

# Action Cards Project – Initial Research

## 1. Overview

All banks are under pressure to go green. The main UK banks have put considerable effort into becoming environmentally friendly. All the major banks now have some form of environmental policy in which they address the emissions of their high-street branches and offices by energy efficiency measures, reducing paper and water wastage and so forth. In 2005 HSBC became the first major bank to become carbon neutral meaning its worldwide operations contributed zero net carbon dioxide into the atmosphere. Also Barclays, Lloyds and The Royal Bank of Scotland (RBS) are all committed to progressing towards carbon neutrality. RBS, for instance, is proud of using 100% green electricity in their operations in the UK and Ireland. Also the banks offer a variety of green product for their customers, such as HSBC's "green bank account" and Barclays' new green credit card called "Barclays Breathe".

Their efforts are positive and should without doubt be commended. However, these are only steps to the right direction. The biggest impacts that banks have on the environment do not result from their direct operations. Rather, they result from their lending and other financial activities. The independent Carbon Disclosure Project calculates that that 99 percent of the carbon footprint of large banks comes from funding environmentally unfriendly activities and companies. If this is not taken into consideration, the elephant in the room is missed.

Banks can either be investing in projects directly or financing companies on a more general level.

## 2. Project level

Project finance is where banks play a role in financing a large infrastructure project, such as construction of a dam. Banks are increasingly producing policy reports on how they will take environmental and social issues into account when financing large projects and most have signed up to initiatives for responsible project financing, such as the Equator Principles.

### 2.1 The Equator Principles<sup>1</sup>

The Equator Principles are a set of voluntary guidelines to help financial institutions assess and monitor the environmental and social impacts of large projects such as power plants and airports. They are based on World Bank guidelines and were originally conceived in October 2002. The EPs have become the global standard for project finance and have transformed the funding of major projects globally.

The Equator Principles' preamble states, "We will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes." The participating financial institutions proclaim

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<sup>1</sup> [www.equator-principles.com](http://www.equator-principles.com)

that “In adopting these principles, we seek to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices”

Under these, all projects of above US\$10M are to be categorized as A, B, or C, depending on whether such risks are high, middle, or low. A social and environmental assessment is undertaken for all Category A and B projects, to determine whether the project meets the standards of good practice published by the International Finance Corporation and local laws. A project will only be financed if the impacts can be considered to be acceptable and the client’s ability to manage them satisfactory. Barclays, HSBC, RBS and Lloyds have all signed up to the Equator Principles, committing themselves to subjecting all project finance applications over \$10m to an environmental and social risk rating. However, the principles are voluntary and each individual bank has their own internal policies and processes to implement the Equator Principle.

## **2.2 UK Banks compliance with the Equator Principles**

### **Barclays – Policies regulating project financing**

- Barclays recognises that a bank’s major environmental impacts tend to be indirect, arising from the provision of financial services to business customers operating in sensitive sectors.
- Co-founded the Equator Principles. The Chair Bank for 2007/08
- Barclays has formed their own guidelines for assessing social and environmental risks. These cover over 50 environmentally and socially sensitive sectors. The guidance outlines the potential environmental and social impacts of lending, covering risks, regulation and international best practice covering the following sectors, and a number of sub-sectors within them:
  - Agriculture and fisheries
  - Metals and mining
  - Oil and gas
  - Power generation, supply and distribution
  - Chemicals, pharmaceuticals manufacturing and bulk storage
  - General manufacturing
  - Utilities and waste management
  - Infrastructure
  - Service industry
  - Forestry and logging
- The guidelines identify clients’ environmental risks, but do not set clear criteria for declining loans or set clear preconditions for financial services. The guidance notes must therefore be regarded as aspirational policies. Also they are not available for online for the public to assess.
- The bank does not outright decline loans but works with the client to determine whether environmental and social risks can be managed or mitigated.
- Treats every mining project as Category A.
- Barclays is one of a small number of banks which have adopted a voluntary human rights policy and is one of 7 original members of the Business Leaders Initiative on Human Rights, which guides companies on adherence to UN human

rights standards. However, a recent NGO report<sup>2</sup> notes that Barclays' human rights policy is 'unhelpfully vague and aspirational and provides little guidance for putting into operation a commitment to human rights'. Also, Barclays has no policy to explicitly address the rights and protection of indigenous people.

## 2.3 Transparency

NGOs have expressed concern about uneven implementation of the principles in the banking sector and the lack of transparency regarding the implementation of the policies.

**Barclays** also publish an annual Corporate Social Responsibility Report.<sup>3</sup> The report includes a section on the implementation of the equator principles. On some occasions, the bank has refused to discuss its lending practices with NGOs claiming commercial confidence. Barclays has even refused to discuss the merits of a forest policy prepared by FOE as this would have meant disclosing their own policies on environmental risk assessment.<sup>4</sup> Currently their lending guidelines are not published online. However, this will soon change following NGO criticisms about lack of transparency.

## 2.4 The funding of environmentally harmful projects – case studies

HSBC, Lloyds, Barclays and RBS have all signed the Equator Principles and should in theory only make responsible decisions in regards to the environment and society. Therefore, all their lending activities should be screened and projects only financed if they can meet the EP's environmental and social criteria. Also, banks are increasingly concerned about their public image and want to avoid negative publicity by staying out of controversial projects and by implementing the Equator Principles. For this reason, most controversial funding activities are currently linked to support for companies with a poor track record rather than financing harmful project directly. However, some banks have still been involved in activities that raise questions about their commitment to the Equator Principles:

<p>NHCP Dams</p> <p>The Three Gorges Dam in China</p> <p>The Omkareshwar</p>	<p>HSBC Barclays</p>	<ul style="list-style-type: none"> <li>• Early 2000 HSBC was among the financial backers of the Three Gorges Dam in China (Many other financial investors (such as WorldBank) refused to fund the project because of its environmental effects). This was before HSBC had drafted guidelines on dams and water projects</li> <li>• However, in 2004 HSBC helped to sell £870m worth of Chinese government bonds. The bonds have been instrumental in financing the construction of China's infrastructure. Environmentalists condemn the deal because much of the money is expected to be ploughed into dam and river diversion schemes such as the Three Gorges Dam. HSBC insisted that its links to the Chinese fundraising effort did not directly breach its environmental promises or undermine its "green</li> </ul>
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<sup>2</sup>[http://216.239.59.104/search?q=cache:etBBN5BY6xQJ:markcurtis.files.wordpress.com/2007/02/poorcompany\\_briefing.pdf+Barclays+Omkareshwar+Dam+2008&hl=en&ct=clnk&cd=13&gl=uk](http://216.239.59.104/search?q=cache:etBBN5BY6xQJ:markcurtis.files.wordpress.com/2007/02/poorcompany_briefing.pdf+Barclays+Omkareshwar+Dam+2008&hl=en&ct=clnk&cd=13&gl=uk)

<sup>3</sup> <http://www.barclays.com/sustainabilityreport07/>

<sup>4</sup> <http://www.foe.co.uk/pubsinfo/briefings/html/20020819133903.html>

Dam		<p>credentials" since the bonds sale was not directly tied to any particular project, a claim seized on by conservationists. This argument, said Michelle Chan-Fishel, of Friends of the Earth, was precisely why the bonds sale should be avoided by HSBC, since the bank would probably refuse to fund these dams directly.<sup>5</sup></p> <p>Barclays</p> <ul style="list-style-type: none"> <li>• In December 2003 Barclays along with Standard Charter arranged a £28 million corporate loan for NHPC who are building the Omkareshwar Dam in India. Although the loan is not specifically for the Omkareshwar Dam as this is one NHPC major projects it seems reasonable to assume that that it will cover some of the expenses of building the Dam. NHPC are also involved in building the controversial Indira Sugar Dam.</li> <li>• In 2004 Barclays bank helped 'advise' on the project finance for the Omkareshwar dam project on the Narmada River in Central India. This project is in breach of the banks own green project finance principles the Equator Principles, including critically the absence of an independent Environmental Impact Assessment (EIAs) and the violation of Indian federal and state laws. (friends of the earth report) The World Bank, Deutsche Bank and ABN Amro have all refused to finance Omkareshwar and other large dams on the river because of environmental and social concerns.<sup>6</sup></li> </ul>
<p>National Hydroelectric Power Corporation (NHPC)</p> <p>India's National Hydroelectric Power Corporation has made a name for itself as one of the country's most ruthless corporations. NHPC is known to have an extremely poor track record on human rights. As a state-owned company, NHPC has been able to ignore the conditions set out by India's Environment Ministry, state legislation and in project agreements to guarantee the rights of people affected by its projects. In projects like the Indira Sagar and Omkareshwar dam, NHPC has unleashed a regime of terror, forcing people to leave their villages through intimidation, threats and the use of armed forces. In several cases, it has not even given warning prior to flooding, so that villagers were forced to run for their lives. NHPC is responsible for destroying pristine natural areas and ruining the economies of populations living downstream from its projects. Its activities have turned hundreds of thousands of self-sufficient farmers into paupers and beggars. Most recently, NHPC has embarked on projects outside of India. The company is currently cooperating with Burma's military regime to build the Tamanthi Dam, which will displace over 30,000 tribal people.<sup>7</sup></p>		
The Karahnjukar hydro project, Iceland	Barclays	<ul style="list-style-type: none"> <li>• In early 2004, within a few months after signing on to the Equator Principles, Barclays Bank came under attack for arranging a \$400 million loan to an Icelandic power company ('Landsvirkjun') to support for the Karahnjukar hydro project. While the project technically was not subject to the Principles (as it was not project finance), Barclays to its credit recognized that its client Landsvirkjun was explicitly raising funds to construct the dams.</li> </ul>
<p>The Karahnjukar hydro project is a massive hydropower scheme based in the Icelandic highlands. It is to be made up of nine dams, three reservoirs, seven channels and 16 tunnels that will divert several glacial rivers in the Highlands to provide water to run a 630 megawatt hydropower plant to be run by the Landsvirkjun power company. The power generated from the Karahnjukar hydropower station will be used to provide cheap electricity for an aluminium smelter (Fjarðal) to be built by Alcoa and based on the coast in East Iceland. The project violates the Equator Principles on a number of counts:</p> <p>(i) Significantly impacts sensitive high conservation ecosystems (ii) Breaches best practice pollution levels  (iii) Ignores the cumulative impacts of other projects (iv) Inadequately considers alternatives</p>		

### 3. Indirect impact beyond project investment

The problem with the Equator Principles is that they only apply to projects. Other financing mechanisms also have major impacts. For instance, the bulk of bank support for forestry projects does not come from project finance and therefore much of the

<sup>5</sup> <http://www.independent.co.uk/news/business/news/hsbc-under-fire-for-its-role-in-acircpound870m-bond-sale-to-finance-chinas-megadams-554318.html>

<sup>6</sup> [http://www.internationalrivers.org/files/NHPC\\_People%20Don't%20Matter.pdfhttp://www.guardian.co.uk/money/2004/oct/02/accounts.business](http://www.internationalrivers.org/files/NHPC_People%20Don't%20Matter.pdfhttp://www.guardian.co.uk/money/2004/oct/02/accounts.business)

<sup>7</sup> <http://www.banktrack.org/?visitor=&show=dodgy&id=131>

destruction occurring to the world's forests will in no way be abated by the Principles as they stand. The Principles only apply to direct lending in project finance transactions because the use of proceeds is clear. There are no guidelines that can be applied to financial services such as IPOs and bonds. However, by arranging bond issues, banks can help finance projects which they could not finance directly under their own environmental policies which regulate project financing. The challenge is to apply the Equator Principles to business instruments where the use of proceeds is unclear.

### 3.1 Indirect impact - policies and case studies

Also **Barclays** claim that in addition to applying the Equator Principles to project finance deals, they also undertake comprehensive environmental and social reviews of other deals too. However, the bank acknowledges that the Equator Principle framework cannot be applied to projects where the use of proceeds is unknown. Still, in 2006 they claim to have screened 268 non project finance transactions for their environment and social risk. There is no further information available. Like HSBC, Barclay applies the broader application in circumstances where there is a known application of funds to a potentially sensitive project.

<b>Vedanta Resources</b>	HSBC Barclays	<ul style="list-style-type: none"> <li>• In December 2003 Vedanta Resources was listed on the London Stock Exchange, raising US\$ 825 million. The IPO was managed by JPMorgan Chase and HSBC</li> <li>• In August 2007 Vedanta Resources secured a one-year US\$ 1,100 million loan to financing the acquisition of the Indian iron ore mining company Sesa Goa. The banking syndicate was arranged by banks including Barclays</li> <li>• In January 2006, Vedanta Resources issued convertible bonds with a total value of US\$ 725 million. The bond issuance was underwritten by Barclays.</li> <li>• In December 2004 and January 2005 Vedanta Resources issued US\$ 600 million 5- 1/2 year bonds in London. The issuance was underwritten by banks including Barclays</li> </ul>
<p>Vedanta Resources is a mining company quoted on the London Stock Exchange. The company mainly produces aluminium, copper, lead and zinc. Vedanta is one of the most controversial mining companies in the world and has a long track record of environmental and human rights violations.</p> <p>In India's Niyamgiri forest Vedanta Resources has illegally felled hectares of forest. After the clear cutting, an aluminium smelter has been built without the necessary permits. The smelter was designed to process bauxite from the surrounding mountains. A commission of the Indian High Court has condemned Vedanta for the consequences of the bauxite mining on the indigenous population. Vedanta has also been convicted by the Supreme Court Monitoring Committee on Hazardous Waste (SCMC) for its Tuticorin copper refinery in Tamil Nadu. These convictions were sustained in particular because of the unlawful building and illegal expansion of the copper refinery, the unsafe labour conditions and the disposal and dumping of hazardous waste in the area surrounding the refinery.</p> <p>Vedanta Resources has also been criticised in Zambia for a disastrous leak at its Konkola copper mine. On 6 November 2006, the whole of Chingola district faced a water crisis, as a result of Vedanta's contamination of the Kafue river. 75,000 people faced problems with their drinking water supply after the water was turned a toxic blue by copper sulphate.</p> <p>The research site Mines &amp; Communities describes Vedanta as a textbook example of irresponsible mining. "Clearly Vedanta's modus operandi represents a systemic pattern of contempt for the law, not to mention people and the environment, which cannot be tolerated for one day longer."<sup>1</sup> The ethical committee of the Norwegian Pension Fund has arrived at the same conclusion and has banned Vedanta from its investment portfolio because of serious environmental damage and human rights breaches.</p>		
<b>Olam International</b>	HSBC RBS Barclays	HSBC and Royal Bank of Scotland are two of Olam's principle bankers. Barclays is a shareholder. Olam's activities directly contradict HSBC's forest policy. HSBC's forest sector guidelines prohibit it from providing financial assistance for commercial logging operations in "primary tropical moist forest"

		or in "violation of local or national laws in respect of illegal logging". The company claims to only support customers in this sector that are operating forests moving towards certification by the Forest Stewardship Council (FSC).(6) RBS does not even have a policy in regard to this. <sup>8</sup>
<p>Olam International Ltd</p> <p>The Greenpeace report 'Carving Up The Congo'<sup>9</sup> in 2005 revealed how Olam International, a Singapore-based company is involved in illegal timber from Congo's rainforest and has also obtained land in breach of the DRC's moratorium. Olam has since given back its forest holdings to the DRC government, but it still buys illegal timber cut by local companies (November 2007). The International Finance Corporation (IFC) has announced in 2007 that it will divest its holdings in Olam International. The Congo forest is the world's second largest rainforest after the Amazon. In the DRC alone, an estimated 40 million people depend on the forests for their livelihoods.<sup>10</sup>OLAM's operations have already faced legal issues elsewhere in Africa, and in 2004 the company was fined \$20,000 by the U.S. Commodity Futures Trading Commission for illegal practices in the United States.</p>		
<b>AngloGold Ashanti</b>	HSBC Barclays RBS	<ul style="list-style-type: none"> <li>In January 2005 AngloGold Ashanti secured a US\$ 700 million three year revolving credit facility from an international banking syndicate. The proceedings were used to replace an existing US\$ 600 million facility and for general corporate purposes. At the end of 2006 US\$ 181 million was outstanding. HSBC, Barclays and RBS participated in the syndicate.</li> </ul>
<p>AngloGold Ashanti - Formed by a merger of South Africa's AngloGold and Ghana's Ashanti Goldfields corporations in 2003, AngloGold Ashanti is one of the largest mining companies in the world. The company is criticised for being involved in Gold Conflict and Business in the Democratic Republic of Congo.</p> <p>The Democratic Republic of Congo (DRC) has been in a virtual state of war since the middle of the 1990s. In 1996, shortly before the fall of President Mobutu, AngloGold Ashanti gained the rights to mine for gold in the Ituri region in the North Eastern part of the DRC. This region is known to contain what are thought to be the largest gold reserves in the world. However, the continuous (civil) war in the region between militias supported by neighbouring countries Rwanda and Uganda put a spoke in the wheels ; ethnic cleansing, rape, torture and summary execution are the order of the day in the mineral rich eastern DRC. In particular, the militias are trying to gain control over the gold mines and gold routes, as this would enable them to enrich themselves and buy more arms.</p> <p>'In 2003 AngloGold Ashanti started their preparations to mine gold in the area around the city of Mongbwalu. After bloody battles costing the lives of at least 2000 people from June 2002 to September 2004, the city fell into the hands of the FNI, a murderous armed militia (supported by Uganda). In 2005 Human Rights Watch published a detailed report showing how AngloGold Ashanti was able to get its hands on the gold by building up contacts within the FNI. FNI leader Floribert Njabu, self-appointed President of Mongbwalu, personally admitted AngloGold Ashanti to the mining area. AngloGold held regular meetings with the FNI and made payments to the FNI. FNI members have been spotted in AngloGold Ashanti vehicles and aeroplanes. This kind of business relationship with militias that continually breach human rights is patently unacceptable. It is precisely their access to the natural resources that allow these types of militias to keep arming themselves. Human Rights Watch has been unable to identify effective steps taken by the company to ensure that their activities did not negatively impact on human rights.<sup>11, 12, 13</sup></p> <p>AngloGold Ashanti - Nyakabale village in Tanzania</p> <p>The company AngloGold Ashanti is now starting their own investigations to establish whether the heavy metal damages in Nyakabale village in Tanzania is due to their operations. The company said to Norwatch that they will also consider tidying up the health threats no matter who is to blame of the conditions. Fine said that the company's investigations will try to establish the extent to which any environmental degradation might be due to AngloGold Ashanti's</p>		

<sup>8</sup> [http://www.greenpeace.org/international/news/world-bank-congo-forest\\_300807](http://www.greenpeace.org/international/news/world-bank-congo-forest_300807)

<sup>9</sup> <http://www.greenpeace.org.uk/media/reports/carving-up-the-congo>

<sup>10</sup> <http://www.greeneconomics.org.uk/page316.html>

<sup>11</sup> [http://hrw.org/reports/2005/drc0505/9.htm#\\_Toc102992158](http://hrw.org/reports/2005/drc0505/9.htm#_Toc102992158)

<sup>12</sup> <http://www.misfortune500.org/Company/Show.aspx?articleid=74>

<sup>13</sup> <http://www.corpwatch.org/article.php?id=14374>

mining activities, and the extent to which it might be a legacy of a German company's mining activities in the 1920s and 1930s. "In addition, we are seeking an independent assessment of the validity of the findings", he wrote.<sup>14</sup>

<b>Asia Pulp and Paper</b>	HSBC Barclays Lloyds	These banks have helped fund APP, which has cleared over 280,000 hectares of Indonesian rainforest in the last 10 years.
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### 3.2 Supporting environmentally unfriendly sectors

Besides funding companies with bad environmental and human rights track record, banks also fund and support sectors that are environmentally unsustainable.

A new report<sup>15</sup> revealed that despite high profile advertising campaigns touting their green credentials, banks are consistently funding carbon intensive coal-related projects. The report from Friends of the Earth Scotland, green group Platform and student network People & Planet claims that Royal Bank of Scotland (RBS), HSBC and Barclays have all issued large loans to coal and carbon intensive energy companies in recent years and have urged banks to pull out of major investment in such projects.

In contrast the Cooperative Bank will not invest in any business whose core activity contributes to global climate change, through the extraction or production of fossil fuels.

## Conclusions

### Barclays

- Policies and guidelines to implement the Equator Principle
- Inability to apply the equator principles in lending activities beyond project finance
- Involvement with companies with bad track record on environmental and social issues
- Lack of transparency with their policies and guidelines

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<sup>14</sup> <http://www.norwatch.no/index.php?show=104&expand=177,104>

<sup>15</sup> <http://www.businessgreen.com/business-green/news/2223692/banks-face-criticism-coal>