

HSBC: QUIT COAL!

This briefing is one in a series published by **BankTrack**, an international NGO that tracks banks and campaigns to transform their impact on people and planet, and is part of our Banks: Quit Coal! campaign. Visit www.coalbanks.org for extensive data and coverage of the banking sector's global coal financing. For any additional information or feedback, contact BankTrack's Climate and Energy Campaign Coordinator Yann Louvel at: yann@banktrack.org

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Global Justice Now protest HSBC's appetite for coal at the bank's 2014 AGM.

or staying the course and engaging with fossil fuel companies as an investor." When it comes to coal, the bank itself remains stuck on "staying the course", with or without meaningful engagement.

As this briefing describes, a string of controversial coal mining majors are still receiving substantial financial support from HSBC and the bank's much vaunted coal power policy is still no absolute deterrent for dubious coal power plant investing. Continued HSBC finance for the coal industry presents enduring high risks for the bank's reputation and the world's climate.

THERE'S NO PREDICTING HSBC COAL FINANCING, BUT CLIMATE AND REPUTATIONAL RISKS GUARANTEED

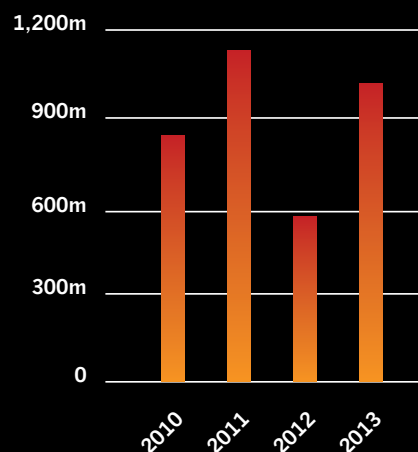
The advice issued recently to investors from HSBC analysts may have been that there is an increasing probability of fossil fuel companies becoming "economically non-viable". Yet the bank's own financing of the coal industry remains substantial, if – despite a policy advance in 2011 restricting its lending to certain coal-fired power plants – hard to predict.

BankTrack research into the global private banking sector's coal financing, covering project finance, corporate loans and revolving credit facilities, share and bond issues

for coal mining and coal power companies alike, has revealed that between 2005 and April 2014 HSBC extended over €7.9 billion to the most climate-damaging fossil fuel sector.

HSBC's persistent bankrolling of the sector now appears to be at odds with advice it is providing to other investors. As revealed by Newsweek in mid-April, HSBC analysts have sounded the alarm to investors on fossil fuels, laying out three options: "divesting completely from fossil fuels; shedding the highest risk investments such as coal and oil;

HSBC COAL LOANS AND UNDERWRITING FOR SELECTED COMPANIES, 2010-2013 (IN MILLION EUROS)



HSBC COAL INVESTMENTS NOT HELPING HUMAN RIGHTS IN COLOMBIA

A string of abuses and controversies linked to coal mining regions in Colombia has surfaced in recent years. Also surfacing are concerns about HSBC financing for projects and companies that are alleged to have ties to some of the worst offenders – the bank’s involvement in Colombia’s coal mining sector is extensive and highly problematic.

The vast Cerrejón mine in the La Guajira region of Colombia, covering 69,000 hectares, has – according to Colombian campaigners – forcibly displaced farming communities, polluted water supplies and destroyed sacred sites. The Cerrejón mine is one-third owned by the mining giant BHP Billiton that once again in 2014 enjoyed financial support from HSBC. As too did Anglo American and Glencore, BHP Billiton’s partners in Cerrejón. Between 2009 and May 2013, HSBC’s total involvement in companies behind Cerrejón amounted to £3.133 billion.

Pre-dating the Cerrejón mine are even muddier Colombian coal associations that BankTrack believes HSBC must acknowledge and act on. They relate to the internal conflict and paramilitary violence that have gripped life in the country for decades and influenced, among other things, the mining sector.

The Dutch peace movement PAX, which has worked in Colombia for over 30 years supporting victims of violence, has compiled extensive evidence of coal mining’s bearing on serious human rights violations. The US miner Drummond and a fully owned subsidiary of the mining company Glencore – both notable HSBC clients – are central to PAX’s findings.

According to PAX, in its report of June 2014 ‘The Dark Side of Coal: Paramilitary Violence in the Mining Region of Cesar’, from 1996 onwards paramilitaries of the United Self-Defense Forces of Colombia (AUC) started operating in the vicinity of the mining concessions of Drummond and Prodeco

(Glencore’s subsidiary), creating a new front in this area – the Juan Andrés Álvarez Front that quickly grew to 600 members.

On the basis of national police figures, it is conservatively estimated that between 1996 and 2006 the Juan Andrés Álvarez Front drove over 59,000 farmers from their land, committed at least 2,600 selective killings, murdered an estimated 500 people in massacres and “disappeared” more than 240 people.

PAX research has helped publicise testimonies, made under oath in legal proceedings by ex-paramilitary leaders and ex-contractors, which indicate that the mining companies Drummond and Prodeco supported the paramilitaries in a variety of ways.

Most striking is the allega-

tion from one Drummond contractor, convicted for his involvement and who handed over papers which according to him show the financial ties between Drummond and the paramilitaries, that both mining companies supported the paramilitaries both financially and materially.

Drummond and Prodeco have denied these allegations. Nonetheless, the cycle of violence in the Cesar mining region continues to this day, and the cloud hanging over the companies’ Colombian operations presumably can’t have escaped the attention of financiers.

HSBC, however, has been involved in several financial transactions with both Drummond and Glencore in recent years:

- For Drummond, a US\$250 million bond issue in 2009 and two revolving credit facilities of US\$550 million in 2010 and US\$750 million in 2012.
- For Glencore, several corporate loans, revolving credit facilities, share issues and bond issues since 2010, the latest being a €700 million bond issue and a €6.6 billion revolving credit facility (involving 71 banks in total) in 2014.

BankTrack and PAX believe it is now incumbent on HSBC to reconsider its business relationships with Drummond and Glencore. We are calling for a precautionary suspension of new investments until the companies have contributed

substantially to effective reconciliation for the victims of violence in their region of influence.

Colombia’s coal boom of recent years may be over, but thousands of victims have been left behind. HSBC investors may have some further pause for thought: why is the bank going anywhere near these types of extreme coal investments and companies?

HAPPY STILL TO BE IN COAL – THE LIMITS OF POLICY COVERAGE

HSBC has specific policies covering at least some of its financing to coal mining and coal

power projects. At issue, however, is the effectiveness of these policies when the bank’s support for the coal industry continues to grow.

Bearing in mind that even in 2014 some of the coal mining sector’s most impactful companies – the likes of Anglo American and BHP Billiton – remained among HSBC’s clients, its mining sector policy is at best no better than banking industry standard in addressing and conducting due diligence on coal mining’s usually aggressive environmental impacts. While HSBC’s mining policy does contain some elements that take account of human rights, the company currently has no stand-alone human rights policy. Based on our research there is no evidence of systematic consideration of human rights impacts as part of the bank’s due diligence process.

HSBC has been ahead of most other banks in its lending criteria to coal-fired power plants (CFPPs) following the adoption of its Energy Sector Policy in 2011, which specifically states: “We will not provide financial services which directly support new CFPPs with individual units of 500MW or more and a carbon intensity exceeding 850 g. CO₂/kWh in developing countries, and 550 g. CO₂/kWh in developed countries.”

No other bank has such a threshold when it comes to project finance for CFPPs in developed countries, though it remains unclear how the ‘policy restrictions’ also concretely apply to HSBC’s general corporate financing. What’s more, HSBC’s €100 million lending in 2012 to the 450MW Tufanbeyli CFPP in Turkey (in fact fired by lignite, the most polluting form of coal, and also featuring an array of social, environmental and human rights issues) illustrates how certain power ceilings enshrined in policies can still wave through large chunks of financing for problematic projects. A certain amount of coal policy stringency may be in force at HSBC, but that alone is clearly not preventing consistently high annual volumes of coal sector financing.



“WE RECOGNISE THAT WE HAVE RESPONSIBILITIES NOT ONLY TOWARDS OUR CUSTOMERS, EMPLOYEES AND SHAREHOLDERS, BUT ALSO THE COUNTRIES AND COMMUNITIES IN WHICH WE OPERATE.” DOUGLAS FLINT, HSBC GROUP CHAIRMAN, HSBC SUSTAINABILITY WEBSITE

The Cerrejón coal mine in Colombia is divided into three main areas - Cerrejón North Zone, Cerrejón Central Zone and Cerrejón South Zone - and stretches over 170,000 acres. Image licensed under Creative Commons: Santiago La Rotta.

HSBC COAL COMMITMENTS

With coal finance levels remaining solid at HSBC, we really think it's about time that the bank:

- **Commits to end any new coal project finance and to decrease its general corporate coal financing, both for coal mining and coal power.**
- **Commits to living up to its responsibilities to communities around the world by refusing future business for coal companies and projects linked to human rights abuses.**
- **Takes BankTrack's Paris Pledge to quit coal**

HSBC, YOU ARE CORDIALLY INVITED ... TO TAKE THE PARIS PLEDGE AND QUIT COAL

The world over, responsible financiers concerned about climate change and focused on enhancing their support for clean energy projects and initiatives (as HSBC's latest annual report tells us it is) will be very much aware of the fast approaching UN Climate Summit in Paris, taking place at the end of this year.

This meeting, being billed by many as 'make-or-break', is aimed at deciding on an international follow up Treaty to the Kyoto Protocol, committing all countries in the world to emission reduction targets that will keep the global temperature rise within 2 degrees, the assumed threshold beyond which already ongoing climate change will become outright catastrophic for people and planet.

In the run-up to Paris, BankTrack – in collaboration with our civil society organisation allies around the world – has launched the Paris Pledge campaign. The aim of this campaign is clear: to invite the world's private banks that are still investing in coal sector companies and projects to publicly pledge to terminate their financing for the coal industry. Here's why.

COAL: CLIMATE AND PUBLIC ENEMY NUMBER ONE

The continued exploration and burning of coal is a major threat to the climate. Coal is the single greatest source of man-made carbon dioxide emissions – 44 % of all global emissions coming from fossil fuels come from

coal. Since the year 2000, global coal production has grown by 69%, to a staggering 7.9 billion tons annually. The installed capacity of coal-fired power plants has grown 35% since the year 2000. We are clearly on the road to disaster if we do not manage to stop coal – and quickly.

THE ROLE OF BANKS

Private sector (commercial) banks continue to play a major role in bankrolling the coal industry. As BankTrack research (available at www.coalbanks.org) has revealed, total banking sector support for the coal sector amounted to at least \$500 billion between 2005 and April 2014. To date, there is no sign of declining support from banks, with a clear upward trend and a +360% rise in these coal finance figures between 2005 and 2013.

WE, AND THE PLANET, ARE COUNTING ON YOU, HSBC!

As a prominent 'coal bank', HSBC (you're currently number 17 in our Coal Bank Top 20 rankings), we hereby invite you to consider and take the Paris Pledge prior to the Paris Climate. You'll be hearing from us – and thousands of others – again on this in the weeks and months ahead. All the best, BankTrack.

PARIS PLEDGE TEXT – FOR BANKS INVOLVED IN COAL FINANCING

In recognition of the grave threat to the world's' climate posed by ongoing mining and use of coal, as well as the urgent need to transition towards a low/no carbon economy, we hereby pledge to fully phase out our finance for coal mining and coal power.

This phase-out will cover all our banking activities and services, including lending, share and bond underwriting, asset management and advisory services, and will start with an immediate end to any new coal project finance. It will be accompanied by a shift in our energy lending towards the financing of energy efficiency and renewable energy.

We commit to publish a detailed 'coal phase-out plan' within six months after the Paris Summit, which will include a clear time path and targets for each of our products and services. We also commit to regularly and publicly report on the implementation of our coal phase-out plan.

Signed,

HSBC?

FIND OUT MORE AT THE PARIS PLEDGE RESOURCE WEBSITE: DOTHEPARISPLEDGE.ORG