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Costly Coal

Standard Chartered's role in a coal project threatening the Great Barrier Reef

Standard Chartered is facing close scrutiny from the media¹, pressure from civil society groups and opposition from indigenous communities as a result of its involvement in – whether as advisor and/or lender – the financing of the £8.2 billion Carmichael Mine and Rail Project, in the Galilee Basin, Queensland (the Carmichael Project). The Carmichael coal mine would be one of the biggest mines in the world and by far the biggest coal mine ever built in Australia. The mine would require construction of one of the world's largest coal ports and related infrastructure, on the Great Barrier Reef – the largest living coral system in the world and a UNESCO World Heritage Site². For this reason alone, participation in the Carmichael Project appears to be in conflict with the bank's own internal policies³.

11 banks, including HSBC, Barclays, Goldman Sachs and RBS, that routinely lend on international infrastructure and coal projects have already expressed unwillingness to be involved in the Carmichael Project⁴, in part because of the potential impact on the Great Barrier Reef. In addition, there are serious doubts about the financial viability of the Carmichael Project. The seaborne thermal coal industry – upon which this

project depends – faces numerous well documented cyclical and now potentially structural challenges.⁵

This briefing outlines the potential impact of the Carmichael Project on the Great Barrier Reef, the key risks for Standard Chartered from involvement in this controversial project and suggests some questions for investors to help assess whether Standard Chartered is adequately addressing the present and future risks associated with this project.

Major risk for investors

- Project infrastructure in UNESCO World Heritage Site
- Pressure from civil society and media in Standard Chartered's key markets due to risk of permanent damage to the Great Barrier Reef
- Standard Chartered apparently failing to implement own policies
- Global coal market in decline

The Carmichael Project

The Carmichael Project, if built, would have enormous local and global environmental – as well as human rights – impacts.

It would be the biggest coal mine ever built in Australia, measuring 28,000 hectares, seven times the area of Sydney Harbour.

If built, the mine will see up to 60 million tonnes of coal being shipped through the Great Barrier Reef every year, which when burnt, would lead to emissions amounting to over 120 million tonnes of CO₂ per annum at maximum production⁶, or around four times Ireland's annual emissions.⁷

In addition, millions of cubic metres of seabed would be dredged up from inside the UNESCO World Heritage Area to make way for coal ships and the port expansion, risking to significantly damage to the Great Barrier Reef region⁸.

Standard Chartered's role

Standard Chartered has confirmed that it is acting as an advisor to the Indian conglomerate Adani to arrange finance for the Carmichael Project.⁹ Recently the group financial controller of Adani's Australian mining subsidiary testified during Australian legal proceedings that the company received a US\$680 million loan from Standard Chartered and that it was used for the Carmichael Project.¹⁰ Standard Chartered has maintained that it has not provided finance for the Carmichael Project. However, from the court testimony it appears that even if the loan was not designated as a project specific lending facility it is nonetheless being used to finance work on the Carmichael Project, creating risks for Standard Chartered.

Questions for Standard Chartered

- Given the testimony from the borrower in an Australian court and resulting media coverage, can you confirm whether Standard Chartered is seeking confirmation from the borrower that funds lent by Standard Chartered were not used for the Carmichael Project?
- Is Standard Chartered revising procedures more widely to ensure facilities it advances are not applied to controversial projects potentially in breach of bank policy without the bank being aware?

The Great Barrier Reef

The Great Barrier Reef is the world's largest coral reef ecosystem, extending for 3400 kilometres, which supports a multi billion pound tourism industry¹¹. It is already under immense pressure from climate change and industrialisation.

There has been a 50% reduction in coral cover since 1985¹² and the Australian Government's Strategic Assessment Report shows that over 24 of the 41 metrics that collectively identify its status as a World Heritage area have deteriorated since its designation in 1981¹³.

The Australian Coral Reef Society has identified a range of specific threats to the Great Barrier Reef from the Abbot Point Port Development, part of the Carmichael Project. These include dredging itself; the disposal of dredge spoil from the Abbot Point port development; increase in shipping traffic, leading to an increased risk of ship collisions with the reef as well as with other ships; other pollution incidents; and a large increase in coal dust pollution over the reef.¹⁴

In addition to those immediate risks caused by the project, the Australian Government's 2014 Outlook Report identified climate change as the most serious threat to the reef¹⁵, while the Great Barrier Reef Marine Park Authority has noted that if "carbon dioxide levels are allowed to reach 450 parts per million scientists predict reefs will be in rapid and terminal decline."¹⁶

Further UNESCO has expressed concern about multiple aspects of the health of the Great Barrier Reef, especially in the context of further coastal industrialisation.¹⁷ UNESCO has stated "that the overall Outlook for the property is poor, and that climate change, poor water quality and impacts from coastal development are major threats to the property's health".¹⁸

The multiple nature of the threats to the Great Barrier Reef from the Carmichael Project suggest that mitigation of any single impact on the reef will be inadequate to preserve it; and that therefore through its involvement with the project Standard Chartered will contribute to damaging the Great Barrier Reef.

Questions for Standard Chartered

- What analysis of the potential impacts on the Great Barrier Reef did Standard Chartered undertake before commencing its role as an advisor in association with the Carmichael Project?
- Was Standard Chartered aware of the views expressed by The Australian Coral Reef Society on the impacts of the Carmichael Project on the Great Barrier Reef prior to providing financial services to the Adani Group.

Conflicts with Standard Chartered's own policies

Acting as either an advisor or lender in relation to the Carmichael Project appears to contradict Standard Chartered's own policies and position statements.

The bank's policies clearly state that it will "restrict the provision of financial services to Corporate and Institutional, Commercial, and Retail Business Clients who: do not significantly impact upon, or have operations located within, UNESCO World Heritage Sites and RAMSAR Wetlands."¹⁹ No qualification is given as to the definition of "impacts" and the severity required to be in breach of the policy. However, given the various direct and indirect threats the Carmichael Project poses to the Great Barrier Reef, it is difficult to comprehend how any involvement could be in line with the bank's own policies.

While these policies are voluntary and not legally binding, Standard Chartered states: "All staff are required to adhere to the Position Statements and endeavour to achieve these goals in line with our Group Code of Conduct and to live up to our brand promise of Here for good." BankTrack has examined in depth several position statements of the bank in the context of the Carmichael Project. According to BankTrack, "Standard Chartered will only be able to involve itself in the financing of these projects by contravening its own guidelines."²⁰

Infrastructure and transport position statements

As previously set out, the rail link and port expansion aspects of the Carmichael Project require significant infrastructure and transport investments. Independent experts are agreed that the Carmichael Project will increase shipping traffic, lead to an increase in ship impacts to the reef, and other shipping collisions, as well as related pollution incidents,²¹ on a World Heritage Site – the Great Barrier Reef.

Transport position statement²²

- [Standard Chartered] will therefore restrict the provision of financial services to Corporate and Institutional, Commercial, and Retail Business Clients who: Do not significantly impact upon, or have operations located within, UNESCO World Heritage Sites and RAMSAR Wetlands
- "For the purposes of this Position Statement, transportation includes road, airlines, shipping and railways, including the transport of hazardous materials.

Infrastructure position statement²³

- [Standard Chartered] will therefore restrict the provision of financial services to Corporate and Institutional, Commercial, and Retail Business Clients who: Do not significantly impact upon, or have operations located within, UNESCO World Heritage Sites and RAMSAR Wetlands
- For the purposes of this Position Statement, infrastructure refers to the construction, operation and decommissioning of transportation facilities (ports, harbours, terminals, airports, railways, and toll roads) [...].

Water position statement²⁴

- Recognising the scale of the challenge represented by water scarcity and that water as a resource should be preserved, in addition to any requirements which apply to a specific sector we encourage our clients to: Reduce water usage where the operations or project is a potentially significant consumer of water so that the project's water consumption does not cause or contribute to unacceptable water stress on third parties

Annual peak water demand of the Carmichael mine stands at 10,000–24,500 million litres per year. The project will potentially create considerable damage at the mine site, which has led to calls for an assessment of the impacts of unsustainable water-use and damage to nationally significant local water-systems.²⁵

The Equator Principles

Standard Chartered is a signatory of the Equator principles.²⁶ A central tenet of the Equator Principles prohibits the provision of project finance when indigenous peoples do not grant Free, Prior, Informed Consent (FPIC). Even though the Equator Principles formally allow banks to forego the FPIC requirement in countries like Australia, the local opposition by indigenous peoples suggests that not applying FPIC in this case is a breach of the spirit of the Equator Principles. The Wangan and Jagalingou people of the Carmichael area have opposed the project, launching a public campaign in March 2015 in order to protect their traditional lands and their culture.²⁷ They have formally rejected the Indigenous Land Use Agreement required by the borrower to develop the mine.²⁸

Questions for Standard Chartered

- Does Standard Chartered accept that its provision of financial services – whether as an advisor or as a lender – for the Carmichael Project which impacts a World Heritage Site is in conflict with the spirit and indeed the letter of its own policies? If not, why not?
- What form of risk assessment and assessment of consistency with corporate policies was undertaken prior to deciding to provide financial services as an advisor for the Carmichael Project? In light of subsequent events – including media coverage and civil society opposition – does Standard Chartered consider that level of assessment was sufficient?
- Considering Standard Chartered's Chairman's statement at the AGM that the bank would adhere to the "letter and spirit" of its own policies and the Equator Principles and the clear opposition by local indigenous groups, does the bank plan to apply FPIC standards?

Standard Chartered's response

Following media coverage and in response to direct questions to clarify its role and consistency with stated policies on World Heritage Sites, Chairman Sir John Peace read aloud a formal prepared statement at the AGM on May 6th:

"I can assure you that we will go no further with this until we are fully satisfied with all of the environmental aspects of this project. I can also assure you that we will fully adhere to the spirit and letter of the Equator Principles and to our own publicly stated environmental position statements. We are in active dialogue with the Australian government, and are aware that they are in discussions with UNESCO. We will obviously pay close attention to the outcome of those discussions. We will also be seeking input from other stakeholders, including NGOs..."

The plain English interpretation of Sir John's formal statement suggests that Standard Chartered will suspend all advisory activity related to the Carmichael Project until such a review has been completed. However, it is not clear that Standard Chartered has suspended the provision of its services. Furthermore no information has been made available as to the content and form of the environmental review. Given the level of media and civil society scrutiny it faces and the global recognition of the Great Barrier Reef, it is vital that investors ensure Standard Chartered both honour Sir John's commitment to 'go no further'

until all environmental impacts have been assessed, that such a review is conducted by experts, that it is independent, comprehensive, transparent and involves engagement with a range of stakeholders.

Questions for Standard Chartered

- Has Standard Chartered suspended, until completion of an environmental review, the provision of advisory services in relation to the financing of the Carmichael Project?
- If not, does Standard Chartered not consider that the Chairman's prepared AGM statement was misleading and exposes the bank to further criticism? What precisely did the Chairman mean when he said 'we will go no further until..' if not a suspension of services?
- Regarding the environmental review to be carried out: Who has been appointed to conduct it? Have they existing business relationships with either Standard Chartered or the Borrower?
- Will the terms of reference be published in advance? If not, why not?
- What stakeholders will be involved? Will the review consider the full range of options, including a withdrawal from the project, and not be limited to considering the extent to which the environmental and social impacts may be mitigated?
- Will the final review be peer-reviewed prior to publication? Will it be publicly available? If not, why not?



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Financial viability of the Carmichael project

In addition to the environmental, human rights and reputational risks, the financial outlook for seaborne thermal coal is poor. At the very least, coal is in the depths of a very deep market cycle, and is described by some as in structural decline²⁹. Globally, coal prices have dropped by more than 50% in recent years³⁰ – and analysts are decidedly pessimistic: Daniel Morgan, an analyst with UBS in Sydney, has stated that new supply “is not needed by the market in the next 10 years”; prices would need to increase more than 40 percent for the Carmichael mine to be viable.³¹

According to The Economist, “growing energy efficiency, rising pollution worries and stiffer competition from other fuels mean that in most countries the tide is turning against coal. Prices have been sliding, political opposition growing and demand dropping. The Dow Jones Total Coal Market index has fallen by 76% in the past five years.”³² The dramatic changes in China show how rapidly profound change can take place. This is not good news for Australian coal exports, nor is the fact that India’s power market also faces significant structural change: the Indian government under Prime Minister Modi has declared ambitious solar power capacity addition targets. At the same time, Indian Energy minister Piyush Goyal announced that India plans halt coal imports in 2 to 3 years.³³

In addition, the quality of coal from Carmichael is relatively poor, when compared to the Newcastle 6,000kcal, 12–14% ash export benchmark index. IEEFA estimates that Carmichael coal is likely to be valued at a 30% discount to the Newcastle benchmark 6,000kcal NAR.³⁴

Questions for Standard Chartered

- What is Standard Chartered’s view on the financial viability of the Carmichael Project and on what economic and coal market assumptions is this based?



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Conclusion

In providing financial services for the Carmichael Project which threatens the Great Barrier Reef, Standard Chartered stands isolated among its international banking peers and in conflict with its own policies. This project has already attracted extensive negative media and civil society scrutiny. It faces a range of environmental and social risks, while the financial prospects of the project depend on a coal market facing structural change, all in the context of risks to a globally known and loved World Heritage Site. These reputational and financial risks are compounded by the opposition of the Wangan and Jagalingou people. Standard Chartered appears to have underestimated both the opposition to and the risks associated with the Carmichael Project. It is important that shareholders raise the many outstanding issues with Standard Chartered to ensure the bank understands precisely what is at risk – both to it and the Great Barrier Reef – from the Carmichael Project.

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