

HSBC Agricultural Commodities Policy

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PUBLIC



Agricultural Commodities 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 agricultural commodities sector essentially feeds and, to a lesser extent, clothes the world. It exists in almost all countries and includes a huge and diverse range of commodities such as cocoa, coffee and cotton. However, the sector can also have significant adverse impacts on both people and the environment, especially where large new plantations are proposed which affect the existing nature and use of that land.

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. For the purposes of this policy, we focus on commodities with a potentially high impact where HSBC has significant numbers of customers involved with that commodity. HSBC also needs to ensure that its commitments can be successfully checked. Consequently, the standards which we require of our customers vary for different commodities and for different types of customer in the supply chain according to the due diligence which a bank can reasonably undertake.

The types of due diligence are:

Certification - 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. It allows producers, processors and traders to prove to buyers, banks and others that 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. HSBC encourages these schemes. Where they have a material market share, we will use them to check that customers meet our standards. Where in development, we will support credible ones with a view to extending the reach of our policy as they gain critical mass and acceptance.

Relationship Manager Due Diligence – The technical complexity of sustainability impacts means that relationship managers can only undertake a limited check on defined issues, as well as investigating credible allegations that customers are not compliant with our policy.

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**.

Palm oil

Introduction

Palm oil is the world's main vegetable oil, with 55 million tonnes produced per year. 80-90% of palm oil comes from Indonesia and Malaysia, with the main importers being China, India and Europe, and significant intra-country use in Indonesia. It is used in various forms for products such as cooking oils, margarine, ice cream, biscuits, soap, biodiesel and animal feed. The sector has improved living standards in producer countries and is efficient in that palm oil's yield per hectare is 5-9 times greater than vegetable oil produced from rapeseed, sunflower or soy.

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.

However, if not managed responsibly, oil palm plantations can have adverse impacts on people or on the environment. New plantations may result from the cutting or burning of natural forest. Social conflict may develop with local communities, who rely on the forest for their livelihood. Important wildlife habitat may be destroyed and harm endangered species such as the orang utan. Deforestation and the draining of peat swamps can encourage climate change by releasing large quantities of greenhouse gases. Palm oil can also be used to make biodiesel, which could indirectly increase pressure on land resources, increase food prices and further accelerate deforestation.

Sector Definition

- Growers (plantations) and mills - excluding smallholders with less than 100 hectares
- Refiners and traders - including bulkers and shippers who consolidate palm oil purchases; excluding desktop traders who do not take physical possession of a commodity

Prohibited Business

HSBC will not knowingly provide financial services to growers and mills involved in: illegal operations; land clearance by burning²; the conversion of areas (often forests) necessary to protect high conservation values³; harmful or exploitative child labour or forced labour; the violation of the rights of local communities, such as the principle of free prior and informed consent⁴; and operations where there is significant social conflict. HSBC extends this policy to refiners and traders where checks can be made.

Implementation

HSBC requires customers to obtain certification under the Roundtable on Sustainable Palm Oil (RSPO) certification scheme, or equivalent, according to the table below.

Growers and Mills		By
A	Member of RSPO (parent company or relevant subsidiaries) or applied.	30 June 2014
B	<ol style="list-style-type: none"> 1. At least one management unit certified under RSPO 2. A time-bound plan for 100% certification by 31 December 2018 	31 December 2014
C	100% certification of management units.	31 December 2018
Refiners and Traders		By
A	Member of RSPO (parent company or all relevant subsidiaries) or applied.	30 June 2014
B	<ol style="list-style-type: none"> 1. At least one owned facility (such as a refinery or storage/shipping facilities) is certified, under RSPO supply chain certification 2. A time-bound plan for 100% certification of owned facilities by 31 December 2018 3. A plan to exclude palm oil from controversial sources, by providing "traceability", within a set timeline 	31 December 2014
C	100% certification of owned facilities.	31 December 2018

2014 contains key deadlines. The 4 years to 2018 allow customers time to complete a sometimes complex certification process, during which period RSPO requires that uncertified operations are not controversial.

New customers who are not already Compliant must: (i) meet Commitment A; (ii) have no track record of unacceptable impacts; and (iii) have a time-bound plan to achieve B and C within 12 months and 4 years respectively. Condition (iii) applies to existing customers who, for example, acquire new business.

² Consistent with the ASEAN Guidelines

³ 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

⁴ Consultation which is **Free** of intimidation, conducted **Prior** to any impacts, with communities **Informed** of relevant information, who give their **Consent**

HSBC's 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 this 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:

- New customers with a track record of unacceptable impacts. They are expected to have a board-level public commitment to address past impacts and to operate within HSBC's policy in future
- Customers who have cleared land for new plantations since 1 January 2010 and have not followed RSPO's New Planting Procedures
- Customers who have not submitted an up-to-date Annual Communication of Progress (ACOP) to RSPO
- Customers subject to formal complaints at RSPO. Global Businesses must discuss complaints with customers and encourage their speedy resolution. HSBC intends to follow the RSPO complaints process when deciding how to proceed, noting that RSPO allows minor breaches if commitments address the problems, but may exit customers who are RSPO members where risks are high

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

- Customers expelled from RSPO (including those who terminate their membership during complaints investigations) or whose certification is withdrawn
- 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.

Soy, Cattle Ranching and Rubberwood

Introduction

Soybeans are primarily grown in the US, Brazil and Argentina. They are processed directly into human food products such as tofu or soy milk or crushed into meal used as animal feed or into oil used for cooking and biodiesel. Increased cropland has had a negative impact on biodiversity, particularly in South America and on the Amazon rainforest. Soy has been planted on land which may have been recently cleared of rainforest by ranchers for grazing their cattle. It has also replaced native vegetation such as in the Cerrado area of savannah woodland in Brazil and the Pampas grasslands in Argentina.

Cattle ranching is a USD500bn global industry centred on the US, Brazil and the EU. There has been a significant increase in the number of cattle and in the land used for grazing, much due to increases in global prosperity and living standards which have resulted in more people eating meat. While cattle ranching is not an agricultural commodity as such, the sector can have very similar impacts to new plantations. It has been particularly controversial in the Amazon region, where it has been the leading cause of deforestation. This can have a negative impact on the rights of local people, on the environment and on climate change.

Rubberwood plantations produce latex, which is used to manufacture rubber for products like tyres. Many plantations are decades old, although they are replanted every 30 years or so, with the old wood typically used for manufacturing furniture. However, there has been a recent increase in new plantations - especially in China, Laos and Cambodia - amid concerns that land or forest may be cleared which is used by local people or contains rare animals and plants.

HSBC takes a risk-based approach to these agricultural commodities as any certification schemes, if available at all, are in development and/or not widely used.

Sector Definition

The policy applies as follows:

Commodity	Customers	Countries
Soy	Growers with plantations of 10,000 hectares or more. Processors with annual crushing capacity of 30,000 tonnes or more.	Argentina, Bolivia, Brazil, Paraguay, Uruguay
Cattle ranching	1. Ranchers with 1,000 head of cattle or more 2. Processors with slaughter-house capacity of 500 cattle per day or more	Argentina, Brazil, Colombia, Mexico, Paraguay, Uruguay
Rubberwood	New plantations of 1,000 hectares or more	Africa, Cambodia, China, Indonesia, Laos, Malaysia, Thailand, Vietnam

Prohibited Business

HSBC will not knowingly provide financial services to high-risk customers involved directly or indirectly in: land clearance by burning; the conversion of areas (often forests) necessary to protect HCVs; harmful or exploitative child labour or forced labour; the violation of the rights of local communities, such as the principle of free, prior and informed consent; and operations where there is significant social conflict.

The prohibitions relating to burning and conversion apply from 1 July 2004 for soy and rubberwood, reflecting the introduction of HSBC's original Forestry policy. HSBC accepts later cut-off dates if certified by a credible certification scheme. The other prohibitions are introduced from the date of this policy.

Implementation

1. Global Businesses must ask customers and conduct desk-top due diligence, in accordance with the appropriate internal templates, to establish – as far as can be reasonably identified - whether customers have undertaken any Prohibited Business
2. Global Businesses must investigate incidents of or credible allegations of policy breaches
3. For customers with one operation certified and a time-bound plan to complete certification, Global Businesses need only conduct further enquiries where (a) the customer is being investigated by the scheme's complaints system or (b) aware of other credible allegations of non-compliance. Acceptable certification schemes are:
 - Soy - Roundtable on Responsible Soy (RTRS)
 - Rubberwood – FSC or PEFC (for Forestry)
4. Where a customer undertakes Prohibited Business, decisions will be made on a case-by-case basis but HSBC's typical approach is: follow certification schemes where appropriate; exit where burning or HCV clearance takes place as those activities are wholly inconsistent with our policy; and engage with customers on other Prohibited Business to understand the seriousness and the customer's future plans

Policy Compliance

Global Businesses must ensure that Sustainability Risk Ratings are accurate. Clearance will generally be required where a client is below Compliant, which will assist in ensuring a consistent approach is taken.

- Compliant customers must meet the above standards
- Leaders will be Compliant as above, but be a leading advocate and practitioner on certification
- Near-Compliant customers will be those on a credible path to compliance, with no material unacceptable areas of non-compliance, or those where allegations are being investigated
- Non-compliant customers are those that clearly breach HSBC's policy and relationships must be closed
- All customers within the defined sector should be graded High Risk

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.