

Chemicals Industry Sector Guideline

Objectives

Chemicals play an important role in many aspects of our lives. However, the chemicals industry has been identified as a sector in which environmental and social risks are potentially high and where guidance relating to the HSBC Group's business activities across the sector is therefore required. This guideline is the third published by HSBC, and follows the *Forest Land and Forest Products Sector Guideline* issued in 2004, and the *Freshwater Infrastructure Sector Guideline* published in May 2005.

The purpose of the guideline is to ensure that HSBC's involvement in this sector conforms to international, regional and national standards and does not give rise to adverse reputational impacts. In addition to outlining the areas where the Group is and is not prepared to participate, this guideline also sets out broad principles of good chemical production and handling. It will also help HSBC's customers to work towards sustainable chemical manufacture.

Scope

This guideline applies to all lending and other forms of financial assistance, debt and equity capital markets activities, project finance, advisory and asset management. It covers agricultural chemicals, petrochemicals, speciality chemicals and gases.

Sector lending guideline

This guideline builds on HSBC's *Environment Risk Standard*, issued in 2002, and on its adoption of the Equator Principles – voluntary guidelines that apply to project finance activities (log on to www.hsbc.com/equatorprinciples for more information). In adopting the Principles, the Group has undertaken to ensure all new applicable project finance proposals fall within its requirements. In accordance with the Equator Principles, the Group will follow World Bank and International Finance Corporation guidelines in respect of the chemicals industry sector.

HSBC will not provide facilities and other forms of financial assistance, including any involvement in debt and equity markets activities and advisory roles, to companies involved in:

- The production of chemical weapons
- The manufacture, storage and transportation of persistent organic pollutants (POPs), as well as certain hazardous pesticides and industrial chemicals (as defined in the Rotterdam Convention).

Risks arise for the Group's clients involved in the chemicals sector from two broad areas:

Environmental impacts: particularly in relation to discharges of chemicals, both through air emissions and effluent, to soil, air and water.

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Social impacts: these arise from occupational exposure (i.e. from the manufacturing process, usually affecting employees and communities in which manufacturing plants are located) and product exposure (i.e. from the usage of end-products containing chemicals, usually affecting a broader range of commercial users and consumers).

Both can result in significant litigation risks and liability for the manufacturer, which may affect their creditworthiness. Whilst in many cases such liabilities are financially manageable and can be insured, any reputational losses the company suffers may be more significant to its long-term business. The Group, through its relationship with such a company, may incur financial risk if a client's creditworthiness deteriorates and could also suffer reputational risk from its involvement.

Sector lending standard

HSBC prefers to deal with customers in this sector that are operating within internationally, regionally and nationally accepted standards, including:

- **Stockholm Convention**
An agreement, signed in Sweden in 2001, to reduce and eliminate the production, use and release of 12 POPs. The Convention has been ratified by 98 countries.
- **Rotterdam Convention**
An agreement designed to monitor and control trade in certain hazardous chemicals. There are currently 73 signatories to the convention.
- **World Health Organisation Recommended Classification of Pesticides by Hazard ('WHO Redlist')**
The WHO Redlist deals with the risks of occupational and product exposure to a range of hazardous pesticides.
- **Montreal Protocol**
The Montreal Protocol on Substances that Deplete the Ozone Layer established the phasing out and elimination of the production and consumption of ozone-depleting gases.

In addition, HSBC is aware of REACH (Registration, Evaluation and Authorisation of Chemicals), a programme proposed by the EU to provide a regulatory framework for chemicals in order to protect humans and the environment; and Responsible Care, a voluntary initiative that promotes sharing of information among members of the chemicals industry.

Summary

This sector guideline outlines the framework for HSBC's involvement in the chemicals and certain related industries. It is based on widely adopted international, regional and national standards and conventions.

This is, however, a complex industry and one where standards vary country by country and continue to evolve. It is, therefore, not possible for HSBC to put in place a prescriptive guideline that covers all aspects in detail at a local level. Although individual offices are expected to make reasoned, common sense judgements in implementing this guideline, exceptions will be rare.