

HSBC Forestry Policy

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PUBLIC



Forestry Policy

This document is one of HSBC's sustainability risk policies. It should be read in conjunction with **Introduction to HSBC's Sustainability Risk Policies**, which explains common features and technical terms¹.

Introduction

The world has 4 billion hectares of forest. 30% is used primarily for the production of wood, paper and non-wood products (mainly food), realising a value of over USD100bn a year and employing 10 million people. A further 30% is primary (or high conservation value²) forest, commonly called rainforest in tropical regions and containing a disproportionately large share of the world's rare species of animals and plants. Forests also provide a home and livelihood for millions of indigenous and other people.

Deforestation, often through illegal logging, has had significant negative impacts on the environment, on people and – as rainforests are a particularly important store of carbon - on climate change. Deforestation has decreased in the last 10 years, but 40 million hectares of primary forest have still been lost over that period (almost twice the area of the UK).

HSBC's approach

HSBC does not wish to finance unacceptable impacts in this potentially high-risk sector. We wish to ensure that our customers operate in accordance with good international practice, helping those that make acceptable progress, but closing relationships with those who do not meet our standards. We also need to ensure that commitments made by HSBC can be successfully checked. As the forestry sector has credible certification schemes with a material market share, we use certification to check that customers meet our standards.

An independent certification scheme confirms that specific customer operations either meet a range of legal, environmental and social standards or have a time-bound plan to do so. They allow producers, processors and traders to prove to buyers, banks and others that their products are from a sustainably managed source. Credible schemes have a broad membership, including companies and non-government organisations (NGOs), and offer a complaints system to investigate allegations of non-compliance.

Essentially, this policy defines HSBC's minimum standards. Details are concise in order to aid good implementation of the policy. However, HSBC's engagement with this sector is broader. We encourage higher standards, help customers to improve, support the continued development of certification schemes and provide additional support – see HSBC's **Statement on Forestry and Palm Oil**.

Sector definition

The policy relates to business customers involved in:

- a) Production - **logging**, including the management of forest plantations, but excluding rubberwood (see the Agricultural Commodities Policy).
- b) Supply chain -
 - **Processing**, such as sawmilling;
 - Timber or lumber **manufacturing**, such as panel products or wooden furniture, but excluding small businesses for whom certification is inappropriate such as craftsmen operating as sole traders and rubberwood;

¹ The policy is made public for information only. HSBC's sustainability risk policies are for HSBC's use only and HSBC shall owe no liability to third parties in relation to them.

² High Conservation Values (HCVs) are critical ecological attributes, ecosystem services or social functions – for example, forests containing endangered species or key hunting areas or sacred burial grounds of local communities.

- Timber or lumber **trading** including exporters, importers and major wholesalers, but excluding small wholesalers (principally those who buy from importers) and all retailers; and
 - The manufacturing and wholesale trading of **pulp and paper**
- c) “Non-sector” businesses, which are not defined above or in HSBC’s Agricultural Commodities Policy, but may have similar impacts (such as forest clearance for mines, housing, pipelines or dams)

Prohibited business

HSBC will not knowingly provide financial services to customers involved directly, or indirectly via the supply chain, in: illegal logging; wood logged in violation of traditional and civil rights; wood logged in forests where high conservation values are threatened by industry; or forests being converted to plantation or to non-forest use (deforestation).

Implementation

HSBC’s Global Businesses must check that their customers meet the following risk-based requirements, which focus on customers being 100% certified where logging in or buying from High Risk Countries³ :

Activity	Location	Requirement	By	
Production	All logging sites in High Risk Countries	FSC or PEFC ⁴ certification.	31 December 2014	
	All logging sites in Low Risk Countries	a) FSC or PEFC certification <u>or</u> b) No track record or credible allegations of unacceptable impacts		
Supply Chain	All facilities sourcing wood or pulp from or originating from High Risk Countries	FSC or PEFC certification.		
	All facilities sourcing wood or pulp from or originating from Low Risk Countries	a) FSC or PEFC certification <u>or</u> b) No track record or credible allegations of unacceptable impacts		
“Non-sector”	Anywhere HSBC is aware that activities may be inconsistent with Prohibited Business.	Make enquiries of the customer and from independent sources as appropriate.		When the risk arises.

Global Businesses must manage these risks on an appropriate ongoing basis, not just at annual reviews. They must use internal implementation templates where provided. They must give a copy of the public summary of our policy, plus HSBC’s **Statement on Forestry and Palm Oil**, to customers.

Policy compliance

There may be exceptional circumstances where customers meet the spirit, but not the letter of this policy, or where enquiries about a customer’s compliance are incomplete. Where supported, Global Businesses must submit a clearance request, using a Sustainability Risk Rating of **Near-Compliant**. This rating will be a temporary rating pending a change to Compliant or Non-Compliant. The circumstances envisaged are:

³ High Risk Countries: Bolivia; Brazil; Cambodia; Cameroon; Central African Republic; China; Colombia; Cote d’Ivoire; Democratic Republic of Congo; Ecuador; Equatorial Guinea; Estonia; Gabon; Ghana; Guatemala; Guyana; Honduras; India; Indonesia; Laos; Latvia; Liberia; Lithuania; Madagascar; Malaysia; Mexico; Mozambique; Myanmar; Nicaragua; Panama; Papua New Guinea; Peru; Republic of Congo; Russia; Solomon Islands; Thailand; Uganda; Vietnam; and any customer stating “unknown”

⁴ The Forest Stewardship Council or national schemes endorsed by the Programme for the Endorsement of Forest Certification

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- Start-up producers not already compliant must: (i) be a member of FSC or PEFC; (ii) have a time-bound plan to certify one High Risk Country site (where relevant) within 12 months, completing all relevant certification within 4 years; and (iii) adhere to that plan. Start-up supply chain customers must achieve relevant certification within 12 months. New customers with existing operations, where acceptable, must achieve certification more quickly and will be considered for clearance on a case-by-case basis
 - If certification is not feasible in a High Risk Country, Global Businesses may request clearance where they consider this situation acceptable. Details must be submitted of how HSBC can ensure its policy is not breached. Clearance will be exceptional and any flexibility must not be regarded as HSBC's willingness to weaken its policy
 - Customers subject to formal complaints or suspensions under FSC or PEFC. Global Businesses must discuss complaints with customers and encourage their speedy resolution. HSBC intends to follow the complaints process when deciding how to proceed, noting that schemes allow minor breaches if commitments address the problems, but may still close relationships with customers who are certified where risks are high
 - Customers subject to credible allegations of non-compliance with HSBC's policy

Global Businesses must close relationships, as soon as possible, with Non-Compliant customers, including:

- Customers expelled from FSC or PEFC (including those who terminate their membership during complaints investigations) or whose certification is withdrawn
- Customers with major areas of non-compliance under FSC or PEFC
- Customers not on a credible path to meeting HSBC's policy deadlines

Where a customer group also operates in other sectors, Global Businesses must not provide financial services directly supporting its Non-Compliant companies. Remaining risks will be considered on a case-by-case basis.

Covenants

Global Businesses must request covenants in documentation for facilities of longer than 1 year. Where this is not successfully negotiated (for example, in syndicated facilities for listed companies), the position must be satisfactorily explained/mitigated in the sustainability risk analysis.