

Forest Land and Forest Products Sector Guideline

Objectives

The purpose of this guideline is to ensure that HSBC's involvement in this potentially sensitive sector is consistent with our longstanding commitment to the environment, given the apparent high environmental and social risks inherent in the forestry industry and related downstream activities. In addition to outlining the areas where we are and are not prepared to participate, the guideline also sets out broad principles of good forest management. In this context, it should be viewed as a value-added opportunity to work with our customers towards achieving sustainable forestry practices.

Scope

This guideline covers the following industries and activities: forestry, timber and timber products/processing, timber trading, plantations (pulp, timber, oil palm, rubber) and forest conversion.

Sector lending guideline

In 2003, HSBC adopted the Equator Principles, a set of voluntary guidelines, which apply to project financing. In accordance with this, and our general approach to lending, HSBC will follow the International Finance Corporation Safeguard Policies in respect of forestry. A copy can be found on the IFC web site (www.ifc.org) under Safeguard Policies. In particular, we will not provide facilities and other forms of financial assistance, including any involvement in debt and equity capital markets activities and advisory roles, in respect of:

- Commercial logging operations in:
 - Primary Tropical Moist Forest
 - High Conservation Value Forest
 - Logging operations that are in violation of local or national laws in respect of illegal logging
 - Logging operations that include any species listed in CITES (Convention on International Trade in Endangered Species of Wild Flora and Fauna), Appendix I
- Companies which purchase, trade or process timber from the above sources
- Projects located in and which significantly degrade or convert Critical Natural Habitats

Sector lending standard

It is HSBC's preference to deal with customers in this sector that are either operating managed forests that are certified by the Forest Stewardship Council (FSC), or equivalent FSC-recognised standard, or trade in products that are FSC-certified or equivalent. This includes clients who are not FSC or equivalent certified but are following a credible path towards achieving compliance – see overleaf.

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The FSC is an international body, which accredits certification organisations to certify timber and forest products as FSC-compliant. Developed jointly by the industry and environmental groups, the FSC is currently the only internationally agreed forestry standard with global application and therefore has a high level of acceptance. For this reason, the Group has accepted the FSC as its own standard of good forest management. More details on the FSC can be obtained from their web site <http://www.fsc.org>.

Although globally accepted and in operation in over 60 countries, FSC certification is not universal at this stage, and in some countries implementation of and compliance with FSC is not rigorous. In addition, a number of countries have developed local standards, some of which are recognised by the FSC and others of which fall short. It will take a number of years for companies to obtain certification for all of their forestry concessions and it is unlikely that some of our customers will have full FSC or equivalent certification in the short term.

In recognition of this, HSBC is prepared to deal with customers who do not have full FSC or equivalent certification but are following a credible path towards achieving compliance within a maximum of five years. As a condition for providing, or continuing to provide, facilities, we need to be satisfied that progress towards achieving certification is being made and loan documentation includes suitable conditions in this respect.

Where customers do not have FSC or equivalent certification *and* are not taking credible action to achieve this, we will consider measures to exit such relationships. This will also apply where a customer has FSC or equivalent certification and this is withdrawn, unless the reasons behind this are temporary and a plan has been established to regain certification.

Social impacts

Certain FSC principles cover the impacts on affected societies, such as land title and land use rights, the rights of indigenous peoples, community relations and workers' rights and economic benefits from forest land use. We will ensure that we are aware of these issues and that our customers are observing international standards in this respect.

Sustainable forestry

HSBC encourages engagements with companies in this sector which practise sustainable forestry management, as evidenced by FSC or equivalent certification, actively work against illegal logging or are involved in reforestation, conservation and biodiversity preservation projects.

Summary

This sector guideline outlines the framework for HSBC's involvement in forestry and certain related industries. It is based on widely adopted international standards which are considered acceptable to a number of stakeholders, including industry participants, multilateral development agencies (e.g. World Bank, IFC) and the main environmental non-governmental organisations.

This is, however, a complex industry and one where standards vary country by country and continue to evolve. In line with our global approach to environmental issues, we will apply the FSC or equivalent standards or national standards where these are at least as rigorous. It is, however, not possible to put in place a prescriptive guideline that covers all aspects in detail at the local level. Our lending executives therefore are expected to make reasoned, common sense judgements in implementing this guideline. However, exceptions will be a rare occurrence.