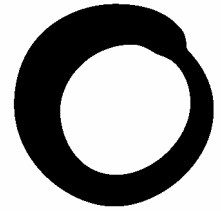


May 2003



**Friends of
the Earth**

Briefing

UKplc: HSBC

Investing in rainforest destruction in Indonesia and human rights abuse in Sudan

HSBC Holdings plc, one of the world's largest banking and financial services multinationals, claims to exercise corporate and social responsibility. The multinational has recently re-branded itself as "*The world's local bank*" partly because the company tells us it believes that "*the world is a rich and diverse place where cultural differences need to be respected*"¹. But HSBC's customers and shareholders are often unaware that through their pensions, mortgages, overdrafts and shares they have unwittingly financed companies destroying rainforests in Indonesia and oil companies linked to human rights atrocities in Sudan. The multinational has also been linked to the controversial Three Gorges Dam in China.

Although HSBC claims to have improved the social and environmental criteria in its investment policies, it has refused to provide Friends of the Earth with copies of the new policy. HSBC has also failed to provide any assurances that it won't invest in companies that cause harm to people and the planet.

The TUC is calling for HSBC's investors at the AGM to vote against the proposed "fat cat" pay package which is seeking to reward directors with financial pay offs of up to £20 million. Friends of the Earth supports the TUC's call, given that HSBC directors are failing on all three aspects of the triple bottom line; financial, social and environmental performance.

Friends of the Earth inspires solutions to environmental problems, which make life better for people.

Friends of the Earth is:

- the UK's most influential national environmental campaigning organisation
- the most extensive environmental network in the world, with almost one million supporters across five continents and over 60 national organisations worldwide
- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland
- dependent on individuals for over 90 per cent of its income.

To join or make a donation call us on 0800 581 051

Friends of the Earth, 26-28 Underwood Street, London N1 7JQ

Tel: 020 7490 1555 Fax: 020 7490 0881 Email: info@foe.co.uk Website: www.foe.co.uk

Friends of the Earth Limited company number 1012357

♻️ Printed on paper made from 100 per cent post-consumer waste

HSBC basics

UK Headquarters
HSBC Holdings plc
8 Canada Square
London
E14 5HQ

Phone number:
020 7991 8888

Website:
www.hsbc.com

Group Chairman:
Sir John Bond

Group Chief Executive:
Sir Keith Whitson

HSBC profits:

£7002m for year ending December 31st, 2002

HSBC potential conflicts of interest?

According to the United Kingdom Parliament website in April 2003 the following Members of Parliament are listed as having registrable shareholdings in HSBC.

Archie Norman: MP for Tunbridge Wells
Jonathon Djanogly: MP for Huntingdon

Company overview

Based in London and with operations around the world, HSBC Holdings plc is Europe's biggest bank by stock market value and one of the largest banking and financial services multinationals in the world. The multinational's international network is made up of 9,500 offices in 80 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. Listed on the London, Hong Kong, New York and Paris stock exchanges, shares in HSBC are held by around 190,000 shareholders in about 100 countries.

HSBC's business is in financial services such as personal financial services; commercial banking; corporate, investment banking and markets; private banking; and other activities. The bank admits its primary aim is to make money for its shareholders. Nevertheless it claims to have strong ethical principles, sponsors environmental and community schemes and aims to "*put something back into the communities in which it operates*". Despite these stated aims and its attempt to cultivate an image of a responsible multinational, HSBC has profited from investments in companies actively engaged in the destruction of rainforests and linked to human rights abuses.²

HSBC impacts

Fuelling oil wars in the Sudan

HSBC loans to oil companies operating in the Sudan link the multinational banking group to a brutal war that has destroyed the lives of millions of people. Oil companies in Sudan have been accused of complicity in the Sudanese government's human rights atrocities and perpetuating one of the world's most enduring and bloody civil wars.³

In East Africa, Sudan has been gripped by one of the world's most enduring and bloody wars

for most of the 47 years of its independence. Although oil wasn't the original cause of the civil war in Sudan, it was one of the reasons for the resumption of the latest bout of war in 1983 after 11 years of peace. An estimated two million people have been killed and another four million have been forced to leave their homes during the course of this latest 20 year war.⁴ Oil has also led to an escalation of the fighting because the oil reserves and surrounding land along the Western Upper Nile have become increasingly important to the government of Sudan. In 2001 Christian Aid published a report, *Scorched Earth*, revealing how oil companies operating in Sudan were complicit in Sudanese Government raids on civilians living around the oil installations. Banks, governments and organisations funding the oil companies are implicated in this terror by a chain of association. Christian Aid reported that in the oil rich areas of Sudan, government troops and militias were terrorising, raping, killing and displacing thousands of ordinary people to make way for oil. The rights of foreign oil companies to exploit oil concessions were taking precedence over the rights of Sudanese civilians to live peacefully. Although "a cessation of hostilities agreement" was signed in October 2002 and progress has been made in the peace talks, in the oil field region of Sudan there is still significant conflict. Independent observers have reported that the Sudanese government has continued to displace civilians from communities around the oil rich region.⁵

It is no coincidence that the oil region and sharing of oil wealth is one of the most acrimonious issues at the heart of the peace negotiations between the government-controlled north and the south of the country, where much of the oil is located. The United Nations, international non governmental organisations and Sudanese human rights groups have all asserted that the Sudanese government uses profits from oil companies to fund its war against the southern rebels and in order to fund their operations the oil companies have often looked to banks such as HSBC.⁶

The oil companies have been repeatedly urged to suspend their operations until the human rights violations by the government of Sudan stop. It is unlikely these violations will cease unless a just and lasting peace is reached. This means current operations must be put on hold and new investment frozen.

But in May 2002, HSBC marketed a bond issue for two oil companies, Petronas of Malaysia and Talisman of Canada, both of which have been major investors in Sudan. A UN special rapporteur for Sudan reported that revenue from international oil companies such as these is fuelling the continuation of the war. Public sentiment in America is so strong on this issue that, before the recent peace accord in Sudan, a bill was progressing through the US Senate designed to block capital to companies investing in Sudan.⁷

At the time of the issue, Petronas stated that the proceeds from the bonds would be used to finance its international projects. The company is a major investor in Sudan. There, it is part of an oil consortium called the Greater Nile Petroleum Operating Company (GNPOC), along with the China National Petroleum Corporation, Sudapet (a Sudanese company), and the Canadian Talisman Energy company. The money raised by the bond issue could have helped fund its Sudanese operations. There are more specific allegations against the GNPOC consortium: that the government is using facilities built and maintained by GNPOC to launch its helicopter gunships and bombers.⁸

According to Christian Aid, Talisman's complicity in human rights abuses by the government of Sudan was very public at the time HSBC took them on as a client. The bank was part of a

syndicate that underwrote a Eurobond issue by Talisman in May 2002. Because of its operations in Sudan, the bond issue was controversial and investment banking sources alleged that the debt was raised in European rather than American markets to avoid bad publicity. *"All things being equal, they would have had an easier time in the European market than they would in the US market, where people would be flagging the Sudanese issue and giving them more grief than they feel they needed,"* said one source, quoted by Reuters. Sudanese residents who said they have been hurt by their government's military action have filed a case under the Alien Tort Claims Act in the US against Talisman. And until the recent peace accord was signed, US legislators were considering a law barring companies active in Sudan from gaining access to capital. In November 2002 Talisman Energy quit Sudan after pressure from human rights activists over its oil development involvement there.^{9,10}

HSBC will have received *"several million dollars"* for its role in both launches, according to one industry analyst. When Christian Aid met with HSBC in June 2002, the company's response was that the bond issue represented a very small chunk of business to them in global terms. HSBC refused to comment on any specific transactions with its client companies. Following the meeting, Christian Aid received a letter from Ivor Godfrey-Davies, head of group corporate communications, saying: *"...there is no doubt that the conflict in Sudan is having tragic humanitarian consequences and we are saddened by it. As the documentation you left with us confirms, the situation has many causes and contributory factors. As a company, we have no physical presence in Sudan. We cannot, for reasons of customer confidentiality, comment on specific transactions with any organisation. We are not perfect, but we try to balance our obligations to all stakeholders... Like you, we hope for a just and lasting peace in the region."*¹¹

Financing Indonesian forest destruction

HSBC has financed Asia Pulp and Paper (APP), a company that a 2001 Friends of the Earth report, *Paper Tiger, Hidden Dragons* exposed as a responsible for the destruction of large areas of Indonesian rainforests. Indonesia's forests are home to millions of indigenous peoples and many endangered species such as the Sumatran tiger and Sumatran rhino. More than half of Indonesia's forests have already been destroyed and an area of forest the size of Belgium is disappearing in Indonesia every year. Indonesian paper producers, including APP, are to blame for a significant amount of this destruction.

APP produces cheap Indonesian paper sourced by clear cutting wildlife rich Indonesian rainforest. It is estimated that this paper entered more than half the UK stationery supply chain and was being used by UK consumers including schools, businesses and public organisations. The APP paper is mostly un-branded or re-branded by British paper companies. Following Friends of the Earth's campaign, Indonesian paper imports into the UK have been significantly reduced.

APP's main subsidiary, Indah Kiat, has destroyed at least 287,000 hectares of rainforest and in 2000 sourced 75% of its logs by clear cutting forests. The Indonesian pulp and paper industry generally is accused of sourcing some of its timber from illegal sources. APP is also at the centre of a number of conflicts with indigenous communities. APP is reported to have cleared over 3000 hectares of forest belonging to the Sakai indigenous people in Sumatra. In January 2003 Human Rights Watch published a report implicating APP in human rights abuses in Sumatra.¹²

Detailed financial analysis of APP by Friends of the Earth revealed that HSBC and other UK financial institutions have played a major part in funding APP's activities.

HSBC investments in APP and subsidiaries:

- In March 1991 HSBC participated in the syndicate that arranged a US\$ 75 million convertible bond issue for PT Tjiwi Kimia in March 1991.
- In March 1992 HSBC issued a US\$ 40 million convertible bond for PT Tjiwi Kimia.
- In April 1995 HSBC participated in the syndicate that managed the IPO of APP on the New York Stock Exchange in April 1995. The total amount raised was US\$ 310.5 million.
- In April 1997 HSBC participated for US\$ 4.0 million in a US\$ 400 million three-year syndicated loan facility for PT Indah Kiat. This facility was refinanced in April 2000.
- In April 2000 HSBC participated in a two-year revolving credit of US\$ 123 million to Gold East Paper (Jiangsu) Co., Ltd in August 2000

Funding Three Gorges Dam, China

In 2000 the International Rivers Network reported that HSBC was among the financial backers of the Three Gorges Dam in China.¹³ The Three Gorges Dam on the Yangtze is set to be the largest hydroelectric dam in the world. It would stretch nearly a mile across and tower 575 feet above the world's third longest river. Its reservoir would stretch over 350 miles upstream and force the displacement of close to 1.9 million people. Construction began in 1994 and is scheduled to take 20 years and more than \$24 billion. The dam has been opposed by people in China, environmental, development and human rights groups. In May of 1996, the US Export-Import Bank announced that they would not guarantee loans to US companies seeking contracts for the dam. In addition, the World Bank, traditionally the largest funder of dams in developing countries, has also refrained from financing Three Gorges Dam. Despite the warnings and protests by Chinese citizens and the media attention surrounding the project and its destructive impacts on China's people and economy, major banks and government export credit agencies have been quick to fundraise for the dam. HSBC was one of a number of backers for the dam which received billions of dollars from European, US and Japanese banks and export credit agencies.

HSBC – failing to manage reputational risk

Managing and minimising risk are a big part of the business of banking. Banks who don't manage their reputational, strategic and operational risks well, will suffer as potential customers avoid them. HSBC claims to regularly update their policies and procedures to safeguard against such risks and in their recent 2002 Annual Report they claim that "*The HSBC Group has always operated to the highest standards of conduct and, as a matter of routine, takes account of the reputational risks to its business*".

The bank claims to be reviewing its policies that cover environmental, social and ethical issues and its operational procedures in all areas of reputational risk including environmental impact, anti corruption and employee relations. HSBC claim these policies "...were considerably strengthened during 2002..." and partly communicated through new statements of policy.

Friends of the Earth has asked for copies of this new policy, but our request was refused. HSBC has also refuse to provide any evidence that they have refused loans or used their financial influence to minimise the risk of serious environmental, social or ethical impacts from a potential or existing corporate client.

In the absence of such information, the credibility of HSBC's claims that it has substantially updated its policies towards funding environmentally destructive companies, is questionable.

HSBC greenwash

From its glossy brochures to its websites and advertising HSBC misses no opportunity to promote itself as a company that is committed to the environment and society. Through its new strap line, "*The world's local bank*", HSBC embeds the concepts of cultural and environmental diversity in its branding. The company has even produced an impressive statement of social and environmental principles. It lays these out in its report, *HSBC in the Community, Sharing our successes*.¹⁴

Friends of the Earth welcomes genuine attempts by companies towards corporate social and environmental sustainability. But HSBC has failed to make significant changes to its core business activities. It is difficult to see how HSBC can square its failure to put a system in place that ensures its investments don't damage people or the planet with its social and environmental principles. HSBC not only continues to put short term profits above all else, it is also funding environmentally and socially damaging companies around the world.

Despite its links to controversial and damaging projects, the multinational bank supports the United Nations global Sullivan Principles and is a signatory of the UN Global Compact, the second principle of which is to: '*make sure their own corporations are not complicit in human rights abuses.*' The organisation also boasts a strong corporate social responsibility culture, which, it says: '*affects everything we do everyday.*'¹⁵ The multinational has even been ranked joint first in the banking sector of the Dow Jones Sustainability Index which rates and monitors companies according to their economic, environmental and social performance and is listed on the FTSE4Good. It is hard to equate this impressive array of listings with a company that is linked to rainforest destruction and human rights atrocities. If HSBC is considered to merit such high ratings, the implication is that companies lower down the league tables must have even lower standards.

HSBC is listed on the index of Corporate Environmental Engagement and is so proud of its support for the *Investing in Nature* project it promotes it on the home page of its website. So big and green is the banner advert proclaiming this project that a casual visitor to the HSBC website might confuse the bank with a nature conservation organisation. This US\$50 million, five-year partnership funded by HSBC is run in partnership with Botanic Gardens Conservation International, Earthwatch and WWF. HSBC is keen to let us know that *Investing in Nature* will protect 20,000 plant species from extinction and "*breathe life*" into

some of the world's major rivers. But we don't hear very much from the banking multinational about the vulnerable animals and plants that are being put at risk of extinction because of the activities of a company HSBC has funded. The tens of millions that HSBC spends on projects like *Investing in Nature* that protects thousands of plant species is laudable. But those tens of millions are far outweighed by the hundreds of millions it lends to projects such as pulp and paper mills that lead to the destruction of vulnerable wildlife habitats.

HSBC lowlights

- HSBC marketed a bond issue for two oil companies, Petronas of Malaysia and Talisman of Canada, both of which have been major investors in Sudan.
- Oil companies in Sudan have been accused of complicity in the Sudanese government's human rights atrocities and perpetuating one of the world's most enduring and bloody civil wars.
- In 2001 Christian Aid published a report, *Scorched Earth*, revealing how oil companies operating in Sudan were complicit in Sudanese Government raids on civilians living around the oil installations. Christian Aid reported that in the oil rich areas of Sudan, government troops and militias were terrorising, raping, killing and displacing thousands of ordinary people to make way for oil.
- HSBC has financed Asia Pulp and Paper (APP), a company that a 2001 Friends of the Earth report, *Paper tiger, Hidden Dragons* exposed as a responsible for the destruction of large areas of Indonesian rainforests.
- Indonesia's forests are home to millions of indigenous peoples and many endangered species such as the Sumatran tiger, Sumatran rhino.
- Nearly three quarters of Indonesia's forests have already been destroyed and an area of forest the size of Belgium is disappearing in Indonesia every year. Indonesian paper producers, including APP are linked to this destruction.
- APP's main subsidiary, Indah Kiat, has destroyed at least 287,000 hectares of rainforest and in 2000 sourced 75% of its logs by clear cutting forests.
- The APP paper is mostly un-branded or re-branded by British paper companies. As a result, it is being passed on to thousands of innocent UK consumers who are given no information about its destructive origin.
- Detailed financial analysis of APP by Friends of the Earth revealed that HSBC and other UK financial institutions have played a major part in funding APP's activities.
- Financial backer of the controversial Three Gorges Dam in China¹⁶
- HSBC calls itself *The World's Local Bank* and put \$5 million into a nature conservation project Supports the UN Global Sullivan Principles and is a signatory of the UN Global compact. This is difficult to square with its record of funding environmentally and socially controversial projects.

Change needed to UK Company Law:

UKplc: HSBC

HSBC provides a clear example of why changes are needed to UK company law, to stop companies putting profits before people and the environment. This company is an example of how leaving big business to regulate itself on social and environmental issues fails.

The Government recently completed the most comprehensive review of UK company law in 150 years and it is expected to introduce its Company Law Bill into Parliament within the next couple of years. This represents a unique opportunity to create a legal framework that ensures UKplc behaves in a way which reflects stakeholder concerns, and helps deliver sustainable development.

Developing countries like Indonesia often find it difficult to set up and implement appropriate regulations that make companies operate to higher standards. This is partly because multinational banks like HSBC can always take investments to countries and companies with lower social and environmental standards. And in Sudan banks like HSBC are funding oil companies that are able to continue trading and colluding with the brutal regime despite an international outcry.

Laws must raise standards

HSBC's negative impacts in Sudan and Indonesia demonstrate why government legislation is needed that places duties on directors to take steps to minimise negative social and environmental impacts of their business operations. It also needs to provide mechanisms by which communities in the UK and abroad can hold the company accountable and seek redress when directors fail to uphold such duties.

These and other measures have been proposed in the Corporate Responsibility (CORE) Bill, tabled in the 2001-2002 parliamentary session and promoted by Amnesty International (UK), Christian Aid, Friends of the Earth, GMB Union, New Economics Foundation, Traidcraft, Unison and Unity Trust Bank amongst others (see www.corporate-responsibility.org for more information). The Bill has already secured the support of over 280 cross-party Members of Parliament (MPs).

But, at the moment, the Government's proposals contain no such measures. This will result in yet more unsustainable business as usual by companies like HSBC both in the UK and abroad and we will be even further away from achieving sustainable development.

Links

For more about the The CORE Bill and corporate responsibility campaign:

www.corporate-responsibility.org

More about Friends of the Earth's campaigns calling for greater corporate accountability at a global level:

www.foe.co.uk/campaigns/corporates/index.html

Friends of the Earth Indonesia/Walhi

<http://www.foei.org/groups/members/indonesia.html>

More about Friends of the Earths forest campaign

http://www.foe.co.uk/campaigns/biodiversity/issues/disappearing_forests/

Christian Aid's report Fueling poverty – oil, war and corruption

<http://www.christian-aid.org.uk/indepth/0305cawreport/fuellingpoverty.htm>

Christian Aid's report on BAT/Souza Cruz's activities in Brazil:

<http://www.christian-aid.org.uk/indepth/0103suda/sudanoil.htm>

HSBC's website and Investing in Nature project

www.hsbc.com

Investigative reporting on the public relations industry

www.prwatch.org

¹ HSBC Annual Review 2002

² www.hsbc.com

³ The scorched earth: oil and war in Sudan A report published by Christian Aid 2001
<http://www.christian-aid.org.uk/indepth/0103suda/sudanoil.htm>

⁴ Fueling poverty, Oil war and corruption. Report published by Christian Aid 2003

⁵ Ibid

⁶ Ibid

⁷ Christian Aid press release 2002 Sir Corporate Responsibility and the World Summit //www.christian-aid.org.uk/news/features/0209corp.htm

⁸ Ibid

⁹ Ibid

¹⁰ Macalister, Pressed Talisman quits Sudan Terry Macalister, The Guardian Friday November 1, 2002
<http://www.guardian.co.uk/oil/story/0,11319,823702,00.html>

¹¹ Christian Aid press release <http://www.christian-aid.org.uk/news/features/0209corp.htm>

¹² Without Remedy: Human Rights Abuse and Indonesia's Pulp and Paper Industry January 2003

¹³ International Rivers Network press release 2000
<http://www.irn.org/programs/threeg/000725.flood2.html>

¹⁴ www.hsbc.com

¹⁵ ibid

¹⁶ International Rivers Network press release 2000
<http://www.irn.org/programs/threeg/000725.flood.html>