

Barclays Forestry and Palm Oil Statement

February 2019



Introduction

The forestry and agribusiness industries are responsible for producing a range of soft commodities such as timber, pulp and paper, and palm oil that play a critical role in feeding the world's population and driving economic development. The production and processing of these commodities is also a major source of income and supports the livelihoods of millions of people across the world, particularly in developing economies.

However, these activities are also associated with a range of adverse environmental and social impacts, including loss of biodiversity, damage to precious ecosystems, labour exploitation and displacement of local communities. Deforestation, and forest and peatland degradation are also a significant challenge in many regions and a major contributor to climate change, accounting for up to 15% of global greenhouse gas emissions, and second only to the energy sector¹.

Barclays has therefore developed a specific due diligence approach for clients in the forestry and palm oil sectors which is outlined in this statement. We seek to support clients that promote sustainable forestry and agribusiness practices whilst respecting the rights of workers and local communities.

Barclays is a signatory to the New York Forest Declaration of the United Nations² and its objective of supporting all endeavours to cut natural forest loss in half by 2020, and to end it by 2030. Barclays has also adopted the Banking Environment Initiative's Soft Commodities Compact³, which commits us to helping our corporate clients in a number of sectors including forestry, pulp and paper and palm oil achieve zero net deforestation by 2020. Further, as a member of the Association of Banks of Singapore (ABS), Barclays adheres to the Guidelines on Responsible Financing⁴, including adoption of the Haze Diagnostics Kit during due diligence of forestry, pulp and paper and palm oil clients to assess fire risks in their plantation operations.

Scope of position statement

This statement covers the provision of all financial services to Corporate Banking and Investment Banking clients with timber or palm oil production, processing or trading operations in lower income countries⁵, where the risks of tropical deforestation are considered to be greatest.

Approach to enhanced due diligence

All clients deemed within the scope of this position statement are reviewed on a case by case basis and subject to enhanced due diligence. These clients are analysed against specific environmental and social risk considerations which include, but are not limited to:

- I. Adherence to local and national environmental regulation and standards and industry best practice.
- II. Adherence to the Equator Principles (if a project finance or credit transaction is deemed in scope) and relevant IFC Performance Standards.

- III. Management of direct environmental issues including deforestation, biodiversity protection, and impacts on protected areas such as World Heritage Sites and Ramsar Wetlands.
- IV. Management of haze and fire risks, as specified in the ABS Haze Diagnostics Kit.
- V. Impact on local communities and adoption of the "free, prior and informed consent" (FPIC) principle, in particular when considering impacts on indigenous communities.

Appetite criteria

Barclays has **no appetite** for providing financial services to forestry, pulp and paper or palm oil companies that are involved in:

- I. Illegal logging or trading activities.
- II. Use of illegal or uncontrolled fire in forestry or plantation operations, including for land clearance and preparation.
- III. Acts of violence against or exploitation of people and local communities, including through forced or child labour, modern slavery and human trafficking.
- IV. Operations or business practices that do not comply with all applicable local, national, and international laws and regulations.

In addition, we require all forestry, pulp and paper and palm oil clients to:

- V. Obtain the consent of indigenous and local communities affected by their operations through a credible "free, prior and informed consent" process.
- VI. Prohibit the conversion or degradation of primary tropical forests, High Conservation Value (HCV) or High Carbon Stock (HCS) areas and peatlands.
- VII. Achieve full certification of all owned production and primary processing facilities:
 - a) For palm oil companies this means Roundtable on Sustainable Palm Oil (RSPO) certification of owned plantations and mills in lower income countries.
 - b) For forestry and pulp and paper companies this means Forest Stewardship Council (FSC) or comparable certification⁶ of owned logging sites in lower income countries, where such schemes are established.
 - c) In the absence of certification, we require the client to develop a time-bound action plan to achieve this within three years, which will be monitored annually by Barclays.

For palm oil clients specifically, we also expect:

- VIII. Producers and primary processors of palm oil to adopt a public commitment to no net deforestation, no peatland development and no human rights violations (NDPE).
- IX. Companies that trade palm oil to maximise the trading of RSPO certified palm oil from suppliers that employ RSPO approved supply chain certification mechanisms.

Escalation procedure

Clients or transactions in scope are referred to the Environmental Risk Management team (embedded in Credit Risk) and Sustainability team for enhanced due diligence. Where clients or transactions are considered at risk of not meeting the above criteria or that pose a material reputational risk, these are then escalated to the appropriate business unit Transaction Review Committee and, if necessary, the Group Executive Committee and Board Reputation Committee for final decision.

In line with our commitment to the Soft Commodities Compact and its aim of incentivising and supporting sustainable industry practices, we prefer to engage with existing clients who do not yet meet these requirements but who are willing and able to do so within a limited timeframe. However, in cases where clients are unable or unwilling to comply or agree to an action plan to address identified gaps, we will seek to exit the relationship taking into account existing contractual agreements.

This statement will be reviewed and refreshed on an annual basis.

¹ Drivers of Deforestation and Forest Degradation: A Synthesis Report for REDD+ Policymakers (G. Kissinger, M. Herold, V. De Sy, 2012), available at: https://www.forestcarbonpartnership.org/sites/fcp/files/DriversOfDeforestation.pdf_N_S.pdf

² New York Declaration on Forests, available at <http://forestdeclaration.org/about/>

³ Soft Commodities Compact overview is available at <https://www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative/programme/sustainable-agri-supply-chains/soft-commodities>

⁴ ABS Guidelines for Responsible Financing, available at <https://www.abs.org.sg/docs/library/responsible-finance-guidelines-version-1-1.pdf>

⁵ Refers to countries listed as “repayment category II” at <https://www.oecd.org/trade/xcred/2018-Internet-table-2-english-as-of-27-july-2018.pdf>

⁶ This includes other credible certification schemes that are comparable to FSC certification; primarily national schemes endorsed by the Programme for the Endorsement of Forest Certification (PEFC).