

Towards a Low Carbon Global Economy

Environmental Challenges, Practical Solutions

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Good morning. It really is a pleasure to be here today, and I'd like to thank UKTI for the invitation.

Climate change is *the* fundamental issue facing humanity this century. And while unparalleled intergovernmental frameworks and every individual has a part to play in meeting this challenge, so equally does business – I would in fact, say that business's role is vital.

Business has a key role to play in communicating this key message to the broad community: it both creates and responds to market incentives to action; it will play a leading role in bringing greener products and services firmly into the mainstream; and generally play a vital part in practical action to integrate low carbon living into people's daily lives. And of course, as business becomes more and more involved in low carbon activity, so the banks need to accompany them on this journey – supporting, encouraging, and financing the emergence of the new carbon economy.

In saying this, I start from a simple presumption; the move towards a low carbon economy is inevitable; high fuel prices coupled with either systems of cap and trade or carbon taxes will further accelerate the transition.

Pricing in the market has reinforced, will have the effect – is already beginning to have the effect - of changing investment patterns, bringing new products and new technologies into being. And the more this happens the better the world's chance of successfully confronting the climate change challenge.

And yes the opportunities are there. The 'greening' of business means new jobs, new markets, new industries.

This is important, because if we just rely on public sentiment and goodwill, economic behaviour will not change radically enough or fast enough. How do you persuade someone living on a few dollars a day of the importance of low carbon living? Nearer home, what about someone living in a mature economy whose living standard is being squeezed by inflation and the credit crunch.

And what about emerging economies who are asked to forgo the same energy consumption that granted mature economies their dominance? Although in fact, interestingly, the mood in emerging economies seems much more focused than in mature economies. Of the countries polled for the HSBC Climate Confidence Index, it was the emerging economies that had the highest levels of concern, personal commitment and optimism about the climate challenge – an average of 49, 44 and 33 respectively. This is certainly a good sign.

The point is, I believe, that business has a key role in driving home the message that there is a need to move to a low carbon economy. Because no company with a sustainable growth ambition can afford to think short term and ignore the challenges and the opportunities involved as it sets its strategies, develops its core products and services, and plans and finances its investments.

And one of the most exciting aspects of this growing focus on the commercial opportunities in a low carbon world, is the role being played by emerging markets. Indeed in some respects, for emerging markets, the change requirement is potentially easier to manage. It is far easier to incorporate new low carbon technology into new infrastructure than fully overhaul an existing legacy infrastructure base.

China, for example, has a historically almost unprecedented opportunity to get this right from an early stage as it goes through the process of massive urbanisation over the next 25 years.

Solar power which has been growing at an annual rate of approximately 60 per cent has enormous potential in many countries North Africa, the Middle East, Brazil and Mexico.

China has 356 gigawatts of Total Installed Capacity (equivalent to 100s of coal fired power stations) for solar, wind and large and small hydro power, and is already a manufacturer of solar and wind products, industrial abatement technologies and energy from landfill gas recovery. India similarly has biofuels, solar thermal and other clean technologies and is among the countries with the highest Total Installed Capacity of wind power. I mention these points because such countries all often wrongly seen as big polluters that have no interest in 'clean' development – just in helter-skelter growth at any cost.

There are plenty of pressures on EU governments and their policy, of course. But the good news is that there is a spreading understanding of the multi-dimensional implications of the challenge.

I recently read an interview with Barnabas Suebu, the governor of the Indonesian province of Papua, home to more than 100 million acres of tropical forest, and so rich in biodiversity it's been dubbed a 'Lost World' by scientists. He said his challenge was to find a way to create jobs that would earn his villagers more money than selling tropical wood to smugglers. His motto was, 'Think big, start small, act now-before everything becomes too late.' For him, small-scale local crafts – underpinned by microfinance – create jobs, preserve the environment and help his country face the climate challenge.

Nothing as challenging as moving to a low-carbon economy is going to happen overnight. It will be the steps we make, big or small, that will collectively get us there. And companies with a commitment to sustainable growth are

particularly important in supporting those thousand first steps.

Banks in particular, are in a special position, as they work with business ranging from the conglomerate to the smallest start-up. They can support change – all the way from large-scale energy conversion projects to offering viable financing sources to fledgling businesses, to encourage less harm to the environment.

Like many other companies, we at HSBC are on a long journey towards becoming more sustainable. What we have found along the way is what you all likely know and have experienced for yourselves; that it has demonstrable benefits for the company itself.

For instance, when HSBC became carbon neutral, the situation revealed itself to be a catalyst for the organisational efficiency. We are spending some US\$90 million on improving our own carbon footprint and in so doing, funding real cost reduction opportunities. For example, our planned rollout of software across the HSBC Group will enable 300,000 computers to be switched off at the end of the working day, saving approximately US\$30 million per annum in energy costs, as well as carbon emissions. Where we have inevitably left some carbon footprint, our offset projects allow us to help support the communities in which we operate worldwide, such as hydroelectric projects in Sichuan province in China and waste water treatment in Thailand.

In addition, we provide funding to four leading environmental organisations worldwide through the HSBC Climate Partnership, to which we are providing US\$100 million over five years. The key point is that this is only valuable in its own right – it has obvious benefits to us in terms of employee engagement.

Corporate social responsibility impacts the organisational culture; we've found that engaging our colleagues in local environment initiatives increases their commitment to both the cause and the company. Our goal is to involve over

100,000 colleagues in climate/environmental issues. And we know through regular surveys – about the motivational power of this. There's the responsibility and influence banks have when working with clients who themselves are increasingly more aware of their environmental footprint. At HSBC, we have developed corporate lending policies on sustainable risk, including sector guidelines for areas such as chemicals, forestry, and freshwater. On the basis of these policies, we aim to develop the dialogue with our customers and create business relationships in which we work together with the client to help them pursue sustainable development.

Often we find ourselves pushing on an open door – sometimes not, sometimes disengagement is the only option, but that's a rare last resort. And the financial product opportunities are there. 39% of the project finance transactions that we supported in the power sector in 2007 were for renewable energy generation. Currently, we are reviewing the possibility of launching a suite of climate change-related insurance products to support customers. Last year we also launched Environmental Infrastructure Fund and through this have invested 49% in the UK's Partnership for Renewables, which aims to develop a 500 MW portfolio of wind farms over 5 years, that will generate enough power 230,000 homes - a City the size of Sheffield.

Also last year, we launched a unique green equipment-finance initiative in Hong Kong and Greater China, due to the manufacturing focus in the region. Preferential rates were offered to customers taking the greener approach, resulting in

HSBC being invited onto the Hong Kong government's Cleaner Production Partnership Programme. And last September we launched the world's biggest Climate Change index, a benchmark index designed to provide exposure to companies focussed on combating and developing solutions for climate change across the entire industrial supply chain. The index then triggered the launch of the HSBC Climate Change Fund to enable investors to put their money where their mouth is – in effect investing for good returns in the emerging low carbon economy.

We are not the only financial services to be developing a carbon finance strategy – as it makes commercial sense for our sector. The competitive market will ensure that this momentum continues and accelerates. In a low carbon economy, there are financial services opportunities everywhere, whether it's trading or financing commodities that will be affected by climate change, finding new uses for waste, or microfinance. In a hundred different ways, we will find ourselves working with large multinationals, small businesses, microfinance customers, and individuals as they do their banking - in all of the 83 countries where we do business – to meet the challenges and build on the opportunities of the low carbon economy.

Thank you