HSBC Energy Policy

Date: April 2018

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, but closing relationships with those who do not meet minimum standards.

Energy and Climate Change

195 countries committed, under the 2015 Paris Agreement, to restrict global warming to well below 2°C. The supply of energy is responsible for 75 per cent of the carbon emissions that cause global warming and so the energy sector has a crucial role in limiting climate change. In particular, the world's reserves of fossil fuels, if burned, would release carbon 4 times greater than the available "carbon budget" if the world is to reach its target – suggesting that many reserves must remain "in the ground".

Most forecasts agree that there has to be a significant and immediate reduction in the use of coal to generate electricity. A peak will also be required in the use of both gas, which may act as a short-term "bridge" away from coal, and oil. However, the next steps are not straightforward. For example: coal is used for 40 per cent of the world's electricity today; developing countries may need more time to adjust than developed ones; many countries wish to avoid dependence on other countries for energy; communities and workers dependent on fossil fuels will need support; and society has other valid ambitions, such as the alleviation of poverty.

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. This is the most significant contribution we make because, if we simply stop banking customers involved in high-carbon activities, this is unlikely to expedite the transition to a low-carbon economy and may even have serious negative consequences. Secondly, we stop financing certain infrastructure which locks in avoidable emissions for many decades and we will look to tighten those standards over time. Thirdly, where customers have other specific operations with potentially high impacts, we conduct additional due diligence to assess whether those operations are managed responsibly, in accordance with good practice.

1. The policy is made public for information only. HSBC's sustainability risk policies are for HSBC's use only and HSBC shall owe no liability to third parties in relation to them.

Consequently, our revised Energy Policy builds on the significant restrictions introduced in 2011, which meant we effectively ceased financing new coal-fired power plants in 78 developed countries. All those pre-2011 loans will be repaid before 2020 and we will extend the prohibition to all other countries except three developing countries where proposals will be assessed on a case-by-case, taking into account the population's access to electricity and whether reasonable alternative power sources exist. Where supported, we tighten our carbon intensity standard from 850 to 810g CO2/kWh. In line with the carbon budget approach and recognising that some fossil fuels must remain "in the ground", HSBC will not finance new offshore oil and gas projects in the Arctic. In the oil sands sector, HSBC will focus on supporting customers which are diversified, with appropriate plans to transition to a low-carbon economy, and we will not support new greenfield projects. Other policy restrictions recognise the importance of assessing environmental practices such as flaring.

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 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

Prohibited Business

Global Businesses must not provide financial services[2] for:

a) **New coal-fired power plant projects[3],** subject to very targeted exceptions of Bangladesh, Indonesia and Vietnam in order to appropriately balance local humanitarian needs with the need to transition to a low carbon economy. Consideration of any such exception is subject to: (i) independent analysis confirming the country has no reasonable alternative to coal; (ii) the plant's carbon intensity being lower than 810g CO_2/kWh; and (iii) financial close on the project being achieved by 31 December 2023
b) **New offshore oil or gas projects in the Arctic[4]**
c) **New greenfield oil sands projects[5]**
d) **New large dams[6] for hydro-electric projects** inconsistent with the World Commission on Dams Framework
e) **New nuclear projects** inconsistent with the International Atomic Energy Agency (IAEA) standards

Portfolio Commitments

a) HSBC will phase out, by 31 December 2019, its lending for the development of new coal-fired power plant projects in high-income countries[7]
b) HSBC anticipates that its attributed commitments to oil sands will reduce over time

2. **Financial services** include: specific services, such as a loan or advice, for a project; and services provided for general purposes where 50 per cent or more of any proceeds relate to a relevant project.
3. **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 and clearance as Restricted Business.
4. **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)
5. **New greenfield oil sands projects** include: completely new mines or new "in situ" operations in geographically separate locations to existing ones; and new pipelines dedicated to the oil sands sector. Projects exclude incremental development of existing mines and "in situ" operations.
6. **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.
7. **Country income classifications** are defined by the World Bank Group.

Restricted Business

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:**
- New coal-fired power plant projects meeting the exception in Prohibited Business above
- 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; or (ii) an upward trend in the carbon intensity of either its overall or coal-fired portfolio over the last three years. The customer must be assessed against its climate change plans[8] to determine if its business model is consistent with HSBC's approach to climate change

b) **Oil sands:** All customers must be assessed for trends in greenhouse gas emissions and their climate change plans. Mining customers must be assessed for progress in: permanent land/wetland reclamation; tailings pond reclamation; and the water intensity of production. "In situ" customers must be assessed for trends in the steam-to-oil ratio

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 real-time 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.

Disclosure

Global Businesses must give a copy of this policy to customers.

8 **Climate change plans** to be analysed according to the customer's: governance structure; strategy; risk management; and metrics and targets.