BANKING ENVIRONMENT INITIATIVE FORUM 2012

CONFERENCE REPORT

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PROGRAMME FOR SUSTAINABILITY LEADERSHIP

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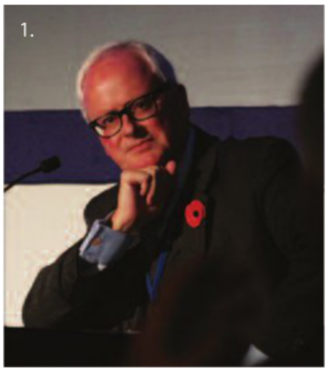

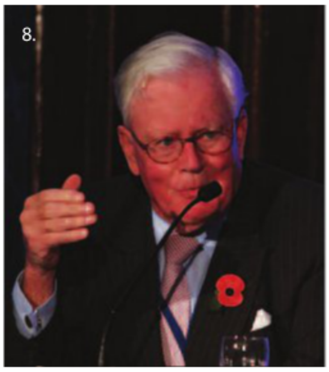

Speakers and contributors at the BEI Forum included:

1. John Varley
Chair, Banking Environment Initiative

2. Michael Cole-Fontayn
Chairman, EMEA, BNY Mellon

3. Jason Clay
Senior Vice President, Market Transformation, WWF

4. Jeremy Wilson
Vice Chairman, Corporate Banking, Barclays

5. Richard Burrett
Senior Associate, University of Cambridge Programme for Sustainability Leadership

6. Dr Virinder Sharma
Regional Climate Change Adviser, DFID Kenya and Somalia

7. Sabine Miltner
Managing Director and Group Sustainability Officer, Deutsche Bank

8. Sir Win Bischoff
Chairman, Lloyds Banking Group

9. José García Cantera
Senior Executive Vice-President and head of Global Wholesale Banking Division, Banco Santander

10. Tom Albanese
Chief Executive, Rio Tinto

11. Wim Hautekiet
CEO, BNY Mellon SA/NV

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About BNY Mellon

BNY Mellon is a global financial services company focused on helping clients manage and service their financial assets, operating in 36 countries and serving more than 100 markets.

BNY Mellon is a leading provider of financial services for institutions, corporations and high-net-worth individuals, offering superior investment management and investment services through a worldwide client-focused team. It has $27.1 trillion in assets under custody and administration and $1.3 trillion in assets under management, services $11.5 trillion in outstanding debt and processes global payments averaging $1.4 trillion per day. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation.

Why BNY Mellon supports the BEI Forum

As a financial services company entrusted with one of the most important roles in the world's financial system, BNY Mellon also is a leader in corporate social responsibility (CSR).

CSR is fundamental to BNY Mellon's culture and core values, reflecting the corporate, social and environmental sustainability commitments we make to our clients, shareholders, employees and our communities around the world. These commitments drive us to perform with the highest standards of good governance and ethics; provide products and services that meet the rising expectations of our clients and business partners; attract and retain employees; provide meaningful support to our communities; and improve the social and environmental impacts of our business practices and those of our suppliers.

Just as we are committed to providing the best service to our clients, maintaining strong value for investors and being known as a leading employer, we are committed to doing what's right and this includes delivering socially and environmentally responsible investments and products to the marketplace.

Our core business supports our clients' need for innovative environmental solutions

As a systemically important financial institution, BNY Mellon plays an integral role in ensuring the safe movement and management of assets around the world. We are keenly aware of our responsibilities as a trusted, reliable leader in our industry and the potential impact we have on societies.

BNY Mellon is committed to developing global capabilities needed to help the environmental markets grow and mature. We provide support to our clients throughout the entire investment lifecycle with our unrivalled breadth and depth of services.

Every debt issuer requires a reputable and trustworthy financial institution to manage the issuance and maturity process. BNY Mellon maintains a strong capital position and an exceptionally strong, highly liquid balance sheet with a solid capital position and strong credit ratings.

We are also focused on sustainable business practices, driving risk out of our company and the wider financial system. We focus on the long-term interests of our clients and our communities around the world and, consistently, enforce good corporate behaviours, producing an annual CSR report that meets the United Nation's Global Reporting Initiative standard. Our CSR report explicitly states our goals, progress and achievements.

We have a wealth of experience playing a key role in project finance deals, specifically within the renewable energy sector throughout the emerging markets, including these recent examples:

- In 2012, BNY Mellon was appointed as facility agent, offshore account bank and security trustee for the first-ever internationally financed wind power project in Pakistan, working with both the lender and borrower to successfully and effectively implement this complex transaction.
- BNY Mellon also assisted in the development of a ground-breaking energy project in Rwanda, which involved the removal and processing of otherwise hazardous methane gas for use as a direct fuel source in the country.
- Our pioneering Global Environmental Markets platform (GEM), a universal custody tool, helps clients with the management, tracking and reporting of diverse environmental products, through a single, flexible interface. Through the GEM platform, both regulated and unregulated environmental credits can be tracked and reported.

Environmental sustainability statement

BNY Mellon's commitment to corporate social responsibility includes the environmentally prudent management of our facilities around the world; collaboration with suppliers to improve our indirect environmental impacts; environmental programs; and education for employees; green investments and socially responsible products offered to clients.

BNY Mellon is listed on the FTSE4Good Index, one of the premier Environmental, Social and Governance indices to identify companies that meet globally recognised CSR standards.

About Barclays

Barclays is a major global financial services provider engaged in personal banking, credit cards, corporate and investment banking and wealth and investment management with an extensive international presence in Europe, the Americas, Africa and Asia. With over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs 140,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Why Barclays supports the BEI Forum

Climate change and resource scarcity are amongst society's greatest challenges. Banks have an integral role to play in the acceleration to a sustainable low carbon economy. This will require substantive investment from both the public and private sector, as well as innovative partnerships and a supportive policy framework.

As a key founder of the Banking Environment Initiative, Barclays recognises the need for cross-sector collaboration and client engagement to find solutions. Barclays is working to address the environmental challenges for the financial sector, our clients and the communities where we operate.

Barclays' climate action strategy focuses on: managing our environmental footprint and reducing our carbon emissions; developing products and services to help enable the transition to a low carbon economy; and managing environmental and climate change risks.

Barclays strategy in action

We offer clients a full range of services - including equity and debt capital markets solutions, strategic advisory, project finance and research. Barclays' global Cleantech initiative offers co-ordinated advice and financing for clients interested in energy efficiency and new clean forms of energy generation. It also supports firms looking to maximise the value of natural resources.

We continue to innovate and evolve our product offering. We were recently lead bookrunner for the largest solar project finance bond to date, offering a way for institutional investors to allocate capital for a large US Solar Farm. In the UK, we provided the first bank debt to a UK marine energy firm. Aquamarine's pioneering 'oyster wave power' technology captures energy in waves and converts it into electricity. We also launched a £100m fund to finance renewable energy projects for UK farmers. This helps them reduce their energy costs and generate new sources of revenue.

As the first major bank with dedicated carbon trading desk, we've traded over 8.5bn tonnes with a notional value of over £81bn to date.

We have been recognised as one of the top 10 'greenest' banks in the world by Bloomberg. The Carbon Disclosure Project ranks Barclays joint first amongst FTSE banks for managing our environmental footprint and we're a leader in the Dow Jones Sustainability Index amongst some of the world's largest companies.

However, we appreciate there is still much more to be done. This is why we are actively engaged in multi-stakeholder partnerships on climate change, environmental scarcity and energy. Ultimately, individual firms and the overall banking sector will not achieve progress on this agenda without the full engagement of clients, which is the underlying tenet of the Banking Environment Initiative. We look forward to working together to develop the pioneering solutions required in response to issues that will define the futures of our businesses and those we serve around the world.

About Northern Trust

Northern Trust is a leading provider of asset management, fiduciary, banking, asset servicing and fund administration solutions for individuals, families, corporations and institutions worldwide. We have earned distinction as an industry leader by combining exceptional service and expertise with innovative capabilities and technology.

Why Northern Trust supports the BEI Forum

At Northern Trust, we strive to do our part to assess and lessen risk related to climate change. Under the leadership of our CSR Head, Connie L. Lindsey, our goal is to lead by example in our global operations. By expanding our partnerships with key environmental advocacy organizations, such as the Banking Environment Initiative (BEI), we can actively engage with our peers in the financial services industry to discuss environmental risks, trends and future opportunities as they relate to our sector.

Northern Trust's community-focused philosophy to Engage, Educate, and Enlighten is central to our development of an integrated, comprehensive and global CSR platform.

Engage: Our commitment to CSR begins with the strategic engagement of our key stakeholders to gain valuable feedback and input. Our focus on key stakeholders allows us to provide innovative solutions for our clients; training and a best-in-class workplace for our partners; and support and investment in the communities we serve.

Educate: Our commitment to CSR comes to life as we educate through partnerships with schools and other organizations globally to positively impact the lives of those in our communities. We educate ourselves by understanding, measuring and practicing a conservation-minded approach to our environment. For transparency and measurability in both our business and CSR initiatives, we follow the Global Reporting Initiative (GRI) framework in our annual CSR Report.

Enlighten: Our commitment to CSR allows us to increase awareness, strengthen relationships and enhance our value as a company as we seek to benefit our global society. Our Chairman and Chief Executive Officer, entire Management Group and the Business Strategy Committee of the Board of Directors actively participate in discussions related to ESG topics with our CSR Head and CSR Task Group.

Environmental sustainability statement

Northern Trust recognizes that our long-term financial prospects – and those of our clients – are tied to the health of the planet. We commit to protecting and preserving the environment through the services we provide and by mitigating our environmental impacts.

We conform to the principles of sustainability and try to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. We seek to integrate environmental considerations into our decision-making process and are committed to the continual improvement of our environmental practices.

Introduction

In 2010 when I was chief executive of Barclays, I was encouraged by HRH The Prince of Wales to ask the chairs and chief executives of some of the world's largest banks to look at ways in which the banking industry might direct more capital into sustainable activities and also to try to find new ways to support corporate clients as they pursue their own sustainability agendas. The first meeting of what is now known as the Banking Environment Initiative took place in Geneva that year.

John Varley

Chair, Banking Environment Initiative

The BEI Forum, held in London on 8 November 2012, represents the first opportunity for the BEI to meet with our stakeholders to explain and get feedback on what we have been working on to date and to invite views on where we should be directing our attention and energy over the next two years. It is very pleasing that more than 120 delegates attended, from the banking, corporate and advisory sectors.

Panel sessions presented the work of the two bank-corporate partnerships – known as collaboratories – in the following critical areas of sustainability:

- Directing capital to investment in clean energy
- Soft commodities and deforestation – an initiative with the Consumer Goods Forum

Paul Polman, chief executive of Unilever, sent an encouraging message supporting the BEI's collaboratory with the Consumer Goods Forum, and a panel of chief executives discussed the issue from the perspective of a boardroom dealing with multiple stakeholders.

A riveting Keynote address was delivered by Jason Clay, senior vice president of market transformation with World Wildlife Fund. And of course we were honoured that the BEI Forum was opened with a video message from His Royal Highness The Prince of Wales, Patron of the University of Cambridge Programme for Sustainability Leadership (CPSL).

Bank-corporate partnerships are central to the work of the BEI and to the success of our Forum. In this regard, we have benefitted enormously from the experience and connections of CPSL, which also kindly provides the BEI's secretariat.

I've greatly enjoyed my time as chairman of the BEI. It's been an exhilarating experience and I take a lot of pride in what has been achieved, supported by Jake Reynolds and the team at the CPSL. I thought when I became chair that it was important to have an active leader of a bank as chair of the BEI. Having retired from Barclays some time ago it now gives me great pleasure to say that Antony Jenkins, who has recently become chief executive of Barclays, will succeed me as chair of the BEI. I ask you to give him all your support just as you have so generously given to me.

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PROGRAMME FOR SUSTAINABILITY LEADERSHIP

A message from HRH The Prince of Wales

Patron of the University of Cambridge Programme for Sustainability Leadership

The banking sector knows all too well the challenge of coping with a crisis. It is now obvious that we built an economic system that was overly reliant on complex layers of interdependent financial debt. What remains far less obvious is that we have done exactly the same with nature's services.

We haven't yet fully understood the complex interdependent relationship between our financial health and the health of the planet. In fact, when you think about it, we have built precisely the same system of borrowing natural resources from the future in order to fuel economic growth today. We cannot afford to carry on as though it is business as usual.

There are real, perhaps frustrating, limits as to what you feel you can do as an industry on your own. You are, in the end, subject to the demands placed on you by clients, by regulators and your shareholders – which is why it was tremendously reassuring to hear that one of the first strategic decisions the Banking Environment Initiative took was to work hand-in-hand on the solutions with its community of clients.

The two areas that you have chosen to prioritise – unlocking capital for clean energy investment and driving deforestation out of soft commodity supply chains – are crucially important components of a sustainable economy.

The challenge of sustainability is simply too large for single organisations to overcome alone, which is why I am particularly pleased to note that the work you are concentrating on is supported not only by key representatives of the energy industry but also by the all-important Consumer Goods Forum.

It is incredibly heartening that you recognise that unless we are able to find a way of developing a functioning economy which works in harmony with nature rather than behaving like a parasite upon her back it will not be possible to guarantee a healthy future for ourselves nor will it be possible to improve conditions for billions of the poorest people in the world. I cannot think of a more worthwhile use of your time.

Why this matters

Working towards real sustainability

> *Whilst I know very little about banking I would be surprised if, looking at your business through a lens of sustainability, you did not find big opportunities for innovation and customer development. Unilever certainly has.*
>
> ***Gavin Neath, Unilever***

"We recognise that it's absolutely vital that banks continue to respond to the needs of their clients and their customers and their staff in terms of improving the carbon footprint of the planet," said Michael Cole-Fontayn, chairman, EMEA, BNY Mellon. "And it is equally important that we recognise that collectively we have a very significant amount of power that, if we harness in the right way, we can really find creative ways of stimulating the flow of capital towards projects that can provide a sustainable, lower carbon economy."

Gavin Neath, Unilever, argued that there is a powerful economic and business case for sustainability: "You have to start from the point of view that it is the right thing to do. But then when you immerse yourself in the task of how to do it you find that there are many positive business outcomes. Sustainable agriculture is a great example.

"When smallholders are taught to farm sustainably their yields and productivity improve and their input costs (fertiliser, pesticide, water) decline. The result is improved margins. But that's not all. Other positive things start to happen – for example a greater proportion of their children go on to secondary education."

Michael Cole-Fontayn
Chairman, EMEA, BNY Mellon

Tackling environmental challenges Jason Clay, WWF

Agriculture – The biggest problem

The biggest threat to the planet is agricultural sprawl, said Jason Clay, senior vice president of market transformation at WWF, in his keynote address. "If we as an environmental organisation don't get food production right, we can turn out the lights and go home." This is the scale of the challenge: in the next 40 years we have to produce as much food and fibre as we have in the last 8,000.

Agriculture is the biggest threat to the planet because it is the largest source of deforestation and biodiversity loss of any human activity. It is the largest user of water, accounting for 70% of fresh water usage. Today it takes about 1 litre of water to make 1 calorie of food.

Agriculture is also the largest source of greenhouse gas emissions, the largest source of water pollution, uses more chemicals than any other industry. In fact, deforestation alone – conversion of forest to agriculture and ranch land – is equal to all transportation greenhouse gas emissions each year. And we've lost more than half the topsoil on the planet.

All of these impacts are "externalities" to the price of soft commodities, Clay said. "We need to figure out how to bring them back into the pricing if we are going to live more sustainably."

The problem is about consumption: it's not just about how many people there are or how long they live, but how much they consume. And that is related to how much income they have. And yet, the price of food is going down. "But even with the price of food going down, a billion people still can't afford enough food," said Clay. "And half the farmers on the planet can't feed their own families. It's not just a distribution issue; it's an affordability issue and a productivity issue."

> *Today, with 7 billion people consuming what we consume, we are living at the equivalent of one-and-a-half planets. For bankers, that means we're living off the principal, not the interest.*
>
> ***Jason Clay, WWF***

Leveraging solutions

So sustainability matters – and not least because it is possible to do something about it. WWF identified the 35 most important regions in the world from the point of view of biodiversity and of ecosystem services. The biggest threats to these 35 places arise from just 15 commodities.

We can't work with 7 billion consumers in 6,000 languages to get them to try to do the right thing and make the right purchases. Nor can we work with 1.5 billion producers to get them to change the way they produce, to produce with fewer impacts.

But we can work with the 300 to 500 companies that represent more than 70% of the trade in each of those 15 commodities. "We decided this middle path was where we could have the most influence," Clay said. Moreover, a lot of the companies operate in many of these different commodities.

Working with companies with such widespread interests, WWF has signed 55 agreements with the 100 largest food companies to work on supply chain issues.

21st century supply chains

We need to maintain the efficiency of commodity trading systems but we also want more data about the commodities we buy, said Clay. Are they organic? Are they genetically modified? How much water was used? Was biodiversity affected? Was child labour involved? What was the carbon impact?

Companies want to reduce risk by knowing more about where and how and what the impacts of production have been. And that means in the 21st century we also need to rethink how companies work together and redraw the lines between what is considered collusion and what is considered pre-competitive.

Retailers and brands are talking about the possibility of offering traders long-term contracts – one, three or five years – if the trader covers the cost of certification. The cost of certification is less than 1%. Moreover, producers who become certified are more profitable than their counterparts – without being paid a premium. They start measuring what matters so, therefore, they suffer no hardship in being certified. There is now discussion taking place about buyers offering to pool their commitments – not their actual purchases but their long-term, volume commitments – to increase the benefit to traders of paying the cost of certification.

We all assume certified products cost more. Actually what we have been finding is that certified products cost producers and the planet less to produce, so we can get the price of food down and make it more sustainable.

""

Sustainability is a journey, not a destination. And it is a journey without end. It's also more about how to think than what to think and ultimately it's about how to be strategic – we can't do everything, so what can we do?

Jason Clay, WWF

Jason Clay

Senior vice president of market transformation , WWF

Where we are

What the BEI has been doing to date

> *When the history books are written in the future, I'm sure that the banking sector would like to be known for being part of the solution. This is the way we will secure future growth.*
>
> *I encourage you to get involved with this compact, to commit to enrol others and to create the necessary momentum in the banking industry needed to support this initiative. It will not only be good for your business, it is also simply the right thing to do.*
>
> ***Paul Polman, Unilever***

"The underlying thesis [of the BEI] is that the banking industry can't do this on its own," said Jeremy Wilson, vice chairman of corporate banking at Barclays, and BEI Working Group chairman for the first two years of its life. "We're a service industry; the key is to ask our clients and then use our own skills to find answers which help them and us."

He added that the response from the companies that the BEI assembled at a meeting in Washington, DC, a year ago to ask this very question was: "No one in the banking industry has ever asked this before."

Initially it was decided to concentrate efforts on two specific areas:

- Clean energy
- Soft commodities / deforestation

Jeremy Wilson
Vice chairman of corporate banking, Barclays

The clean energy collaboratory – Options thinking

Richard Burrett, senior associate with the University of Cambridge Programme for Sustainability Leadership (CPSL), introduced the clean energy collaboratory, the aim of which is "to identify ways to unlock greater mainstream investment in clean energy," he said.

> *Until a firm carbon market is in place, the regulator will determine when a low carbon technology is 'in the money'.*
>
> ***Bill Spence, Shell***

Burrett launched a research report on this theme which was the result of collaborative work between BEI members and six oil and gas and energy utility companies. The report was written by Dr Chi-Kong Chyong, a research associate at Judge Business School, and Andrew Voysey, senior programme manager for the finance sector at CPSL.

In a discussion panel, participants from the banking and energy sectors explained how "options thinking" can allow for uncertainties in a way that traditional discounted cash flow (DCF) calculations cannot. For example, the current regulatory environment and the depressed state of the carbon market may mean that, using DCF analysis, investment in green energy projects simply isn't worthwhile at present. Options thinking, however, would enable corporates to try to measure the impact of different regulatory regimes, for example, or firmer carbon pricing.

As Robin Burnett, director, infrastructure finance ratings at Standard & Poor's, says in the research report, "an options approach… avoids placing too much emphasis on static assumptions about the future."

This framework also helps corporates think about their resilience should circumstances change in future and what steps they can justify taking now to prepare for a range of possible outcomes. One example was explained by Bill Spence, Shell's strategic issues manager, who presented a case study involving carbon capture and storage (CCS).

"It is a viable technical solution, capable of eliminating millions of tonnes of CO_2 emissions, however it currently carries an unwieldy price tag," said Spence. "The challenge is the pace at which to move with mitigation options like CCS. The regulatory world may not respond with firm regulation until we witness a severe and convincing climate event. The timing and intensity of the regulatory response is unpredictable and characteristic of what our scenarios team call a 'Scramble' world," with delayed action on climate mitigation and dramatic, often nationally self-interested actions at the core.

Traditional discounted cash flow calculations do not support investment in CCS. However, options theory provides a framework whereby a value can be ascribed to making a facility CCS 'ready' at a future date with only a fraction of the cost. It offers the middle ground between all or nothing.

Two other case studies were also examined by the group from an options perspective: UK offshore wind generation – where the policy framework around renewables energy is uncertain – and investment in US onshore wind, which is affected by current, low US gas prices.

Martin Brough, director, European utilities research at Deutsche Bank, explained that there are clean energy projects on the table which, on the face of it, look at best marginal or perhaps even out of the money in the current market and policy framework but which look more attractive when you try to take into account, for example, the asymmetry of risks: such projects might, in a greener world, have upside risks that are significantly greater than the downside risks involved in these investments. "What we're trying to do is not to introduce some sort of sophisticated black box. But the attraction of the options valuation methodology is it forces you in a more explicit way to set out these attributes and to value them. It's not altogether a substitute for DCF analysis but it does bring out into the open a number of assumptions that are more implicit in other valuation techniques," Brough said.

Richard Burrett ▲
Senior Associate, CPSL

"There is still a reason for institutional investors to favour those companies who are continuing to invest in green options," Brough said. But he added, "It's not so much about institutional investors maximising extreme upsides in low-probability events. Rather, to make their overall investments more resilient to a world which may over time become greener in terms of the policy and market backdrop."

For other stakeholders, such as debt investors or credit ratings agencies, there are arguments for favouring portfolios that have such resilience. Companies without green options may simply not be resilient to policy or market shocks.

Options thinking does require a more sophisticated approach to complexity and uncertainty. However, "There are an enormous number of potential scenarios, some of them hard to quantify, but the answer is *not* not to think about them, said Michael Liebreich, chief executive, Bloomberg New Energy Finance.

The clean energy report – An Options Approach to Unlocking Investment in Clean Energy is available via the link on page 17.

The soft commodities collaboratory – Zero deforestation

The BEI has been working with the Consumer Goods Forum in the context of the latter's commitment to zero net deforestation in its supply chains by 2020. This collaboratory is still a work-in-progress as the banks explore with the CGF the best ways to commit to support the transformation to sustainability of the markets for priority commodities.

The soft commodities panel at the BEI Forum raised many valuable discussion points and real examples of how banks and corporates can – and, indeed, do – work together to this aim. The conversation to date has focused on two principal areas: (1) the opportunity that exists to finance the transition from the current supply chain to one that satisfies the sustainability criteria, and (2) standards and practices: "The consumer goods companies are making sustainability requirements of their supply chain, and a number of banks are exploring the opportunity to align their banking practices to those same requirements," said James Stacey, a senior associate at CPSL and partner at Earth Capital Partners LLP, "and work alongside the consumer goods sector to assist through financing a transition in the supply chain to sustainable stewardship standards."

Rogier Schulpen, group head of structured trade and commodity finance at Grupo Santander, explained that the bank wants to move from a more restrictive approach, where clients need to comply with certain environmental conditions, to a more proactive approach where the bank actively helps clients become more sustainable by financing investments in sustainable production.

In order to do this, banks needs to work with partners who provide expert input on sustainability and have the systems to monitor the projects' progress. The Banking Environment Initiative together with the Consumer Goods Forum has been a good way of finding these partners, said Schulpen.

Innovative supply chain finance deals are being created that involve long term off-take contacts and shift part of the credit risk onto the consumer goods companies rather than lower credit risk producers. As well as guaranteeing the supply of sustainable products for the consumer good companies, such deals also require less capital on the part of the bank, increasing the profitability of such transactions.

Kai Fehr, head of trade and working capital, Asia with Barclays in Singapore, has a very personal reminder almost every day as to why this work matters: the smell of the Sumatra rainforest burning. "It's the same smell the whole of the Malaysian peninsula has faced every year for the last decade. Deforestation is a very real problem in Asia," he said.

Fehr noted that the documentary trade world is several layers removed from the producer. The challenge, then, is how to get information about the producer's green credentials embedded into the global trade flows. "The trade flow business is a very simple, structured business. It's highly standardised and governed by the International Chamber of Commerce – so every solution we develop has to fit into this very standardised model." He suggests that if for instance a producer's certification can be attached to a letter of

> *Sustainable behaviour is actually a profitable business and not something that only costs. If you can debunk that, there will be much more support for it.*
>
> ***Sabine Miltner, Deutsche Bank***

credit in the same way that a bill of lading is, and we name such letter of credit a "green shipment LC" "then the global trade finance banks can specifically target and facilitate green shipments. It's maybe as simple as that," Fehr said. "I encourage everyone to think about it, particularly my documentary trade finance colleagues."

Peter White, director of global sustainability at Procter & Gamble, underlined the importance of sustainability: "If you're talking about eventually reaching 9 billion or more consumers, you can only do that if you do it sustainably. Otherwise, where are the materials going to come from to put in your products? What's going to happen to those materials after use? What's going to happen to packaging materials? Sustainability is either an opportunity for the longer term growth of the company or it could be a barrier – and at P&G we clearly want to make sure that it's an opportunity."

White also explained why the Consumer Goods Forum is the right organisation to be working with: "The CGF's value is its scale and its reach. There really isn't anywhere else at a global level that brings together all of the manufacturers and the retailers."

He added that his "mantra" at the CGF is, "Do it once, do it right, do it globally. Bringing in other sectors like the banking sector is a great way to get some synergy and help us towards that zero net deforestation goal."

Gavin Neath, Unilever, offered advice on how corporates can manage the sustainability challenge: "You manage this issue like you manage any other business issue. It all starts with leadership. The sustainability agenda is a CEO issue. If the CEO is not behind it, it is very difficult for the rest of the company. It then needs to be embedded in the corporate strategy, become part of people's work plans and be linked to their remuneration."

Unilever's chief purchasing officer, for example, said Neath, is now not being judged and rewarded just on the traditional measures of price and quality, but on buying millions of tonnes of materials in a sustainable fashion.

Neath explained how Unilever's CFO and CEO have written to the company's banks asking for their help. "In a sense this is no different to the requests which we get from our customers. Walmart, Tesco, Carrefour, etc, often write to us asking for our help to meet their sustainability goals. I hope that in the future banks will be getting many such letters from their customers – particularly those in the consumer goods sector seeking to address deforestation."

Working with the UK government in Kenya

When the BEI was first created it established a work stream to concentrate on 'iconic projects'. The idea was, would it be possible for BEI members, as bankers, to look at individual projects and work together to influence the outcome of a project positively in some way?

> *Most economies in sub-Saharan Africa have a 5-7% growth rate and yet most are dependent on climate-sensitive sectors and are least equipped to deal with the challenges of climate change.*
>
> ***Virinder Sharma, DFID***

Virinder Sharma ▸
Regional Climate Change Adviser, DFID Kenya and Somalia

The UK government Department for International Development (DFID) commissioned PwC to do a feasibility study that will analyse and suggest a platform to engage financial institutions and banks on projects with climate change, environmental and social outcomes.

Dr Virinder Sharma, climate change adviser, presented the work being undertaken in Kenya on the role of public-private partnerships in sustainability finance.

"Climate change is always looked at as a risk, whereas there are real opportunities in Africa where new infrastructure and systems are being developed. If we really want to follow a low-carbon and climate-resilient growth pathway then working with the private sector and through new financing approaches is critical."

Pictured from left to right: Sir Win Bischoff, chairman, Lloyds Banking Group. José García Cantera, senior executive, vice-president and head of global banking and markets, Santander. Wim Hautekiet, CEO, BNY Mellon SA/NV. Tom Albanese, CEO, Rio Tinto

View from the boardroom

Leaders of banks and corporations discussed their organisation's commitment to sustainability and why collaboration is essential. Bringing in financial institutions from the developing world will be very important.

People in the boardroom realise that the demands of globalisation, with a growing population and the potential unsustainable use of resources, is something which is certainly going to affect the business of banks and their customers. Therefore it is sensible to engage in this kind of grouping. The important thing is that you don't want to be there alone. It is important to see a number of your peers participating, and not just from the developed world as the biggest increase in use of resources is going to come from the developing world. Financial institutions in those emerging markets are very important.
Sir Win Bischoff, chairman, Lloyds Banking Group

We have a sustainability committee which is chaired by our CEO which sets the strategy and the way the different units work. We also have a climate change committee and an environment risk committee that meets every two weeks and makes sure that all the financing that we give in the bank complies with the principles from the sustainability committee.

We believe that the best way to assure sustainability in emerging markets longer term is investing in higher education. We have a programme called Santander Universities in which we work with the universities in the countries where we are to make sure these issues are included in their programmes.
José García Cantera, senior executive vice-president and head of global banking and markets, Santander

It's very important to mobilise others. One theme from this afternoon is that it's crucial to realise what different functions we provide whilst all being banks. BEI might be well advised, both for getting others to join and for educating regulators, to provide an overview of these different functions and to provide tangible examples of what individual and sometimes specialised firms can do to help the causes that have been discussed here today.
Wim Hautekiet, CEO, BNY Mellon SA/NV

The International Council on Mining and Metals (ICMM) was established in 2001 to improve sustainable development performance in our industry. We recognised we couldn't just talk about this as an industry, we had to bring in the broadest range of stakeholders, including those who would normally be opposed to our efforts. We had to clearly be seen to be talking and listening. It was hard to get that initial coalition together but as we began to get traction, as NGOs started to listen, people started to join. We now have 22 members from a very balanced mix of both OECD and non-OECD market countries.
Tom Albanese, CEO, Rio Tinto

Graduates who are looking at organisations for whom they want to work are very mindful of the sustainability credentials of their potential employer and it's become a significant criterion in selection of the best. And we all want to recruit the best.
John Varley, chair, Banking Environment Initiative

John Varley, chair, Banking Environment Initiative

What happens next – The way ahead for the BEI

This first Banking Environment Initiative Forum provided a platform for more than 120 representatives from banking, industry, academia and government to share the results of their work to date. A workshop and feedback session with all delegates yielded a number of additional specific suggestions for action that the BEI could take.

Immediately after the Forum, the Banking Environment Initiative Working Group met to discuss all the ideas raised by speakers, panellists and delegates and to decide which actions to take forward and what the next steps should be. Andrew Voysey and Jake Reynolds from the BEI secretariat at the University of Cambridge Programme for Sustainability Leadership report that the following decisions were made:

- It was noted with great pleasure that the delegates unanimously affirmed the work and aims of the BEI so there will be another Forum in 2013.
- Both collaboratories are to continue their work which will be taken through to conclusion to deliver real change. In particular:
  - The clean energy collaboratory will build on its report to ensure that enhancing valuation methodologies with approaches that explicitly value embedded optionality, so as to be able to respond to uncertainties, become standard practice in capital markets and corporate decision-making.
  - The soft commodities collaboratory will launch a commitment to the banking best practice identified by the BEI and CGF, including: how alignment with shifting buyer-producer relationships may contribute to lower-risk routes to supply chain finance; and how best to achieve alignment of the provision of banking services with the sustainability criteria that CGF companies are prioritising in their procurement of soft commodities.
- The recommendation of exploring how to integrate the commercial benefits of sustainable commodity production into international trade finance processes will be taken forward.
- Membership of the BEI should be expanded to include representatives of the banking industry in developing and emerging markets to ensure that it is a truly global initiative.
- The BEI will work to engage in public policy. With a membership of ten banks and the work mentioned today, it was acknowledged that the BEI is in a good position to be a credible voice.

Voysey and Reynolds also noted that a message from John Varley, recorded at the BEI Forum, was to be played at the Consumer Goods Forum's next board meeting in the United States, to be attended by no fewer than 50 CEOs from some of the largest manufacturers and retailers. Varley's message reported on the progress made at the BEI Forum and underlined the importance of the links between it and the CGF.

The British government is showing a keen interest in the work of the BEI. Greg Barker, the Minister of State at the Department of Energy and Climate Change, said at a BEI dinner hosted by BNY Mellon that the government recognised the role of the capital markets in tackling climate change.

He has specifically asked to be briefed on the outcome of work at the BEI Forum, on the next steps to be taken and how the government can continue to be helpful to the BEI. "That is a wonderful outcome, indeed," said Michael Cole-Fontayn.

Resources from BEI Forum 2012

Introduction by HRH The Prince of Wales

His Royal Highness The Prince of Wales welcomes delegates to the BEI Forum 2012 . This pre-recorded address was shown in the opening session of the conference on 8th November, 2012.

Jason Clay

Jason Clay, Senior Vice President of Market Transformation, World Wildlife Fund, provides an independent perspective on the role banks can play in tackling environmental challenges through the BEI.

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Soft Commodities Panel

Soft Commodities: BEI members and Consumer Goods Forum companies report on a unique partnership to drive deforestation out of soft commodity value chains. Presenters: Gavin Neath, CBE, Unilever, Peter White, Director, Global Sustainability, Procter & Gamble. Rogier Schulpen, Global Head of Structured Trade and Commodity Finance, Grupo Santander, Sabine Miltner, Managing Director and Group Sustainability Officer, Deutsche Bank, Moderator: James Stacey Senior Associate CPSL.

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BEI cooperation with UK Government

Dr Virinder Sharma, Climate Change Adviser, DFID, presents an innovative public-private financing opportunity.

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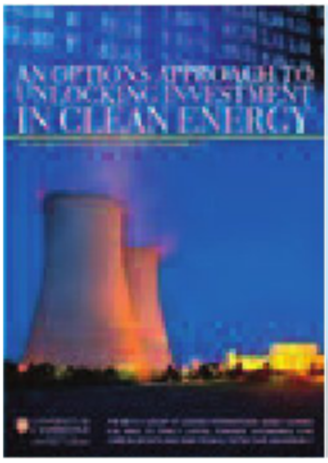
Presentation by Paul Polman, CEO, Unilever

Paul Polman, CEO, Unilever, on the importance of the BEI's work on financing sustainable soft commodity production.

Clean Energy Panel

Clean Energy: BEI members and the energy industry report on new valuation approaches to accelerate clean energy investment.

Presenters: Martin Brough, Director, European Utilities Research, Deutsche Bank, Kai Fehr, Head of Trade & Working Capital, Asia, Barclays, and Bill Spence Manager, Strategic Issues, Shell Upstream International are joined by Michael Liebreich, Chief Executive, Bloomberg New Energy Finance. Moderator: Richard Burrett, Senior Associate CPSL.



The Clean Energy Report and its technical annexe are available from the BEI website by **clicking here**

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The Banking Environment Initiative was convened by the chief executives and chairs of some of the world's largest banks in 2010 to identify ways in which banks can collectively stimulate the direction of capital towards sustainable, low-carbon growth and away from activities that undermine it. The secretariat is provided by the University of Cambridge Programme for Sustainability Leadership.
Visit www.cpsl.cam.ac.uk/bei

Chair (2010-2012): John Varley, former chief executive, Barclays
Chair (2012-): Antony Jenkins, chief executive, Barclays

The University of Cambridge Programme for Sustainability Leadership (CPSL) is dedicated to working with leaders from business, government and civil society on the critical global challenges of the 21st century.

CPSL contributes to the University's mission and leadership position in the field of sustainability via a mix of executive programmes and business platforms, informed by world-class thinking and research from the University of Cambridge and other partners.

CPSL is an institution within the University of Cambridge's School of Technology. HRH The Prince of Wales is the patron of CPSL, which is a member of The Prince's Charities, a group of not-for-profit organisations of which His Royal Highness is President.

UNIVERSITY OF CAMBRIDGE
PROGRAMME FOR
SUSTAINABILITY LEADERSHIP

Director, Business platforms: Dr Jake Reynolds
Senior programme manager: Andrew Voysey

1 Trumpington Street, Cambridge, CB2 1QA, United Kingdom
T: +44 (0)1223 768850 F: +44 (0)1223 768831 E: info@cpsl.cam.ac.uk
www.cpsl.cam.ac.uk

www.cpsl.cam.ac.uk

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Adaugeo Media Ltd, 37th Floor, 1 Canada Square, London E14 5AA. T: +44 20 3086 7753
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Photographs by Chris Loades. Designed by Michelle Regan, Adrenaline Creative, Peterborough, Cambridgeshire.