

# 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**

### **Royal Bank of Scotland (RBS) - Policies regulating project financing**

- The Bank has consistently claimed it should not be held responsible for the emissions resulting from fossil fuel projects, yet implicitly claims the credit for emissions reductions resulting from renewable energy.
- RBS has signed the Equator Principles and only finance projects that meet the environmental standards of the Principles.
- The Group is a signatory to a number of international agreements and conventions and, most recently, in 2003 became a signatory to the Ten Principles of the UN Global Compact, in respect of human rights, labour rights and the protection of the environment.
- The bank claims that “We have in place at all levels throughout the Group rigorous risk and credit management policies and procedures, regularly reviewed, which take into account the wide range of factors relevant to all aspects of our business and which shape our individual lending decisions.” However, these policies are hard to assess as they are not available for the public online.
- The bank has a Group's Corporate Responsibility Policy which covers their lending policies. However, this policy is superficial and does not cover sector policies that would guide the implementation of the Equator Principles.

## **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.

**RBS** has an annual Corporate Responsibility (CSR) Report. This report has recently been criticised by environmental NGOs as it largely ignores the impacts of the greater continued support of over \$7 billion for - often heavily contested - fossil fuel projects. It remains impossible to identify the full extent and implications of the Bank's fossil

fuel investments from any public documentation, not just the CSR report. However, the report includes a section on implementing the Equator Principles.

## 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:

<b>Dodgy deals</b>	<b>Who is involved?</b>	<b>How</b>
Baku-Tbilisi-Ceyhan pipeline	RBS	<ul style="list-style-type: none"> <li>In February 2004, a banking syndicate arranged by ABN AMRO, Citi, Mizuho Bank and Société Générale provided part of the US\$ 2.6 billion project financing for the pipeline. RBS participated in the syndicate.</li> </ul>
<p>The Baku-Tbilisi-Ceyhan pipeline (BTC), operated by BP, passes through Azerbaijan, Georgia and Turkey. Operational since June 2006, in spite of huge opposition from local and international environmental civil society groups, BTC passes through or near seven different conflict zones. Issues regarding distribution of earnings from the pipeline have further aggravated antagonism between communities and between regions. The pipeline, whilst transporting millions of barrels of oil to consumers in the West, has not lead to the delivery of energy to the hundreds of communities in the energy-poor regions along the route. Some of these communities' lands have even been reportedly confiscated, in return for no or very meagre compensation. Moreover, the BTC pipeline passes through nature reserves and seismic areas. Due to cost-cutting, safety standards have been disregarded and unsuitable anti-erosion coatings have been used. Seismic experts have not always been hired, although the force of earthquakes in the region has shown to be able to tear down entire cities and hence form a serious threat to the pipeline and its surroundings. As a result, major leaks and pipeline ruptures are expected to develop during the life time of the project.</p>		

BP's Tangguh LNG	RBS	<ul style="list-style-type: none"> <li>RBS finances numerous oil corporations contributing to human rights abuses globally. However, in some situations, the bank finances the problem project directly. In late 2007, the RBS Oil &amp; Gas Team participated in an \$884 million project financing BP's controversial Tangguh LNG (liquefied natural gas) project in West Papua, occupied by Indonesia since 1963. Amnesty International has estimated that 100,000 West Papuans - one sixth of the population - have been killed by the Indonesian military. Despite BP's human rights assessments, local residents have raised issues around disempowerment, environmental degradation, social degeneration and a failure to fully compensate. Local NGOs LP3BH and Perdu have warned of increased militarization in the region and a failure in recognition of customary rights. More insidiously, the Tangguh LNG project plays a key role in asserting and institutionalising Indonesia's occupation of West Papua.</li> </ul>
Sakhalin II project	RBS	<ul style="list-style-type: none"> <li>In 2006-2007, RBS was bidding to become lead arranger for Shell's Sakhalin II project in the Arctic. Despite major political risks and a terrible environmental</li> </ul>

		<p>record, RBS is one of only six banks still interested in arranging finance for the project. Eventually it was ABN AMRO that arranged the controversial \$1 billion loan towards Gazprom's purchase of a controlling share of the enormous Sakhalin II oil and gas project in Russia. In November 2007, Royal Bank of Scotland consortium acquires ABN Amro in largest financial services merger in history. Environmental groups are now calling in RBS to recall loan on Sakhalin 2 oil and gas project. Environmental Groups Call on Royal Bank of Scotland to Recall Loan on Sakhalin II oil and gas project "When RBS bought ABN AMRO, it acquired the bank's assets and liabilities, including financial and reputational, and thus the responsibility to address the wrongful financing of Sakhalin II,"</p>
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### 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 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.

<b>Freeport McMoran</b>	HSBC	<ul style="list-style-type: none"> <li>In July 2006 Freeport McMoRan and PT Freeport Indonesia secured a three year US\$ 465 million revolving credit facility from a banking syndicate arranged by JPMorgan Chase. HSBC participated in the syndicate</li> </ul>
	RBS	<ul style="list-style-type: none"> <li>In March 2007 Freeport McMoRan's existing revolving credit facility was replaced by a US\$ 1.5 billion revolving credit facility and a US\$ 10 billion term loan from a banking syndicate arranged by JPMorgan Chase and Merrill Lynch. These loans were intended to finance the acquisition of Phelps Dodge. HSBC and RBS participated in the syndicate</li> </ul>

The American mining company Freeport McMoran operates the Grasberg copper and gold mine in the Indonesian Papua province, the western part of the New Guinea island. The Grasberg mine is the biggest gold mine and the third biggest copper mine in the world. New Guinea is well known for its extraordinary biologically diverse ecosystems and unique endemic species. The western part of the island is home to 1.5 million indigenous people speaking more than 250 different languages. The area is also one of the last places on earth where companies still use the controversial mining technique of riverine tailings disposal. This involves dumping toxic rubble in river systems. Every day, Freeport McMoran dumps 230,000 tonnes of polluted rubble in the Aghawagon river which is equivalent to 3.25 billion tonnes over the total lifetime of the mine. The waste contains heavy metals such as copper, arsenic, cadmium and mercury, killing off life in the river. It is now almost impossible for the local population to use the river for fishing or drinking water. The large quantities of sediment that remain on the river banks is also affecting the rainforests. It is estimated that 230 km<sup>2</sup> of rainforest will be destroyed over the lifetime of the mine. Freeport McMoran has also been criticised for the murder and torture of indigenous people living in the vicinity of the mine by soldiers and police bribed by the company.

In 2006 The Norwegian Ministry of Finance announced its divestment of Freeport McMoRan Copper and Gold (FCX)--from the global portfolio of the Government Pension Fund based on recommendations by its Council on Ethics. The Freeport exclusion represents the first time the fund has invoked the environmental damage provision. The Freeport exclusion was based on allegations that the company has caused extensive environmental damage by disposing of tailings including arsenic, cadmium, and mercury from its Papua, Indonesia copper mines into a natural river system. "Freeport denies the accusations made against the company, but chooses not to present data, test results, or other concrete information or scientific evidence which might substantiate its claims that the mining operation does not cause severe and lasting environmental damage,"

<http://www.socialfunds.com/news/article.cgi/2034.html>

<p>According to a report by <b>Friends of the Earth Indonesia</b> Freeport has been infringing environmental laws for years. Amongst other things, dumping mining waste into the river and exceeding water pollution limits are illegal. Freeport uses its political and economical influence to avoid condemnation of these transgressions.</p>		
<b>Newmont Mining</b>	HSBC, RBS	<ul style="list-style-type: none"> <li>• In July 2005 Newmont Mining amended and restated its US\$ 1,250 million five-year revolving credit facility from 2004, extending the maturity until 2010. The facility was arranged by banks including HSBC and Royal Bank of Scotland.</li> <li>• 14 In April 2007 this revolving credit facility was amended. The amendment extended the maturity until April 2012. The amount of the facility was increased to US\$ 2 billion.<sup>61</sup></li> </ul>
<p>Newmont Mining - Half a million tons of rock and stone are dug out each day in the Yanacocha mine in North Peru. At first sight this might appear an absurd activity, if it were not for the fact that those rocks are full of gold. Since 1993 the American company Newmont has mined more than 7 billion US\$ worth of gold in the area - a mirage that has come true. However, the mining project has been under continuous pressure from the local population since its inception, not least because Newmont uses cyanide to extract the gold from the rock.</p>		

<b>Olam International</b>	HSBC RBS Barclays	<p>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).<sup>(6)</sup> RBS does not even have a policy in regard to this.<sup>2</sup></p>
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Olam International Ltd

The Greenpeace report 'Carving Up The Congo'<sup>3</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>4</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.

<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>
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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.

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.

<sup>6</sup>In 2003 AngloGold Ashanti started their preparations to mine gold in the area around the city of Mongbwalu. After bloody

<sup>2</sup> [http://www.greenpeace.org/international/news/world-bank-congo-forest\\_300807](http://www.greenpeace.org/international/news/world-bank-congo-forest_300807)

<sup>3</sup> <http://www.greenpeace.org.uk/media/reports/carving-up-the-congo>

<sup>4</sup> <http://www.greeneconomics.org.uk/page316.html>

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>5, 6, 7</sup>

#### AngloGold Ashanti - Nyakabale village in Tanzania

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 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>8</sup>

## 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>9</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

### RBS

- Has signed up to the Equator Principles
- Provides funding for renewable energy sectors
- Inability to take responsibility for the environmental implications of their funding for oil, gas and coal industries.
- Funding projects that are not in line with the Equator Principles
- Lack of transparency in reporting

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<sup>5</sup> [http://hrw.org/reports/2005/drc0505/9.htm#\\_Toc102992158](http://hrw.org/reports/2005/drc0505/9.htm#_Toc102992158)

<sup>6</sup> <http://www.misfortune500.org/Company/Show.aspx?articleid=74>

<sup>7</sup> <http://www.corpwatch.org/article.php?id=14374>

<sup>8</sup> <http://www.norwatch.no/index.php?show=104&expand=177,104>

<sup>9</sup> <http://www.businessgreen.com/business-green/news/2223692/banks-face-criticism-coal>