HSBC Energy Policy

PUBLIC

Energy 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 explains common features and technical terms[1].

Introduction

The energy sector provides fuel, power and heat, distributing them to people and businesses around the world and making a major contribution to both living standards and economic development. The sources of energy are remarkably diverse in type (ranging from fossil fuels like coal, oil and gas to nuclear or renewables like hydro, wind or solar) and location. However, if not managed responsibly, these activities can have unacceptable adverse impacts on people or on the environment. Examples of impacts include:

- Social, for both workers and local people – Death or injury from accidents; ill health from pollution, including radiation; the loss of valuable resources such as water; or infringement of property rights
- Environmental – Animals, plant life and sensitive habitats may be damaged by pollution or leaks; poorly planned dams may unnecessarily flood forests and farmland or disrupt fish migration; pipelines and pylons may result in excessive subsequent development in sensitive areas
- Climate change – Fossil fuels, when burned, are a key cause of global warming (see section below)

HSBC is a longstanding supporter of the energy sector. We wish our customers to operate in accordance with international good practice, supporting those making acceptable progress towards good practice.

Energy and Climate Change

In considering our Energy Policy, it is important to take into account that 195 countries committed, under the 2015 Paris Agreement, to restrict global warming to below 2°C. The energy sector and financial sector have a crucial role to play in supporting this ambition of limiting climate change. If we are to meet the aims of the Paris Agreement, we will have to limit the amount of CO2 emitted into the atmosphere and we will need to support technological advancements to reduce the amount of CO2 produced from each unit of energy produced.

The transition to a low-carbon economy is a multi-year transition. It is generally acknowledged that there has to be a significant and immediate reduction in the use of coal to generate electricity. Oil and gas have a longer-term role to play in the transition and represent an important part in the energy mix of many markets. Developing countries may need more time to adjust than developed ones as countries balance sometimes competing sustainable development goals.

HSBC therefore seeks a balanced approach in its Energy Policy. Our primary aim is to support our customers in the transition from a high-carbon to a low-carbon economy. We will seek to ensure that our customers continue to have access to the capital required to develop their businesses, invest in more efficient technology and reduce their greenhouse gas emissions. In doing so we will also support the increased transparency around climate change impacts that regulators, investors and other stakeholders expect. This proactive engagement is the most significant contribution we can make.

Scope

The policy relates to business customers involved in the principal activities of, but not suppliers to:

a) **Oil and gas.** Including exploration, development, production (including fracking) and refining, as well as oil sands (mining, “in situ” operations and upgrading)

b**) Power generation**. Including energy from coal, oil, gas, nuclear reactors (plus nuclear enrichment, decommissioning and waste disposal) and hydro-electric dams. Excluding energy from other renewable sources

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such as wind, solar and waste-to-energy, where negative impacts are more limited and positive impacts in terms of combating climate change are significant

c) **Transmission**. The wholesale transmission of oil or gas by pipeline or electricity from generating plant to substation

Overarching Policy Commitments

- We will continue to provide corporate lending and capital market transaction support to energy-based customers that are committed to continuous improvement in the sustainable development of energy sources
- We will work with our clients to help finance initiatives that facilitate achievement of the objectives inherent in the 2015 Paris Agreement and will support their efforts to implement new and improved technologies in this regard
- We will take into account the trade-offs made by governments between different energy sub-sectors in meeting their overall country-specific, climate change objectives
- We acknowledge that achievement of the energy and climate change objectives will be a multi-year transition

Business and Activities

Global Businesses must not provide any financial services for **new coal-fired power plant projects**[2].

Global Businesses must not provide project financing, general purpose lending, or long tenor risk hedging where the majority of such financial service is used for:

a) **New offshore oil or gas projects in the Arctic**[3]

b) **New greenfield oil sands projects**. We will continue to provide general corporate lending and capital market transaction support to customers involved in the extraction of, and infrastructure support to, oil sands, subject to the following exceptions:

- Extraction: We will not provide new financing or new general purpose lending where the majority of such lending is to be used for new greenfield oil sands projects: New greenfield oil sands projects include completely new mines or new "in situ" operations in geographically separate locations to existing ones but exclude the incremental development of existing mines and "in situ" operations;
- Infrastructure: We will not provide new financing or new general purpose lending where the majority of such lending is to be used for new pipelines dedicated to the oil sands sector.

Any future technological developments which improve environmental performance will be taken into account in future reviews of our Energy Policy with regards to this sector.

c) **New large dams**[4] **for hydro-electric projects** inconsistent with the World Commission on Dams Framework

d) **New nuclear projects** inconsistent with the International Atomic Energy Agency (IAEA) standards

Additional Due Diligence Requirements

Global Businesses must undertake additional due diligence in the following circumstances to assess whether customers are operating responsibly, seeking clearance as appropriate.

a) **Coal-fired power**:

[2] **New coal-fired power plants** include completely new plants, major expansions to existing plants and specific existing plants to which HSBC does not already provide financial services (that is, such support would be "new to HSBC"). In the event that carbon capture and storage or equivalent technology becomes commercially viable and utilised on a new plant, any financial support is subject to case-by-case analysis.

[3] **The Arctic** is the area within the Arctic Circle which is subject to sea ice (that is, within the 1981-2010 March median sea ice extent edge as reported by the US National Snow & Ice Data Center)

[4] **Large dams** exceed 15 metres in height or exceed both 5 metres in height and 3 million cubic metres in reservoir volume. "New" also applies to the refinancing of existing dams constructed since 2005, when HSBC's original Freshwater Infrastructure Policy was introduced.

- Where a customer has a coal-fired portfolio exceeding 3,000MW in generating capacity, plus (i) plans to develop or acquire new coal-fired power plants in high-income or upper-middle-income countries[5]; or (ii) an upward trend in the carbon intensity of either its overall or coal-fired portfolio over the last three years. We should understand the impact of the Paris Agreement and the transition to a low carbon economy on the business model of our customers. This assessment will include the governance structure, strategy, risk management, and metrics/ targets.

b) **Oil Sands**. We will undertake enhanced due diligence in this sector to understand the environmental impact of these operations

c) **New oil or gas projects**. Where a customer has no corporate commitment to reduce or eliminate fugitive methane emissions in oil or gas production or, where appropriate, the routine flaring of gas in oil production

d) **New shale gas fracking projects**. Where there is no confirmation of either the safety of the drilling operations (well integrity) or monitoring of seismic activity

e) **Nuclear**. Where a customer's existing business is inconsistent with any of the following IAEA standards or practices:

- A host country (where the plants operate) does not participate in the Integrated Regulatory Review Service programme
- A host country does not have a Safeguards Agreement and Additional Protocol to deter the spread of nuclear weapons
- The customer does not participate in the Operational Safety Review Team (OSART) programme
- The customer has safety incidents within the last three years at Level 3 or above on the International Nuclear and Radiological Event Scale

HSBC also assesses stability in host countries.

f) Customers with a poor track record on:

- Fatalities – Customers with five or more in either of the last two years, or a deteriorating trend in both the last two years. These thresholds are a trigger for analysis, not an "acceptable" level (which is zero)
- Material accidents, spills or pollution. Material refers to occurrences serious enough to cause controversy at a national level or reputational damage to the customer and, potentially, to HSBC
- Material negative impacts on people or the environment not specified above (for example, impacts on land rights or on protected forests from pylons or pipelines)
- Meeting regulatory standards in respect of workers, communities or the environment. This could typically relate to the suspension of an important operating licence or a fine which is substantial in either absolute size (above USD 1 million) or by reference to the size and resources of the customer

Analysis may be required under other policies, such as the Defence Policy or, for projects, under the Equator Principles

[5] Country income classifications are defined by the World Bank Group