

BIOFUELS

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INTRODUCTION TO SECTOR AND ISSUE POSITION STATEMENTS

Standard Chartered Bank (SCB) is a leading financial institution across Asia, Africa and the Middle East. With a deep presence in many markets, our future is tied to the successful social and economic development of these countries over the long term. Sustainable development is essential; for our clients, our communities and our shareholders.

We recognise that as a financial institution, the biggest impact we have on society and the natural environment is through the business activities of our clients. Our aspiration is to be a “Force for Good” and to initiate and support real changes in the markets in which we operate through our commitment to sustainable development.

Our long experience in emerging markets has taught us that reform takes time, and that positive change is best fostered in an environment of economic growth. Achieving sustainable development requires finding the right balance between economic, social and environmental concerns and is the collective responsibility of businesses, individuals and governments.

Our objective is to serve our clients commercially, while actively engaging with them and other stakeholders to work towards the implementation of sustainable business practices over a reasonable period of time. In so doing, we believe this will create competitive advantage for our clients, contribute to the development of local communities and play a part towards securing a better environment for future generations.

Sector and Issue Position Statements

One of SCB’s guiding principles for sustainable development is to consider environmental and social issues in our business activities. In order for us to evaluate and, where necessary, mitigate the social and environmental risks associated with business decisions, we have developed the following position statements to provide guidance on our approach towards sectors with high potential for social or environmental impact.

These position statements set out standards and practices to be followed when we conduct our activities. They are key elements of our “Building a Sustainable Business” strategy and govern the financial services provided by SCB globally. As SCB is also a signatory to the Equator Principles, these position statements complement and reinforce our commitment to those principles.

- Child Labour
- Forestry and Palm Oil
- Mining and Metals
- Dams
- Biofuels
- Fossil-Fuelled Power Generation
- Climate Change
- Transportation of Hazardous Materials
- Ship Breaking
- Oil & Gas
- Tobacco
- Gaming and gambling
- Nuclear

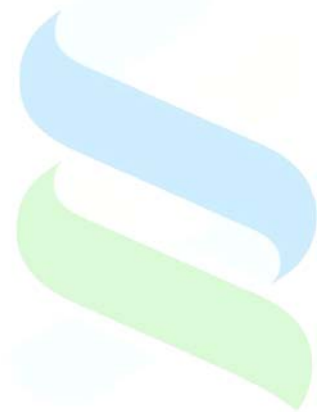
Training

Our banking professionals are required to make reasoned, common sense judgements on environmental and social issues. SCB is committed to provide appropriate training for personnel to better understand the environmental and social risks associated with financing the various sectors highlighted above.

Engagement and feedback

SCB welcomes all comments and feedback on our approach to Sector Position Statements. Should you wish to provide feedback please contact the Bank's Group Sustainability office at Our.environment@standardchartered.com.

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Biofuels ⁽¹⁾, once seen as a solution to climate change, energy security, and rural development, have recently come under scrutiny. Public debate has intensified over the extent to which the expansion of the biofuels industry has resulted in higher agricultural commodity prices and consequently in higher food prices.

Evidence indicates that there is no simple cause and effect linkage between biofuels and food prices (i.e. a strict “food versus fuel” trade-off), but a complex and interrelated set of factors.

The public debate has also focused on the relative efficiency of these biofuels including how much greenhouse gas will be avoided through the use of these crops. Over time, we believe that the market will introduce innovations that will improve the amount of energy produced by each crop. Nonetheless, the energy conversion ratio varies significantly depending upon the underlying crop and production processes.

SCB is concerned about the unintended environmental, social and economic consequences of *inefficient* biofuels and *unsustainable* industry practices, including any direct or indirect impact on:

1. Food prices and land use – the growing use of cereals, sugar, oil seeds and vegetable oils to support the needs of the rapidly increasing biofuels industry is one of the contributors to higher food prices as land is diverted to energy crops.
2. Greenhouse gas (GHG) emissions and energy balance – GHG emissions savings and energy conversion ratio of biofuels compared with fossil fuels vary significantly depending on the underlying crop and production process.
3. Deforestation and biodiversity loss – the demand for energy crops can threaten rainforests, which are being cleared for plantations.

Nevertheless, we believe there are real opportunities to develop *efficient* biofuels that can deliver substantial greenhouse gas savings in a sustainable manner.

Scope of the statement

This position statement will apply to all financial services provided by the bank to new and existing clients in the biofuels sector worldwide.

SCB adopted the Equator Principles ⁽²⁾ in 2003, therefore all project finance and advisory transactions will be undertaken in accordance with both the Equator Principles and this position statement.

Sector standard

At the time this statement is written, there is no leading international standard or legislation governing the biofuels sector; however, there are ongoing efforts to make biofuels production sustainable. The EU Commission and some Member States (UK, Netherlands, and Germany) are already working on a bioenergy certification scheme; and the Roundtable on Sustainable Biofuels (RSB) ⁽³⁾ is developing guiding principles and criteria.

SCB favours an integral approach to sustainable biofuels production across the value chain (plantation, processing, and distribution). SCB’s policies on *Forestry and Palm Oil* and *Climate Change* address environmental concerns such as deforestation, land-use changes,

biodiversity loss, and greenhouse gas emissions reduction (*please refer to these position statements on our website*).

When providing financial services to the biofuels sector, SCB will carefully evaluate opportunities using the following criteria:

- Impact on food prices and food security
 - Directly by reducing food supply
 - Indirectly through land use
- Energy and GHG emissions savings
- Potential for deforestation

We have assessed the largest biofuel technologies and feedstocks against these criteria. On this basis, the bank's approach to the sector is as follows:

- Due to their low carbon and energy balance and potential to divert crops from food supply, the bank will suspend financing to new first generation production facilities that use corn or wheat as feedstock for ethanol production ⁽⁴⁾.
- The bank will support the use of palm oil as feedstock only where it is produced sustainably (*see our position statement on Palm oil and Forestry*).
- All other opportunities will be considered on their individual merits.

Note: The above approach will be reviewed regularly, as the food/biofuel trade off is complex and new information on the risks and opportunities is likely to emerge.

It is the bank's policy not to provide financial assistance to biofuels operations located in, or significantly impacting:

- UNESCO World Heritage Sites⁽⁵⁾, unless the activities pre-date the UNESCO designation;
- Wetlands on the Ramsar list⁽⁶⁾; and
- Critical Natural Habitats.

Since the determination of critical natural habitat requires professional expertise and judgement, clients should retain suitably qualified external expert to provide assistance.

Best Practices

SCB clients in the biofuels sector are expected to operate in accordance with the relevant international, regional and national laws.

SCB clients are encouraged to follow the RSB's draft principles and criteria (extracted below) as a guideline for the industry's "best practices":

- Design and operate projects under appropriate, transparent, consultative, and participatory processes that involve all relevant stakeholders;
- Develop biofuels that contribute to climate stabilization by reducing GHG emissions as compared to fossil fuels
- Ensure to the best of their ability that biofuels production:
 - Does not violate land or water rights
 - Contributes to the social and economic development of local, rural and indigenous peoples and communities
 - Does not impair food security
 - Avoids negative direct and indirect impacts on biodiversity and areas of High Conservation Value
 - Does not directly or indirectly degrade or damage soils, contaminate or deplete water resources, lead to air pollution

- Uses any new technology that improves efficiency and environmental performance in the long term and in all stages of the biofuel value chain.

Implementation and Compliance

We understand that due to the varying stages of political, economical and social development in the countries in which we operate, not all our clients may have met the standards set out in this statement.

As part of SCB's commitment to help our clients towards higher standards of sustainable development, our relationship managers will work closely with clients who do not currently meet these standards, to develop a time-bound action plan for compliance and to monitor the client's progress against that plan.

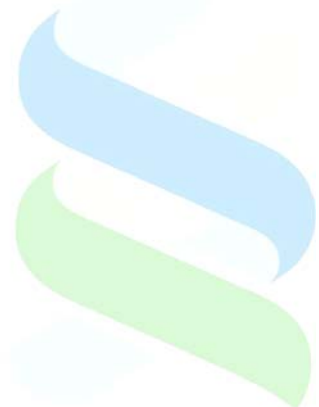
Engagement and feedback

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In addition, should you be interested on the progress of the bank's implementation of its sustainability strategy, please visit our Sustainability Website ⁽⁷⁾.

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NOTES AND GLOSSARY

¹ Biofuels are any fuel derived from biomass. Biomass is any organic made from plants or animals. The energy in biomass can be accessed by turning the raw materials of the feedstock, such as starch and cellulose into a usable form.

(<http://www1.eere.energy.gov/biomass>)

² **Equator Principles** are a benchmark for the financial industry to manage environmental and social issues in project finance and advisory transactions.

(<http://equator-principles.com>)

³ The **Roundtable for Sustainable Biofuels** is an international initiative bringing together farmers, companies, non-governmental organisations, experts, governments, and inter-governmental agencies concerned with ensuring the sustainability of biofuels production and processing. The Roundtable is hosting a series of meetings, teleconferences, and online discussions with the aim of achieving global, multi-stakeholder consensus around the principles and criteria of sustainable biofuels production by June 2008.

(<http://cgse.epfl.ch/page65660.html>)

⁴ An exception will be made when it can be demonstrated that:

- The grain has been rendered unsafe for human consumption, as in the case of fungus growth due to excess moisture;
- The grain has low to no food value due to low quality of grain.

⁵ The **United Nations Educational, Scientific and Cultural Organization (UNESCO)** seeks to encourage the identification, protection and preservation of cultural and natural heritage around the world considered to be of outstanding value to humanity.

The **UNESCO World Heritage Site** is a specific site, such as a forest, mountain, lake, desert, monument, building, complex, or city that is considered to be of outstanding importance to the common heritage of humanity.

(<http://whc.unesco.org/en/list>)

⁶ The **Ramsar Convention** is an international treaty for the conservation and sustainable utilisation of wetlands.

(<http://www.ramsar.org/sitelist.doc>)

⁷ Standard Chartered Bank – Sustainability Website

(<http://www.standardchartered.com/sustainability/index.html>)