

# **DIRTY BANKERS:** HOW HSBC IS FINANCING FOREST DESTRUCTION FOR PALM OIL



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**HSBC, headquartered in the UK, is currently one of the largest providers of financial services to the palm oil industry.<sup>1</sup> HSBC has detailed policies on forestry and agricultural commodities (including specific sections on palm oil).<sup>2</sup> It claims these policies ‘prohibit the finance of deforestation’,<sup>3</sup> but a new Greenpeace report shows many of the companies it funds are destroying forests.**

## **HSBC IS SUPPORTING ENVIRONMENTAL DESTRUCTION AND EXPLOITATION**

Despite its claimed commitment to sustainability, in recent years HSBC has begun or maintained financial relationships (including providing or arranging loans) with companies and groups operating palm oil concessions in Indonesia associated with the most unsustainable aspects of palm oil development.

Since 2012, HSBC has been involved in arranging loans and other credit facilities totalling US\$16.3bn for the six companies profiled in Greenpeace’s *Dirty Bankers* report, as well as nearly US\$2bn in corporate bonds. In some cases, details of contributions made by each lender (including HSBC) are accessible, but for many deals this information is not available.

As these case studies show, not only are HSBC’s policies inadequate, but it is providing services to companies that breach them. Its links to some of the most damaging companies in the sector leave HSBC exposed to serious reputational risk, in addition to the financial risks associated with the palm oil industry.

Evidence that these companies were responsible for unacceptable activities is in the public domain: they have been subject to Roundtable on Sustainable Palm Oil (RSPO) complaints or suspension, been cited by the Indonesian government for unrestrained fires<sup>4</sup> and/or been the subject of numerous critical reports from social and environmental non-governmental organisations (NGOs). Even the most basic due diligence on these companies should have set alarm bells ringing, which raises the question: is HSBC failing to apply its policies altogether, or just failing to apply sufficient scrutiny when assessing whether current or prospective customers comply?

## CASE STUDY SUMMARIES

### BUMITAMA AGRI LTD

HSBC helped to arrange two loans to Bumitama (one in 2012 and one in 2013) totalling US\$190m.

Over the past decade, Bumitama has cleared and planted over 160,000 hectares of oil palm plantations in Sumatra and Kalimantan,<sup>5</sup> destroying thousands of hectares of rainforest as well as orangutan habitat and peatland.

NGOs have brought five complaints against Bumitama to the RSPO since 2012, alleging that the company has destroyed orangutan habitat, planted illegally, operated without proper permits and failed to compensate local communities whose land it was developing.

In 2012, HSBC was one of two banks that helped to float Bumitama on the Singaporean stock market. In its prospectus, Bumitama admitted to an 'aggressive planting programme' and claimed control of approximately 76,000ha<sup>6</sup> – an area larger than Singapore – that had been planted without the necessary land titles or permits from the Indonesian government, in a clear violation of Indonesia's plantation laws and regulations.

### GOODHOPE ASIA HOLDINGS LTD

HSBC was part of banking consortia that made three loans to Goodhope (all in 2014) totalling US\$400m.

Local communities and NGOs have submitted an RSPO complaint against Goodhope, accusing it of landgrabbing and forest destruction in Papua; allegations include destroying rainforest, peatlands and the local community's sago farms. Goodhope has used state security forces to provide security on its PT Nabire Baru plantation and the community has complained of violence and intimidation as a result, often targeted at local people who oppose the plantation.

### IOI GROUP

HSBC was joint lead manager for one corporate bond issue to IOI (in 2012) totalling US\$600m.

The IOI Group is the world's third-largest palm oil company. It owns 31% of Bumitama Agri Ltd.<sup>7</sup> Greenpeace first exposed IOI's deforestation and drainage of peatland and clearance of forested orangutan habitat in 2008.<sup>8</sup>

In 2010, a group of 11 NGOs accused IOI of destroying peatland and high conservation value (HCV) forest in its Ketapang District concessions and illegally destroying forest outside the boundaries of its PT Berkas Nabati Sejahtera concession. In 2016, following another RSPO complaint, IOI was suspended from the RSPO.<sup>9</sup> Several dozen companies, including Unilever, Nestlé and Kellogg, stopped buying palm oil from IOI as a result.<sup>10</sup>

### NOBLE GROUP

HSBC helped to arrange credit and financing and financing to Noble Group totalling nearly US\$3.9bn in the 2013–2016 period, including contributing at least US\$90m to a syndicate providing Noble US\$1bn of credit in 2016 and serving as bookrunner for a US\$400m corporate bond issue in 2014.

Noble is an international commodity producer and trader. Its plantation division bought two oil palm concessions in Papua (one in 2010 and one in 2011), covering a total area of 70,705ha. Ministry of Forestry landcover surveys show that when Noble acquired the land it was mostly covered in rainforest, but by 2015 almost 15,000ha had been cleared and planted with oil palm.<sup>11</sup> Local people oppose the development and blame Noble's forest destruction for their village flooding in October 2014.<sup>12</sup> Large-scale deforestation continued in one plantation well into 2016.

### **POSCO Daewoo Corporation**

HSBC helped to arrange six loans totalling almost US\$2.4b to various divisions of POSCO Daewoo (five in 2012, one in 2013), of which it contributed at least US\$269m.

POSCO Daewoo is a Korean multinational. It is not a member of the RSPO, but controls a palm oil plantation in Papua. Almost 20,000ha of primary and secondary forest have been destroyed within this concession since 2011, with clearance continuing throughout 2016. POSCO Daewoo has been accused of slash-and-burn practices after repeated fires had recently cleared areas of its concession. Community leaders have accused POSCO Daewoo of taking their land without properly compensating them.

### **SALIM GROUP/INDOFOOD**

HSBC helped to arrange two loans totalling US\$360m to companies in the Salim Group (one in 2013, one in 2014), of which it contributed at least US\$40m. It was also joint lead manager and bookrunner for two corporate bond issues (one in 2012, one in 2013) totalling US\$800m.

The Salim Group is a loosely structured group of companies headed by Antoni Salim. It includes Indofood, one of Indonesia's largest food and agriculture companies and the largest private Indonesian palm oil company that does not yet have a comprehensive 'No Deforestation, No Peat, No Exploitation' policy. There has been extensive forest destruction in Indofood plantations in Kalimantan.<sup>13</sup>

In 2013 an orangutan conservation NGO raised the alarm about forest destruction in a Salim group plantation in Kalimantan.<sup>14</sup> They recorded video of orangutan nests and, separately, bulldozers clearing the forest. The destruction continued and the NGO had to rescue several of the orangutans, including two babies. The plantation has now been entirely cleared.

Indofood has also been accused of serious human rights violations including child labour and abuse of workers in Indofood plantations.<sup>15</sup> In September 2016, RSPO auditors confirmed that Indofood was breaching many of Indonesia's labour laws, including not paying workers the minimum wage.<sup>16</sup>

## **RESPONSE FROM THE COMPANY**

When Greenpeace put the allegations in this report to HSBC, it refused to talk about specific customers, stating that 'customer confidentiality restricts us from commenting on specific relationships'.<sup>17</sup> HSBC's October 2016 statement on climate change does claim that the bank has 'stopped providing banking services to some customers (such as some forestry companies)' based on the bank's standards, but does not say who these companies are.<sup>18</sup>

Given its exposure to companies with a proven record of environmental and human rights abuses, HSBC must explain how it intends to revise its existing policies to bring them into line with the 'No Deforestation, No Peat, No Exploitation' standards that have become the norm for other sectors. HSBC must be transparent about the palm oil companies (and conglomerates with palm oil interests) within its client base, engage with these companies and set a deadline for them to apply NDPE policies that cover their entire operations.

# PRINCIPLES FOR RESPONSIBLE BANKING, FINANCING AND INVESTMENT

This report focuses on HSBC as one of the largest funders of the palm oil sector, but it is by no means the only bank linked to destructive palm oil companies. Other banks' policies and actions are also problematic. Recent research for the Forest 500 rankings showed that less than a fifth (18%) of the 150 financial institutions assessed have policies to protect intact, high conservation value or natural forests.<sup>19</sup>

Where banks are providing loans or other credit facilities, the potential for greatest influence over palm oil groups arises prior to agreeing to provide or renew these financial services. Banks providing such services should adhere to the following core principles:

- 1. Disclose details of all financing and financial services provided to palm oil companies or groups with palm oil subsidiaries.**
- 2. Commit to a 'No Deforestation, No Peat, No Exploitation' policy.**
- 3. Engage with existing customers to ensure they comply with this policy within a fixed time period, refusing to refinance or renew other services until they do so.**
- 4. Refuse financing or other services to potential customers that do not comply with the NDPE policy.**

Institutional investors have ongoing opportunities to engage with investee companies on corporate strategy and behaviour in order to evaluate corporate risk mitigation and management. Accordingly, institutional investors with existing holdings in relevant companies should adopt the following core principles:

- 1. Disclose details of all equity and fixed income holdings in palm oil companies or groups with palm oil subsidiaries.**
- 2. Commit to a 'No Deforestation, No Peat, No Exploitation' policy for new investments.**
- 3. Engage with existing portfolio companies to ensure they comply with this policy within a fixed time period.**
- 4. Divest from companies that fail to comply.**

## ENDNOTES

- 1 Overall figures are not available, but a recent study of 25 palm oil groups identified HSBC as the top lender to these groups in the 2009–2013 period. Source: Winarni and van Gelder (2014) p15.
- 2 HSBC (2014a, 2014b)
- 3 HSBC (2016c) p3
- 4 MoEF (2015b)
- 5 Bumitama Agri Ltd (2016a) p10
- 6 Bumitama (2012)
- 7 IOI Group (2015a) p254
- 8 Greenpeace International (2008)
- 9 RSPO (2016e)

- 10 Burrows (2016)
- 11 Noble Group (2015a)
- 12 Suara Papua (2014)
- 13 IndoAgri (2016) p19
- 14 Centre for Orangutan Protection (2013)
- 15 OPPUK, Rainforest Action Network and International Labor Relations Forum (2016)
- 16 Accreditation Services International (2016)
- 17 Letter to Greenpeace UK from HSBC, 11 January 2017
- 18 HSBC (2016c) p2
- 19 Global Canopy Programme (2016b) p9

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**GREENPEACE**

PUBLISHED JANUARY 2017  
GREENPEACE INTERNATIONAL  
OTTO HELDRINGSTRAAT 5  
1066 AZ AMSTERDAM  
THE NETHERLANDS

ENQUIRIES@GREENPEACE.ORG  
WWW.GREENPEACE.ORG