HSBC Agricultural Commodities Policy

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 is available on the Sustainability risk page of the bank's corporate website, and explains common features and technical terms.[1]

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 and will 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 or rely on.

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 robust criteria, a broad membership, including companies and non-government organisations (NGOs), and offer a complaints system to investigate allegations of noncompliance. HSBC encourages these schemes and their continued development to meet growing market standards and expectations. 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.
- Independent Verification - Some customers may introduce, and publish details of, additional due diligence conducted by independent experts to confirm that they meet policy commitments.
- 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 and support the continued development of certification schemes.

Palm Oil

Introduction

Palm oil is the world's main vegetable oil, with 60 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

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efficient in that palm oil's yield per hectare is 5-9 times greater than vegetable oil produced from rapeseed, sunflower or soy.

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 Definitions

a) **Growers (plantations) and mills** - excluding smallholders with less than 50 hectares
b) **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 provide financial services to customers involved directly in or sourcing from suppliers involved in:

a) Illegal operations.
b) Deforestation, that is: the conversion of areas (often forests) necessary to protect high conservation values (HCVs)[2], the conversion of high carbon stock (HCS) forests[3]; the conversion of primary tropical forests; or land clearance by burning[4].
c) New plantation development on peat, regardless of the depth.
d) Exploitation of people and communities, such as: 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[5]; and operations where there is significant social conflict.

These commitments are consistent with No Deforestation, No Peat and No Exploitation (NDPE) policies increasingly common within the palm oil supply chain.

Implementation

HSBC requires customers to obtain certification under the Roundtable on Sustainable Palm Oil (RSPO) certification scheme, or equivalent, which is accepted as verification of compliance with HSBC's policy. Detailed implementation requirements are as follows:

Growers and Mills

1) Member of RSPO (preferably parent company, or relevant subsidiaries).

2) 100% certification of management units under RSPO

3) Public commitment on the protection of HCS and peat (typically via an NDPE policy or through RSPO certification).

4) Evidence of independent verification of HCS and peat commitments to be made publicly available by customer

<u>Refiners and Traders</u>

[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.
[3] High Carbon Stock (HCS) forests hold large stores of carbon, the release of which contributes to global warming. The HCS Convergence Agreement of 4 November 2016 defines a common methodology for application in the palm oil sector.
[4] Consistent with the ASEAN Guidelines
[5] Consultation which is **Free** of intimidation, conducted **prior** to any impacts, with communities **Informed** of relevant information, who give their **Consent**.

1) Member of RSPO (preferably parent company, or relevant subsidiaries).

2) 100% certification of owned facilities

3) A plan to exclude palm oil from controversial sources, by providing “traceability”

4) Public commitment on the protection of HCS and peat (typically via an NDPE policy)

5) Evidence of (own or suppliers’) independent verification of HCS and peat commitments to be made publicly available by customer.

Customers who develop or acquire new uncertified operations in the future may be unable to certify these immediately under the RSPO; for example, a mill or refinery to be built in 2022, or the acquisition of an uncertified operation. When undertaking such activities, customers must not breach core policy prohibitions and such customers must gain the additional certification within a reasonable timeframe, typically 1 year for completion of plant for refiners/traders and 4 years for commencement of operations for growers/mills.

New customers are required to consent, before financial services are provided, to HSBC being able to disclose publicly whether the customer is or was a customer of the bank. This requirement recognises both the public concern over the role of financial institutions in this sector and the legal constraints on HSBC relating to customer confidentiality.

Policy Compliance

There may be exceptional circumstances where customers meet the spirit, but not the letter of this policy, including customers subject to RSPO Complaints, non-submission of Annual Communication of progress or inability to certify due to external restrictions. In such cases HSBC engages with the customers, seeks action plans to resolve the issues and monitors progress.

Where we bank customer groups that operate in multiple sectors, we will not provide financial services directly supporting non-compliant subsidiaries of the group; we will assess the nature and scale of any negative impacts of the non-compliant business; and we will engage with the parent company, if a customer, on the benefits of certification.

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	1. Growers with plantations of 10,000 hectares or more. 2. 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 in or sourcing from suppliers involved in:

a) Deforestation, that is: the conversion of areas (often forests) necessary to protect HCVs; the conversion of primary tropical forests; or clearance by burning.
b) Exploitation of people and communities, such as: 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, cattle ranching, 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 were introduced from the date of our original Agricultural Commodities policy in March 2014.

HSBC supports the concept of high carbon stocks (HCS) being included in the definition of deforestation, but recognises that field trials and current methodologies have focused on the palm oil sector to date. We welcome and support further research and clarity from companies and technical experts that would allow HCS to be used more broadly.

Implementation

1. Global Businesses must ask customers and conduct desk-top due diligence, in accordance with the appropriate 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. They must refer any allegations relating to impacts on HCS to Group Sustainability Risk, for evaluation against developing standards in this area.

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 Management)

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.