What was the result?
- Does the organisation have a grievance mechanism which allows employees to raise workplace concerns?
- Are employees free to form, or join, a worker's organisation of their choosing?

### **ACTION PLANS**

Action plans should consider the risks identified in the leasing business, gaps in compliance or standards, as well as the results of the due diligence visit and any other assessments. An action plan may contain provisions related to the following:

#### ***Environmental, Health & Safety***

#### ***Social, Labour and Community***

- Implement or upgrade environmental, health and safety policies and procedures suitable to the vehicles being leased.
- Clearly define in the standard leasing agreement(s), the duties of lessor and lessee regarding operation and maintenance of vehicles.
- Inclusion of sufficient customer information and guidance on vehicle use in the contractual terms and conditions.
- Conduct regular reviews of the leasing company's product lines to ensure they meet the latest and pending regulatory requirements for product safety and environmental standards. Evaluate the fleet for potential impact from climate change related market trends that might affect demand for specific types of vehicles.
- Provide suitable training and protective equipment for staff working on vehicle cleaning, maintenance, and storage
- Keep records of fuel efficiency to ensure maximum efficiency and minimum emissions;
- Check that there are no illegal labour practices such as child or forced labour, prevention of the right to collective bargaining, discrimination (by interviewing a sample of the workers if possible);
- Check that labour standards, contracting and remuneration are in line with national law and are consistent with the average for the sector through document review and/or employee interviews.
- Check that working conditions are of adequate quality – working areas not cramped, access provided to drinking water, areas well lit, etc.
- Check that hours worked, including overtime, are recorded and that staff receive written details of hours worked and payment received.
- Has the leasing company received inspections from the local labour inspectorate in the previous three years? Have these resulted in any penalties, fines, major recommendations or corrective action plans?



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- Evaluate the use of bio-degradable chemicals and cleaning fluids in vehicle maintenance and servicing e.g. in screen wipe fluid, etc.
- Ensure that wastewaters are appropriately collected and segregated. For example, oil interceptors should be installed and regularly maintained to prevent oils contaminating watercourses.
- Ensure wastes, particularly hazardous wastes, are disposed of according to an environmentally responsible waste management plan.
- Consider recycling of spent fuel oil - check options with environmental authorities.
- Facilitate recycling and reuse in the disposal of end-of-life products and components where technically and economically viable. Ensure disposal is conducted in an environmentally and socially safe manner.
- Institute regular inspections of vehicles during their use and prior to selling on to third parties to ensure vehicles comply with regulatory requirements and safety standards.
- Track regulatory developments (applicable environment, safety, product standards) on an ongoing basis.

### ***Labour, Social and Community***

- Develop or improve labour standards for own and third-party employees, contractors and suppliers to at minimum be in line with national regulations and international norms.



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### **REFERENCES AND ADDITIONAL SOURCES**

Climate Change Corps - <http://www.climatechange.org.com/>

Environment Agency for England and Wales - <http://www.environment-agency.gov.uk/business/topics/pollution/39083.aspx>

European Commission - Waste Electronic and Electrical Equipment - [http://ec.europa.eu/environment/waste/weee/index\\_en.htm](http://ec.europa.eu/environment/waste/weee/index_en.htm)

European Commission – Waste - [http://ec.europa.eu/environment/waste/elv\\_index.htm](http://ec.europa.eu/environment/waste/elv_index.htm)

Inter-governmental Panel on Climate Change - <http://www.ipcc.ch/>

International Labour Organisation - <http://www.ilo.org/global/lang--en/index.htm>

Waste Online - <http://www.wasteonline.org.uk/about.aspx>