Mr John Flint
Chief Executive
HSBC
8 Canada Square
London
E14 5HQ

March 6th 2019

Dear Mr Flint,

Re: HSBC's Energy Policy.

Given the fast-paced changes affecting the coal sector globally and the rate of the low-carbon transition, HSBC is growing increasingly vulnerable to climate-related financial risks. We therefore request that HSBC institutes a prohibition of general corporate financing, underwriting and advisory services to companies who are highly dependent[1] on coal. Furthermore, we request that the bank aligns with leading peers, such as Standard Chartered, and expands its existing coal project finance exclusion policy to include Indonesia, Bangladesh and Vietnam. Our reasoning is as follows:

1. **Expansion of coal infrastructure anywhere in the world is incompatible with the Paris Agreement, which HSBC has publicly supported.**

This has been demonstrated by several studies. For example, research by the University of Oxford shows that if we are to be consistent with <2◦C goal, future emissions from the capital stock of power generation infrastructure would be reached by 2017.[i] As of today, this means that no new net-positive emission power plants can be built anywhere in the world; and existing infrastructure will have to be retired early to ensure a 50% probability of keeping the global temperature rise within safe limits. Most recently, the International Energy Agency (IEA) reinforced this finding by revealing that the world has expended its carbon budget and no longer has capacity to absorb any new fossil fuel plants.[ii] The IEA have stated that conforming with Paris climate targets will require stranding newly built fossil fuel plants.

2. **There are substantial stranded asset risks facing the entire coal sector.**

Analysis by the IEA has demonstrated that 1,715 GW of coal power capacity could be retired early under a <2◦C scenario.[iii] That is equivalent to the total coal plants in China, USA, Japan, Germany and Poland combined, with the losses stemming from the early stranding of these assets estimated at up to $8.3 trillion by 2060. The current capacity of today's coal power fleet, for context, is 1,965 GW.

As revealed by Carbon Tracker, building new renewables will be cheaper than running existing coal plants in Indonesia and Vietnam within the decade, meaning coal plants will be supplanted

[1] Highly coal-dependent companies are defined as those where over 30% of their revenues or energy mix comes from coal; AND/OR annual production, trading, or consumption of coal exceeds 20 million tonnes annually; AND/OR installed coal power capacity is greater than 10,000 MW; AND/OR the company is planning investments into new coal-related infrastructure. Such criteria are designed to ensure that highly diversified companies, such as Tata or Marubeni, who may fall below the 30% threshold but who have large absolute exposures to coal are still accounted for.

by solar PV in both Indonesia and Vietnam by 2027/28, and by onshore wind in Vietnam by 2028. The research found that owners of coal power units in Vietnam and Indonesia risk losing up to $46.4 billion when uneconomic coal assets are prematurely stranded.[iv]

3. **Coal power is not a solution but an obstacle to economic development.**

It is a common misconception that coal power is a prerequisite for economic development. Coal power has received far too much credit historically for poverty reduction. In China, the eradication of extreme poverty occurred mostly between 1981 and 1987 – before the large-scale deployment of coal power infrastructure.[v] In India, 95,000 MW of new coal power capacity was installed between 2001 and 2011, yet the proportion of electricity-poor households in the country remained largely unchanged throughout that timeframe.[vi]

This may be explained by the fact that 84% of the world's electricity-poor households live far from the grid, usually in rural areas and therefore out of reach of coal-powered electricity.[vii] Such an energy-access challenge is solved not by expanding coal power capacity, but by either extending grid infrastructure or by installing decentralised, stand-alone energy systems for communities or households. With the former option often slowed by cost and political barriers in the developing world, the latter – which encompasses many possible renewable technologies – presents itself as a more readily deployable energy solution.

4. **Renewable technologies can better serve the needs of developing nations.**

Renewable energy resources are plentiful in both developed and developing nations and are fast becoming the most economical energy infrastructure option across much of the world. Costs of solar PV, for example, have fallen 72% between 2009 and 2017, with solar alone accounting for 38% of net new power capacity in 2017 – more than coal, gas and nuclear combined.[viii] The World Economic Forum predicts solar PV to have a lower levelised cost of electricity (LCOE) than coal or gas power globally by 2020.[ix]

Stanford University has produced roadmaps guiding 139 countries, including Vietnam, Indonesia, Morocco and Zambia, to 100% renewable energy by 2050. The paper concludes that following such renewable pathways would create 24.3 million net new full-time jobs, avoid 4.6 million deaths per year from air pollution, reduce energy costs and power disruption, and increase worldwide access to energy through decentralisation.[x]

Coal, on the other hand, has been shown to have severe public health consequences. For example, research by Harvard University estimates there will be nearly 70,000 premature deaths per year in South-East Asia from coal-related air pollution by 2030, if the planned coal power pipeline in the region goes ahead.[xi]

Finally, Sustainable Development Goal (SDG) number seven, that of ensuring access to affordable, reliable, sustainable and modern energy, is explicit in advocating for clean and renewable energy sources.[xii] HSBC cannot claim it is promoting sustainable economic development whilst continuing to finance the expansion of thermal coal infrastructure anywhere in the world.

As a result of this, **we request that HSBC adopts**:

- A prohibition of general corporate financing, underwriting and advisory services to companies that are highly dependent[1] on coal mining or coal power;
- A prohibition of project finance to new coal mines and coal-fired power plants anywhere in the world, including Indonesia, Bangladesh and Vietnam;
- A clear, timebound plan to phase out existing exposure.

We look forward to your response. Please send this to: Sonia Hierzig, Senior Projects Manager – Climate Change, sonia.hierzig@shareaction.org.

Yours sincerely,

Jessica Ground
Global Head of Stewardship
Schroders

Esmé van Herwijnen
Responsible Investment Analyst – Climate Change Lead
EdenTree

Roland Bosch
Associate Director
Hermes EOS

Heike Cosse
Engagement Manager Responsible Investment
Aegon NV

Vincent Kaufmann
Chief Executive
Ethos Foundation

Catherine Howarth
Chief Executive
ShareAction

References

i – University of Oxford (2016). “New study warns on probability that '2ºC capital stock' will be reached in 2017”, *School of Geography and the Environment*. Available online at: https://www.geog.ox.ac.uk/news/articles/160331-2c-capital-stock-warning.html [accessed 12 February 2019]

ii – International Energy Agency (2018). *World Energy Outlook 2018.* Paris: International Energy Agency. Available online at: https://www.iea.org/weo2018/ [accessed 12 February 2019]

iii – Carbon Brief (2017). “IEA: World can reach ‘net zero’ emissions by 2060 to meet Paris climate goals”. *Carbon Brief*. Available online at: https://www.carbonbrief.org/iea-world-can-reach-net-zero-emissions-by-2060-meet-paris-climate-goals [accessed 12 February 2019]

iv –Carbon Tracker (2018) “Cheaper to build new renewables than run existing coal plants within 10 years’ time in South-east Asia” *Carbon Tracker.* Available online at: https://www.carbontracker.org/cheaper-to-build-new-renewables-than-run-existing-coal-plants-within-10-years-time-in-south-east-asia/ [accessed 12 February 2019]

v – Overseas Development Institute (2016) *Beyond coal Scaling up clean energy to fight global poverty.* London: Overseas Development Institute. Available online at: https://www.odi.org/sites/odi.org.uk/files/resource-documents/10964.pdf [accessed 12 February 2019]

vi – Institute for Energy Economics and Financial Analysis (2016) *Energy Poverty, Then and Now: How Coal Proponents Have It Wrong.* Cleveland: Institute for Energy Economics and Financial Analysis. Available online at: http://ieefa.org/wp-content/uploads/2016/03/Energy-Poverty-Then-and-Now_-How-Coal-Proponents-Have-It-Wrong-_March-2016.pdf [accessed 12 February 2019]

vii - 21. International Energy Agency (2011). *World energy outlook 2011*. Paris: International Energy Agency. Available online at: https://www.iea.org/publications/freepublications/publication/WEO2011_WEB.pdf [accessed 12 February 2019]

viii – International Renewable Energy Agency (2018). *IRENA (2018), Renewable Power Generation Costs in 2017,* Abu Dhabi: International Renewable Energy Agency. Available online at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2018/Jan/IRENA_2017_Power_Costs_2018_summary.pdf?la=en&hash=6A74B8D3F7931DEF00AB88BD3B339CAE180D11C3 [accessed 12 February 2019]

ix – World Economic Forum (2016) *Renewable Infrastructure Investment Handbook: A Guide for Institutional Investors.* Geneva: World Economic Forum. Available online at: http://www3.weforum.org/docs/WEF_Renewable_Infrastructure_Investment_Handbook.pdf [accessed 12 February 2019]

x – Jacobson, M. et al. (2017). "100% Clean and Renewable Wind, Water, and Sunlight All-Sector Energy Roadmaps for 139 Countries of the World," Joule 1, 108-121. Available online at https://web.stanford.edu/group/efmh/jacobson/Articles/I/CountriesWWS.pdf [accessed 12 February 2019]

xi - Koplitz, S. et al. (2017). “Burden of disease from rising coal-fired power plant emissions in Southeast Asia,” Environmental Science & Technology 51, p. 1467-1476. Available online at: https://pubs.acs.org/doi/pdf/10.1021/acs.est.6b03731 [accessed 12 February 2019]

xii – United Nations Department of Economic Social Affairs (2018) *PROGRESS OF GOAL 7 IN 2018. United Nations Department of Economic Social Affairs.* Available online at: https://sustainabledevelopment.un.org/sdg7 [accessed 12 February 2019]