BANKTrack

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CC: Andrew Cave and RBS Board Members

28th May 2012

Dear Sir Philip Hampton and members of the RBS Board,

RE: Our letter of 2nd June 2011

Following a meeting with Sandy Crombie, Andrew Cave and Andy Mason after the 2011 RBS AGM, we wrote to you one year ago to respond to your letter with five specific recommendations that we would like to make to the RBS Group after years of monitoring your provision of finance to fossil fuel projects and companies. A BankTrack / Platform representative also spoke with you directly about this in a meeting at your Bishopsgate offices in March 2012.

This letter is an updated version with added detail in response to Andrew Cave's letter of 30.4.12 which although very informative did not detail the policy plans we think necessary as part of your Environmental, Social, Ethical Risk Policy updates. We call on RBS to make these policy changes **urgently**; each month that passes means loss of life and livelihood.

These five recommendations focus on what we see as realistic, deliverable changes that RBS can make. We ask that RBS inform all signatories when we can expect these policy developments, and if not, why not. We also ask that you distribute this letter amongst all senior staff working in relevant departments.

Our recommendations are being made with reference to significant policy shifts ocurring in other international banks, in the hope that the RBS Group can be seen as being a pioneer rather than a laggard in these areas. ***Our recommendations are practical, possible, deliverable and, above all, necessary.***

They have developed as a result of our engagement with communities impacted by the activities of companies that RBS supports, the conversations we have had with key actors in the financial industry, particularly in socially responsible finance, and dialogue we have had with numerous NGOs and community groups in the UK that are taking action over the threat of climate change.

The body of **research, experience and engagement** with relevant stakeholders over the previous six years gives us some authority in making these recommendations to you. Please note especially the various details added since our previous correspondance in point 3), regarding **sector-wide standards** as set by other international financial institutaions, and further cases of controversial finance by RBS while we await **policies that can deliver**.

1) Improved disclosure of greenhouse gas emissions

RBS must **actively promote a sector-wide move towards reporting portfolio-based emissions through the planned Carbon Disclosure Project's financial sector supplement** and **set a specific reduction target for carbon intensive lending.**

We note that you do not support the idea that carbon emissions are embedded within loans and finance provision but hope you recognise that the biggest impact RBS has on society and the environment is through the financing you provide to clients and the enabling effect this has on their activities.

With this in mind we support your commitments to enhanced disclosure of your financing of the energy industry. We continue to believe that the annual publication of **portfolio-based 'carbon footprints' for a set of carbon intensive sectors** is the best way for stakeholders to understand the carbon risk profile of your loan book. We support the publication of these carbon footprints based on the carbon intensity of your clients (from CDP or other sources) and RBS lending exposure to these clients split into industry sectors (such as oil & gas, electricity). This data is available and would require only a small change in disclosure practices from that contained in *Our financing of the energy sector* briefing.

We commend RBS on its participation in the CDP and achievements in the disclosure and carbon performance indicators. In your letter you note the CDP plan to produce and consult upon a "financial sector supplement" to the annual CDP questionnaire. We strongly encourage RBS to promote enhanced disclosure for all financial institutions by **actively supporting portfolio-based carbon footprint reporting as part of this sector supplement**.

Alongside measurement and reporting we see it as critical that a **reduction target** is set to reduce the carbon intensity of your loan portfolio in key industry sectors. RBS must use its current environmental, social and ethical policy development process to set reduction targets for portfolio emissions from the electricity and oil & gas sectors. A summary of different methodologies and reduction targets can be found on the BankTrack website.[1]

2) Policy on Indigenous Rights and Free Prior and Informed Consent of Indigenous Communities

RBS must ensure that its clients provide evidence of **Free Prior Informed Consent (FPIC)** from Indigenous communities on activities affecting their community. Such a policy would bring RBS into line with current international law as ratified in the **UN Declaration on the Rights of Indigenous Peoples, and the International Finance Corporation Sustainability Framework**. The Declaration sets out the international standard that governments "shall consult and cooperate in good faith with the indigenous peoples concerned through their own representative institutions to obtain their free and informed consent prior to the approval of any project affecting their lands or territories or resources" (Article 32).

Representatives of First Nation communities in Canada have repeatedly spoken out against RBS's involvement in providing loans

[1] http://www.banktrack.org/show/pages/banks_and_financed_emissions

to companies engaged in extracting tar sands in areas where the FPIC has not been obtained, or has been contested. RBS has also been involved in the provision of finance to Anglo-French oil company Perenco, which is operating in regions of the Peruvian Amazon against the express wishes of indigenous communities living there.

Such policies related to FPIC have already been adopted by **TD Bank Financial Group** as part of its **Environmental Management Framework** (2007) and by the **Royal Bank of Canada** within its **Environmental and Social Risk Management Policy** (2010).

3) Keeping up with best practice within the sector

As a bare minimum, RBS should take steps to keep up with **best practice within the international finance sector**. In the UK, the Cooperative Bank has set the standard high with a clear policy[2] prohibiting any finance of fossil fuel projects, whilst providing leadership in equity engagement to stop tar sands expansion.

International banks similar in size to RBS on both sides of the Atlantic have more recently drawn up policies which limit coal and/or tar sands finance anywhere in the world. Belgian bank Dexia developed a **water-related policy limiting tar sands finance** in 2008[3]. RBS's UK competitor HSBC released an energy policy that addresses both **tar sands and coal finance** in late

[2] http://www.goodwithmoney.co.uk/assets/Uploads/Documents/Ethical-Policy-A4-doc-FINAL2.pdf
[3] 'Energy Sector Guidelines', Dexia, 2008.
http://www.banktrack.org/download/energy_sector_guidelines/20081110_energy_sector_guidelines_uk.pdf

2010[4]. German bank West LB[5] has an **energy sector policy that limits coal finance**. Lloyds of London, the worlds biggest insurance market, has **warned of the risks of Arctic drilling**[6] (which RBS has previously been involved with having provided finance for Cairn Energy), and West LB has said it **will not loan to projects exploring or extracting** in the Arctic.[7] Following similar campaigns and engagement by civil society with RBS, your Canadian counterpart the Royal Bank of Canada drew up a policy which **restricts finance to tar sands extraction** that makes specific reference to the **adherence to Indigenous Rights[8]**.

While these existing policies might not be as restrictive as many campaign groups would like, they at least highlight the fact that RBS is significantly lagging behind other commercial banks in addressing the issue. Earlier this year RBS involvement in **lobbying at an EU level against the Fuel Quality Directive** was revealed by Reuters[9]; and since our last letter RBS Securities Inc. underwrote $131.25 million worth of bonds for Enbridge Energy Partners[10], who face **legal challenges** from the Yinka Dene Alliance.[11]

2012 should be the year that RBS takes steps to align itself with these other banks or, ideally, moves beyond these initial policy

[4] 'Energy Sector Policy', HSBC, 2010. http://www.banktrack.org/download/energy_sector_policy_1/110124_hsbc_energy_sector_policy.pdf

[5] 'Coal Policy', WestLB, 2009. http://www.banktrack.org/download/coal_policy_1/100130_coal_policy_west_lb.pdf

[6] "Arctic oil rush will ruin ecosystem, warns Lloyd's of London" http://www.guardian.co.uk/world/2012/apr/12/lloyds-london-warns-risks-arctic-oil-drilling

[7] "Westlb, Oil Platform Lender, Won't Do Arctic, Antarctic Business" http://www.bloomberg.com/news/2012-04-27/westlb-oil-platform-lender-won-t-do-arctic-antarctic-business.html

[8] 'RBC Environmental Blueprint', Royal Bank of Canada, 2010. http://www.banktrack.org/download/environmental_blueprint/rbc_environmental_blueprint.pdf
Also see response from Rainforest Action Network: http://understory.ran.org/2010/12/22/rbc-takes-a-step-away-from-tar-sands/

[9] "Insight: Canada's oil sand battle with Europe", http://www.reuters.com/article/2012/05/10/us-oil-sands-idUSBRE8490OL20120510

[10] Source: Bloomberg

[11] http://www.polarisinstitute.org/yinka_dene_alliance_freedom_train_–_tar_sands_to_pipelines

shifts to **take leadership** with something broader and more effective that we have yet seen in the sector.

4) Policies on corporate as well as project finance

New RBS policies must clearly take into consideration **corporate finance** as well as **project finance lending**.

In 2010, an open letter to Equator Principles Financial Institutions (EPFIs) signed by representatives of over 80 civil society groups involved in bank campaigns all over the world expressed serious doubts about the usefulness of the Equator Principles. A key point of concern is that the EPs only look at project finance, side-stepping finance of operations arranged as corporate loans. The open letter called on banks to "continue to explore how the Principles could be extended **beyond project finance into corporate lending, asset management and initial public offerings**".

Lack of liquidity in the wake of the 2008 financial crisis meant that there was a significant decline in the more capital-intensive finance market. For any policy to be effective, it must be responsive to these trends and shifts.

All current and intended operations of a company must be taken into account during any financing deal; RBS cannot commit to fairer more sustainable practices on one hand whilst turning a blind eye to harmful practices supported with the other. **Robust and suitably specific policies** must be in place to prevent RBS Group from providing finance to operations which would fall outside of any limitations set for project finance, whether the financing is corporate, equity, bonds or otherwise. For example, a policy on tar sands should extend to restrict finance to companies with any operations relating to tar sands extraction, rather than only restricting project finance for a specific tar sands project.

Best practice within the sector exists on this issue. HSBC's Energy Sector Policy states that "the financial services covered by the policy include all lending and other forms of financial assistance, debt and equity capital markets activities, project finance and advisory work."[12] RBC's Environmental Blueprint states "this policy applies globally to all of our debt and equity underwriting activities, as well as all corporate credit facilities, regardless of whether the use of proceeds is known."[13]

5) Risk management

We read with interest that your sustainability report 2010, which lists priorities for 2011 including: "Develop external environmental, social and ethical (ESE) risk statements and internally implement ESE policies for oil and gas; mining and metals; forestry and defence"; and "develop ESE policies for energy generation and chemicals."

We welcome the development of ESE risk policies for general lending to named sectors and urge you to publish external risk

[12] 'Energy Sector Policy', HSBC, 2010. http://www.banktrack.org/download/energy_sector_policy_1/110124_hsbc_energy_sector_policy.pdf

[13] 'RBC Environmental Blueprint', Royal Bank of Canada, 2010. http://www.banktrack.org/download/environmental_blueprint/rbc_environmental_blueprint.pdf

statements as soon as possible to enhance the accountability of your process. The value of ESE policies cannot be judged until more information is available. And while we do not know the weighting given to ESE considerations during your risk management we urge you to **weigh ESE considerations significantly higher than they have been historically** as a response to the increased climatic threats that economies face as GHG emissions continue.

We note from the *Our financing of the energy sector* briefing that in certain circumstances the ESE risk policies will "prevent the provision of finance where the environmental and social impacts are too high."[14] **This ability to refuse to provide finance and, importantly, the willingness on behalf of the board to use it for loans to companies extracting heavy oil or tar sands, is critical to a genuine sustainability commitment.** RBS cannot leave behind its 'climate laggard' tag while exposure to unconventional oil projects is not reduced year-on-year.

We call to your attention again the company law requirements to consider the environmental and social impacts of business decisions and note the inclusion of a sustainability chapter in the annual report and accounts. We urge you to expand this section. The only specific information on environmental sustainability appears to be "Since 2006, we have provided more finance to wind power projects than any other type of energy project". We are guessing that you refer to project finance but this statement is extremely misleading to say the least. Information included in the business review should not be 'cherry-picked' in this way but represent **a genuine report of ESE risks facing the business and a summary of progress on sustainability targets**.

[14] *Our financing of the energy sector*, RBS, 2010, page 9.

Finally, we hope you will continue to write to all your clients asking them to participate in the annual CDP questionnaire. This provides a valuable incentive for others to respond to the CDP. As mentioned above we hope the 'carbon risk' this data describes will be given stronger material weighting during your risk assessments.

We thank you for the opportunity to continue this ongoing dialogue, and make these recommendations in good faith that you will consider them in full and amend your practices and policies wherever possible. We hope to see the RBS Group **go beyond** giving **token nods to the sustainabilty agenda**, but enter the future with **sound, robust policies** that direct its lending away from fossil fuels.

According to the Sunday Herald, between October 2008 and August 2010, RBS was involved in providing finance of over £13 billion to oil and gas deals[15], while the UK taxpayer continues to face more and more cuts in basic frontline services. £33 billion is almost equivalent to the total devolved spending for Scotland, and a third of the entire NHS budget for 2009/10[16]. Having bailed out RBS, the UK taxpayer is owed a financing practice that **serves the public good** by promoting ecological, social and economic sustainability rather than driving us to the edge of climate catastrophe.

The Guardian recently reported that at a time when our awareness of the enormous threat posed by climate change has never been more certain, global carbon emissions increased by a record amount last year.[17] Responsibility for this growth in emissions lies in all

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[15] 'How RBS funds 'dirty oil', Rob Edwards, Sunday Herald, 22 August 2010. http://www.heraldscotland.com/news/transport-environment/how-rbs-funds-dirty-oil-1.1049758
[16] 'Government Spending', The Guardian, 18 October 2010.
[17] http://www.guardian.co.uk/environment/2011/may/29/carbon-emissions-nuclearpower?INTCMP=SRCH

sectors across society, but **the specific role** that finance plays is of particular importance in determining the **future pathways of our energy transition.**

It is up to RBS to take whatever measures it can to avert damage caused by its operational activities. We make these recommendations as guidance towards that goal. The policy changes we suggest are a **crucial stepping stone** in mitigating the harmful impacts associated with fossil fuel projects. We await your response detailing your upcoming **policy plans** to implement the **deliverable changes** we recommend.

Yours sincerely,

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Mel Evans, PLATFORM

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