# Mines Need Biodiversity and HSBC’s Legal Carbon Reduction Requirement

*Featuring:*

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Mike Disabato:

What's up, everyone? Welcome to the weekly edition of ESG Now, where we cover how the environment, our society and corporate governance affects and are affected by our economy. I'm your host, Mike Disabato. This week we have two stories for you. First, we discuss how some mining companies' operations are complicated by the biodiversity hotspots and pristine environments they operate in. Then we give an update on the biggest move so far of this proxy season, including a legally binding climate resolution at the second largest bank in Europe, HSBC. Thanks as always for joining us. Stay tuned.

Nevada, in the U.S. is a state known for its largest city, Las Vegas. But the state is also full of national parks, with around 81% of it being owned by the federal government. There are ample majestic views and dry land forests made up of brush and spruce and fir trees and desert plants and flowers. Those parks also sit aside some of the largest mining programs in the U.S. Recently these two things came into conflict after the U.S. Fish and Wildlife Service proposed protecting thyme buckwheat, which is a wild flower that grows in Nevada. They want to put it under the Endangered Species Act, which could hinder the progress of a lithium mine, lithium being a key electric car battery material being developed by Australian company Ioneer. This dispute is a paradigm of the problem we face in 2021 with mines and biodiversity loss.

Mines are industrial feats of humanity. The minerals they provide are vital for both modern society and the desire to decarbonize our world. Without metals, we would basically be a hunter and gatherer society. And without lithium, companies like Ford, Tesla and General Motors wouldn't be able to produce fleets of electric vehicles. But mines are often located in areas of invaluable ecological importance and their operations disrupt the healthy functioning of our environment. And thus, they threaten the survival of our species. There's a belief that the major environmental impacts associated with mining, such as soil and water pollution, air quality issues and erosion, can be addressed if mining is done properly and sustainably. That may be true, but it becomes very tricky when the mines are in remote and undeveloped areas, places of high biodiversity and even places that are what we call pristine or undisturbed ecosystems.

But these challenges aren't stopping companies and investors in mines. But the problem is communities and regulators and some investors are now pushing back and mines are being pitted against fragile and pristine environments, which increase the risks of operational roadblocks, stakeholder resistance and general investor concerns, or so says my two guests and colleagues, Sam Block and Gillian Mollod in a paper and blog they recently on the subject. So because of this news about Nevada, I wanted to hear more about this so I called up both Sam and Gillian and asked Sam if I'm right to say that this issue is not just limited to Nevada, that it's an issue across our world and for many mining companies today.

Sam Block:

We're seeing a lot more of these incidents happening around the world, where different interests in protecting natural resources are creating some sort of hinder and hurdle to developing different mining operations around the world. I think we even recently saw this, to a certain extent, with the U.S. Presidential administration suspending oil leases in the Arctic National Wildlife Refuge. That certainly also is going to happen a lot more with mining companies. We have mines that we've seen also in Alaska that have had a very hard time developing, because the mine seems to threaten or potentially could damage wildlife resources like salmon or salmon spawning areas.

Mike Disabato:

Sam mentioned that concerns around wild salmon populations is a reason for one of the longest running disputed mines in North America called the Pebble Mine in Bristol Bay, Alaska. The reason the mine has stalled is because conservationists in Bristol Bay have been able to easily identify a species, salmon, that supports an entire region's economy and biodiversity. From the tiniest microorganism they say to the giant grizzly bear, life in Bristol Bay revolves around salmon. Companies and investors can, theoretically, prepare for these types of risks when they are easily identified. Salmon is a global commodity. Everyone knows about it. And most cultures eat it. Salmon sales globally are around 17 billion U.S. dollars per year.

Where the risks become more complicated is when there is a less identifiable species or ecosystem near where a mine is being produced, such as the thyme buckwheat in Nevada or sediment export from Madre de Dios in Peru that eventually degraded ecosystems alongside rivers in Brazil. [inaudible 00:05:12] this happens, tensions rise between the mining companies and the communities they operate in. That's when things come to a head and instead of working in collaboration to ensure environmental priorities are addressed alongside economic ones, you see legal attacks being mounted between mining companies and conservation groups and sometimes violence and sometimes massive problems. Sam has seen that in 2021, that this is all becoming a much more pressing risk for companies and investors around the world.

Sam Block:

Well, the issue around biodiversity has really been building up over the years. We've seen a lot of incidents of ecological collapse. I mean, I'm thinking instances like with the loss of bees that have been happening. We've seen forest fires and deforestation growing in many places around the world, as you know, especially in the Amazon, which has been the place that people have been concerned about for a long time. Then we're seeing things like the coral reefs systems collapsing in many places, the bleaching. Part of that is because of climate change. Climate change is definitely one of the leading causes of biodiversity loss. We're just seeing a lot more litigation and instances of protest that have been building up to protect biodiversity.

That's also led to an increased attention by investors and these new taskforces on nature-related financial disclosures and partnerships for biodiversity accounting financials and new regulations such as in the SFDR, the Sustainable Finance Disclosure Regulations, in the EU that are going to require some disclosures around biodiversity impacts and biodiversity management. Also, I think COVID maybe in a certain extent has humbled the world to realize, we are living on one earth and problems that happen can affect all of us. That, and also we've been spending a lot more time outside, going to the parks and noticing wildlife in the cities that we live in. I mean, in New York City I saw a bunch of owls this year, which was amazing. I've heard stories of this happening for many different people around the world.

Mike Disabato:

Right. It seems that biodiversity has become mainstreamed into both our societies and into the energy and mining sector. Mining companies are beginning to understand the financial incentive to mitigate the biodiversity losses that their operations cause. That is because there is a significant infrastructure required to keep a mine operational. We're talking about roads, pipelines, dams, operational structures in general. These are all dependent on the proper functioning of natural ecosystems that require biodiversity to thrive. I'm talking about erosion control, soil health and slope stabilization that's done through vegetation and the protection afforded by ecosystems against natural disasters, such as flooding and storm surges. Water is also extremely vital for the mining industry and for many industries in general. All these systems break down if the ecosystem breaks down. The ecosystem is dependent on the biological variety and veritability of life on earth, aka, biodiversity.

Our world's biodiversity is in decline. In Europe and Asia, for example, only 23% of species and 16% of its habitats are in good health, according to the WWF. The rainforest in Latin America has seen the worst deforestation in 12 years. Around one million animal and plant species are now threatened with extinction, many within decades, more than ever before in human history. This is all according the UN, by the way. But the thing is with biodiversity is it's very regionally specific. There are these diverse distance and interacting threats that mines can bring to different types of species and ecosystems.

But there are areas that we can look at that are basically flashpoints for biodiversity loss controversies. They are our globe's, quote, "biodiversity hotspots," which are defined as places that one, have at least 1,500 endemic native vascular plant species, and two, have lost 70% of their primary vegetation already. So what Sam did, alongside Gillian, who you're about to hear from, Gillian is somewhat of a digital cartographer for us, they looked at these hotspots to identify any areas of possible trouble.

Gillian Mollod:

When we looked at the biodiversity hotspots, what we did was we put over 3,000 mines on a global map that really represent the global economy of mine location. There are mines all over the globe, basically. We found that the most mines were located in two of the biodiversity hotspots that were important. One was the tropical Andes, which is an area about three times the size of Spain that extends from Venezuela to northern Chile. This area is very biodiverse. It has over 30,000 plant species and really the largest variety of amphibians, birds and mammals. So really just a wonderful area. That's important to keep in mind.

We also noticed that a lot were in the Madrean Pine-Oak Woodlands, which is a rugged mountain area with lots of terrains located in Mexico. This has also deep canyons and has over a quarter of the world's oak species. Both of these areas are very biodiverse areas. You can imagine that large mining operations in these biodiverse areas would have a real strong impact there.

Mike Disabato:

Let me give you an example of some of those large mining operations. There's the Buena Vista Copper Mine that's in the northwest region of Mexico, which is owned partially by the Southern Copper Corporation. Or there's the Escobal Silver Mine in Guatemala, which is owned in part by Pan America. That's just to name of few. These mines are in both biodiversity hotspots and in intact biodiversity areas. In that blog that's on msci.com that Gillian and Sam wrote, there's more examples of these areas where we would think that there could be heightened increase of conflict and concern around biodiversity loss. These risks are global. I don't just want to pick on the Americas. They crop up in Europe, Africa, Asia, Australia, they're basically everywhere. And they are set to increase in the future.

Gillian Mollod:

We expect metal mining to increase over the coming decades. This is due in large to demand for new energy infrastructure, and also because of continued development in emerging markets. As we see this demand rise for minerals, this increases the likelihood that metal mining companies will be forced to develop mines in high biodiversity value areas. In the already built out mines, as biodiversity diminishes with operations, we expect to see a decrease in the minerals left extract.

Mike Disabato:

The problem of where to mine has gotten so confusing that there's even serious consideration about trying to mine the deepest parts of our oceans, places where the risks increase tenfold and the biodiversity problems are even more unknown. There are high-stakes political decisions that are being made about infrastructure that can impact our natural world. This week, the Keystone XL pipeline, a contentious pipeline that would have pushed more Canadian crude into the U.S., was scuttled after years of protests, false starts and failed discussions. It was another example that for highly impactful infrastructure projects, all parties need to ensure there is proper and aligned dialogue between the industry, policymakers and conservation organizations.

As you know, if you've been listening to our show these past couple of weeks, it's the time of company elections. The time when shareholders get to vote on their company's doings or not doings, and to tell them if they are happy or unhappy about the long-term strategy of the companies that they put their capital into. I'm going to try and bring you some of the more interesting stories from this year's proxy season each week. Last week, I talked about what happened at Exxon. This week we actually have another environmental bombshell. In a first at a multinational bank, HSBC has had a shareholder resolution pass that commits the bank to phasing out coal fire power and thermal coal mining financing by 2040. I wanted to hear more about this and to do that I called up my colleague, Aura Toader, to ask about what happened. Because not only is this a huge environmental win, but unlike most resolutions, this resolution is legally binding.

Aura Toader:

The shareholder proposal at HSBC passed with over 99% shareholder support, which is really unprecedented and a major win for shareholder activists. In the UK you need a 75% threshold that is required for a resolution to pass. Once it does, it's legally binding. That means that shareholders can take legal action against the board if the proposal is not implemented and that can carry high legal and reputational costs. Now, that the resolution passed, HSBC is committed to phase out financing of coal by 2040 globally. They also have to set short-term and medium-term targets to align the bank's financing with the goals of the Paris Agreement.

They also have to report annually on this progress. In the next six months until the end of the year, HSBC has to engage with ShareAction, which is the NGO that coordinated the investor coalition behind the shareholder proposal. ShareAction has specific demands from HSBC. For example, it argued that the coal policy should apply not only to its banking operations, but also to its asset management arm. If investors are not satisfied with HSBC's policies and targets this year, we might see another climate proposal at the 2022 General Shareholder Meeting.

Mike Disabato:

Why did this pass by so much? I mean, usually when we see shareholder resolutions that pass, they pass by like 51%, it's just a small margin. Sometimes they get up to 75. But why did this get 99% of shareholder support? Did something different happen with HSBC and the shareholders and things like that?

Aura Toader:

Yeah, that's really unprecedented. It's mostly due to the fact that both management and the board supported the proposal and it's really this engagement effort between the bank and its investors that was crucial to pass the proposal, because other banks such as UKB, or Barclays, the management at Barclays did not back the shareholder climate proposal. The result is that it only received 14% votes in favor, which is not enough to meet the 75% threshold to pass and to be legally binding.

Mike Disabato:

Okay. So tune in every week. Until proxy season's over, we'll try to bring you some of the more interesting resolutions for your ear balls. And that's it for the week. I wanted to thank Sam and Gillian and Aura for talking to me about this week's news with an ESG twist. I want to thank you so much for listening. Don't forget to rate and review us wherever you get your podcasts. It really helps. And, of course, subscribe if you're not already a subscribed listener. Thanks again. And talk to you next week.

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