

Climate Change: The Business Forecast

Speech by Sir John Bond
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Distinguished guests, ladies and gentlemen, good morning. It's a great pleasure to be invited to speak at this conference and I am greatly encouraged to see so many representatives from industry, government and NGOs uniting in such an important common cause.

I am a banker, not a scientist, but I believe that climate change may be the biggest environmental challenge this century. Climate change will affect all aspects of modern life and only by working together – government, business, NGOs and individuals – will we be able to create a more sustainable world for future generations.

At the heart of climate change is the problem of greenhouse gas emissions which have grown over recent decades.

Governments, with input from NGOs, have the difficult task of setting the policy framework in this area. But business has an important part to play.

Some industries, such as energy companies and manufacturers, are naturally carbon-intensive. And you have just heard from Lord Browne about how one of the world's great oil companies is taking its responsibilities seriously and deploying a range of low-carbon technologies.

Banking, by contrast, is not a carbon-intensive business. Our annual carbon dioxide emissions of 643,000 tonnes will sound a lot to some of you. To those of you in carbon-intensive industries, it probably sounds like a rounding error! This means that there are currently no regulatory obligations on us to reduce our emissions.

However, as a large company with over a quarter of a million employees, and nearly 10,000 offices worldwide, we believe we have a duty to act responsibly and to do our bit to reduce our environmental impact.

This led us to make a commitment at the end of 2004 that HSBC would become carbon neutral by the start of 2006. We were the first major bank to commit to carbon neutrality, and I am delighted to tell you today that we have brought our timetable forward.

During the last three months of this year, we are putting our carbon management plan into action as a 'dry-run' ahead of our self-imposed end-of-year deadline. And this means that from last Saturday – 1 October – HSBC became carbon neutral.

To say we are carbon neutral is easy, but what exactly does it mean?

I think it is fair to say that since making our commitment to carbon neutrality last year, we have been on a very steep learning curve. There was no 'How to' guide to carbon neutrality we could follow! But we hope our experiences will be helpful to other companies interested in reducing their environmental impact.

First, and most straightforward, becoming carbon neutral has involved reducing our energy consumption. Simple measures such as changing the air cooling system in our Hong Kong head office have reduced our emissions by a thousand tonnes a year. Overall, we have set ourselves worldwide targets to reduce our energy consumption by seven per cent and our CO₂ emissions by five per cent in the next three years.

Second, we have undertaken to buy 'green' electricity wherever we can – energy from renewable sources, such as wind farms and geo-thermal sources.

But there comes a point at which we cannot reduce our consumption further, and it is simply not possible to buy all the energy we need from renewable sources. So in order to cut our net emissions to zero, we are buying in to carbon offset projects.

Based on last year's emissions, we estimate that our carbon dioxide emissions for the last three months of the year will total some 170,000 tonnes. To compensate for these emissions, we need to purchase a matching amount of carbon credits, known as Voluntary Emission Reductions, or VERs.

But as the market for VERs is nascent and unregulated, the onus is firmly on us to ensure that the credits we purchase are credible – or we could literally find ourselves buying a lot of hot air!

What constitutes a credible carbon offset? Essentially, a carbon offset project involves one organisation – in this case HSBC – paying other organisations to reduce their own greenhouse gas emissions beyond their normal business practice or obligations. The reductions must be incremental, in other words, they would not take place without our funding.

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We invited people to put forward proposals for projects that would allow us to offset our carbon dioxide emissions.

Seventeen organisations submitted around 100 projects for our consideration and these were evaluated by us, with the support and guidance of The Climate Group and ICF Consulting, an international consulting group.

After intensive investigation, we have selected four projects which together deliver the 170,000 tonnes of carbon credits that we anticipate we need to be carbon neutral for the remainder of 2005.

The projects we are supporting are located in New Zealand, Australia, India and Germany, and involve a range of technologies.

Our anchor project uses proven technology – a wind farm in New Zealand, which can generate enough electricity to power 45,000 homes.

Our project in India involves using farm waste instead of fossil fuels to produce power at a manufacturing plant. Our projects in Australia and Germany use innovative technologies to reduce the amount of greenhouse gases produced by organic waste.

Carbon trading is an industry in its infancy but it is a market that will grow rapidly. As it grows, I hope and expect that common standards of verification of carbon offset projects will be adopted, making the journey to carbon neutrality an easier one for those who pursue it.

Ladies and gentlemen, we know we cannot solve the problem of climate change alone. But we do hope that we can be a positive influence.

We are looking at ways to extend our carbon neutral approach to our suppliers.

We are also sharing experiences with other organisations to help us both improve our sustainability. We have, for example, recently helped to launch a pilot project to help a small number of schools in the UK become carbon neutral.

In Mexico, where we are building new headquarters, we have set ourselves the goal of achieving LEED certification. For those of you who have not heard of this before, the Green Buildings Council of the United States awards Low Energy and Environmental Design certificates to new buildings that meet rigorous environmental standards. If we achieve this certification, our building will be the first in Latin America to do so.

Finally, I have spoken today about HSBC's own efforts to reduce its environmental impact.

So far, we have concentrated on reducing our own emissions and the environmental risks in our lending.

But looking ahead, we also see opportunities to grow our business by working with organisations who share a desire to improve the global environment. We have this week established a new team tasked with expanding our business in low-carbon and other sustainable technologies, reporting directly to our Chief Operating Officer, who is a Board Director. Thus our commitment to

sustainable development continues to grow.

A Chinese proverb says that a journey of a thousand miles begins with a single step. We have made our first tentative steps on our journey. We believe it is an important journey and one that enjoys strong support from our customers, our shareholders, our staff, and – hopefully – the wider community.

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