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Media Briefing

Friends of the Earth

HSBC - financing forest destruction and social conflict

HSBC Holdings plc, one of the world's largest banking and financial services multinationals, claims to exercise corporate and social responsibility. The multinational has 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 mortgages, overdrafts and shares they have unwittingly financed companies destroying rainforests and damaging communities in Indonesia.

HSBC and palm oil

HBSC Group is one of the largest British banking groups and one of the top four foreign banks in Indonesia. It has been heavily involved in the financing of Indonesian oil palm plantations groups. These companies in turn have contributed to the destruction of thousands of hectares of forest in Indonesia, polluted waterways and their activities have resulted in social conflicts with local landowners, as Friends of the Earth revealed in a report earlier this year [2].

What's wrong with palm oil

Palm oil is derived from the oil palm tree (Eleais guineensis) and grows on plantations in the tropics, notably in South East Asia. It is a cheap and bountiful supply of vegetable oil which is found in some 10 per cent of food products in European supermarkets, as well as being used in cosmetics and toiletries.

Biodiversity loss

Palm oil plantations are monocultures, often grown on cleared rainforest areas. Tropical rainforest provides one of the world's most biodiverse habitats. Indonesian rainforest is home to a number of endangered species, including orang-utans and Sumatran tigers. Replacing forest with oil palm plantations results in the loss of some 80 per cent of the resident wildlife. Forest in Indonesia is disappearing at a rate of more than 2 million hectares a year. Oil palm acreage increased by 118 per cent in the last eight years. Forest burning is still used to clear the way for oil palm plantations.

Pollution

There are also pollution problems associated with the production of palm oil. Oil palm fruit grows in bunches of up to 3,000, yielding 10-35 tonnes per hectare. Once harvested, the oil palm fruit is taken
to the mill where it is processed to separate out the crude palm oil and palm kernels. The effluent

26-28 Underwood Street London N1 7JQ
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from this process, known as POME (palm oil mill effluent), contains residues which contaminate rivers and kill aquatic life. Responsible mills store their effluent in basins, but these often overflow following heavy rain. Many mills simply release the effluent into nearby rivers and streams.

Land rights conflicts

The introduction of oil palm plantations has led to many land disputes with local people. In Indonesia, local communities accuse companies of stealing their land, which was often used for forest farming.
Human rights abuses and violent conflict are commonly associated with land theft in South East Asia.

Once palm oil plantations have been established on what was forestland, local people face little choice but to work on the plantations. But plantation work is insecure, dangerous and poorly paid. To meet the production targets set by the companies, workers often rely on unpaid work by relatives, including children.

The role of the banks

The world's international banks have played an important role in propping up the palm oil industry. In Indonesia, palm oil companies have been able to buy land cheaply with the help of the Indonesian Government and the banks. From 1993 to 2003, international banks invested around $US 10billion in Indonesian palm oil sector. The banks also helped rearrange debts which grew dramatically when the Indonesian currency collapsed in 1997. This allowed many palm oil businesses to keep operating.

Since 1994 HSBC has helped arrange over $US1.6 billion in loans and credit guarantees to the palm oil sector in Indonesia alone. HSBC acts as a principal banker for a number of palm oil businesses including the Anglo-Eastern Plantations Plc, PT Agro Indomas, Kuala Lumpur Kepong Bhd , Kumpulan Guthrie Bhd, PPB Oil Palms Bhd and PT PP London Sumatra. HSBC has also been involved in the floating of companies involved in palm oil on the Jakarta stock exchange [3].

HSBC could use its financial leverage to influence companies to behave more responsibly towards the environment, workers and local communities. HSBC could, for example, ask to refinance existing loans or restructure debts to include demands to address outstanding environmental and social issues. Similarly they could include conditions in future loans that required certain environmental and social conditions to be met.

London Sumatra – missing a chance

The story of London Sumatra Indonesia, known as Lonsum, shows just how little attention HSBC pays to the environmental and social impacts of its investments.

Lonsum is a former subsidiary of a UK company Harrison and Crossfield Ltd and is involved in palm oil, rubber and cocoa plantations in Indonesia. Lonsum has investments in palm oil plantations and processing facilities across Indonesia in Sumatra, Java, Kalimantan and Sulawesi. Lonsum is among the biggest plantation companies in Indonesia, holding the rights to develop more than 300,000 hectares of land.

HSBC has helped arrange more than $US 550 million in loans for Lonsum since 1994. But the company acquired significant debts by the time of the Asian currency crash in 1997 and in the following year, the bank was appointed co-ordinator of debt restructuring for Lonsum.

HSBC also participated in the listing of Lonsum on the Jakarta stock exchange in 1996 which helped

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raise $US 76million. As a consequence of their financial support, HSBC previously had considerable financial leverage over Lonsum. But the bank recently handed over involvement and responsibility for the company when the company debt was restructured. HSBC is no longer involved. Friends of the Earth believes HSBC has neglected its responsibilities by handing over responsibilities for this debt. They were in a position to influence the company's activities, but have failed to do so.

Pergulaan

The village of Pergulaan is a small village in the north of the island of Sumatra in Indonesia inhabited by 600 families. The village was established in the late eighteenth century and formally given the rights to farm a small amount of forestland. In 1964 London Sumatra was granted the right to develop oil palm in the region (nearly 4000 ha). Rather than negotiating with the local community, London Sumatra took 165.5 hectares of their land. Those who resisted were intimated by military militias and put in jail.

People in Britain may have forgotten about the UK's colonial history, but the people of Pergulaan have not. Thirty years later they are still fighting the same battle. PT London Sumatra (now known as Lonsum) is now part of an Indonesian company, but it is supported by UK money through the support of banks such as, until very recently, HSBC. The area of land is nothing to the massive plantation company, but to the people it is everything. This land meant they could farm their own crops and control their own futures. Without it, they are impoverished and have to rent land to farm far away from their village.

"*Lonsum is the untouchable company in Pergulaan. The villagers of Pergulaan not only lost their land, they have lost the ability to control their future. The villagers feel like there is no way out but to continue to struggle for their rights."*

Safaruddin Siregar (Executive Director BITRA Indonesia)

In March 2004, the people tried to reclaim their land through non-violent protest. The following month, the company started to dig a ditch – 6 foot deep and 4 feet wide around the perimeter of the village. Children cannot get to school, people cannot get to market or get to their farmland.

On Sunday 23 May, Lonsum began replanting the land taken from the community with more oil palm trees and used tractors to block the road around the village. As a result, the people cannot reach the land. To the community this feels like deliberate intimidation to stop people reclaiming their land. Despite repeated requests, executives from Lonsum have refused to meet with villagers. They can only meet with "middle men" or security personnel. HSBC's promises about "local" do not reach the people of Pergulaan.

"*Lonsum talk about corporate social responsibility but its only jargon to make a good image. When we talk to Lonsum they don't take us seriously and only send their lawyers and middle men who have no authority*"

Abet Nego Tarigan (Sawit Watch)

Pergulaan just one of thousands of similar conflicts taking place throughout Sumatra and Indonesia between local people and companies.

Other palm oil disputes:

Pollution from a Lonsum's mill is contaminating a river in South Sumatra**.** Local fishermen complain about the water turning brown, smelly and slimy. People washing in the water have complained of rashes. In July 2003 two people were killed and 18 injured in Bulukumba, South Sulawesi, after police shot villagers protesting against Lonsum's rubber plantation. The villagers claim that the plantation is built on what has traditionally been their land.

HSBC is also linked to other plantation companies, including being one of principal bankers for a

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plantation company called PT Agro Indomas. In 1996, Agro-Indomas cleared land in Sembuluh, Central Kalimantan. Land clearance is still going on and the conflict is on-going.

Villager quote
"*There is a criminal charge for rape, but if the company rapes the people, the government does nothing*"

Environmental risks not properly addressed

Environmental risk policy

Managing and minimising risk is a big part of the business of banking. Banks who do not manage their reputational, strategic and operational risks well, suffer as potential customers avoid them. HSBC claims to regularly update its polices and procedures to safeguard against such risks and in its recent 2002 Annual Report 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*".

At the 2003 HSBC AGM, Friends of the Earth asked for copies of HSBC's environmental risk policy. HSBC sent Friends of the Earth a one-page environmental impact assessment policy. While Friends of the Earth welcomes this move towards transparency in environmental risk assessment, the statement itself does little to demonstrate how HSBC assesses and manages such risks. This is because the policy does not illustrate how it is actually used by the bank (ie. how is it linked to operating and training manuals), what other polices are used to guide finance in this area (eg. does the bank have a forest policy?), or what happens if companies do not comply with or breach the policy.

HSBC also refuses to provide any evidence that it has refused loans or used its financial influence to minimise the risk of serious environmental, social or ethical impacts from a potential or existing corporate client.

Equator Principles

In June 2003, HSBC, along with a number of UK and foreign banks signed up to a set of voluntary principles, known as the 'Equator Principles' which are based on the World Bank and IFC social and environmental policies for project finance. The signatories, including HSBC, have committed themselves to following the Equator Principles when assessing project finance worth more than $50 million [4]. Friends of the Earth welcomes HSBC's public acknowledgement that it must consider the social and environmental impacts of those projects it finances as well as their own offices and operations.

But the implementation of the Equator Principles has proved problematic. There is a lack of transparency in how the Equator Principles are actually used by the bank, how they are enforced and what, if any projects, have been refused funding. The Equator Principles only cover projects of over $50 million and don't cover any other areas of the bank's business [5].

Changes needed to UK Company Law:

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 UK plc behaves

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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.

Laws must raise standards

Friends of the Earth is a founding member of the Corporate Responsibility Coalition (CORE) which pulls together environment, human rights and development organisations, think-tanks, progressive companies and trade unions to campaign for changes to UK company law. Members of the coalition include Amnesty International (UK), Christian Aid, GMB Union, National Union of Journalists (NUJ), New Economics Foundation, Oxfam, Traidcraft, Unison and Unity Trust Bank.

The CORE Coalition is campaigning for changes to UK company law so that financial obligations are counterbalanced by social and environmental concerns. Specifically, the Government must introduce:

- Mandatory reporting – requiring all UK companies to report annually on the impact of their operations, policies, products and procurement practices on people and the environment both in the UK and abroad
- New legal duties on directors – to take reasonable steps to reduce any significant negative social or environmental impacts
- Foreign direct liability – to enable affected communities abroad to seek redress in the UK for human rights and environmental abuses resulting directly from the operations, policies, products and procurement practices of UK companies or their overseas subsidiaries

For more information on the CORE Coalition, and the Corporate Responsibility Bill see: www.corporate-responsibility.org

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:

In the financial year ending 2003 HSBC recorded a pre-tax profit of $US 12,816 million.

Notes:
[1] HSBC Annual Review 2002
[2] See www.foe.co.uk/resource/reports/greasy_palms_summary.pdf
[3]Golden Agri-Resources Ltd and PT PP London Sumatra
[4] www.equator-principles
[5] More information at www.banktrack.org

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