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*Group Chief Executive*

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2 March 2007

Dear Dr Colchester

Thank you for your letter raising concerns about the implementation of HSBC's forest policy. I hope you can understand that I am not able to discuss any particular company with you for legal and regulatory reasons, however, I can explain how we approach the sector and implement the guideline across the HSBC Group.

HSBC has written its guideline to cover both forest land and forest products. This scope is important, as it encompasses commercial forestry operations, the use of forest land for plantations of different sorts and forest conversion. We recognise that there can be environmental and social consequences in this high risk sector and therefore identify areas of forest where we will not provide financial assistance such as commercial logging operations in Primary Tropical Moist Forest and High Conservation Value Forest, as well as social impacts relating to land title and land use rights and the rights of indigenous peoples.

When we issued our policy in 2004, HSBC was the first commercial bank to adopt the Forest Stewardship Council (FSC) or equivalent as a standard of good forest management. A number of other banks have since also referenced this standard. At the time we recognised that some of our customers were already compliant with this approach, but that others may need some time and help to achieve FSC or equivalent certification. We therefore are working with our customers to try to achieve compliance with our policy within five years of the date of issue of the guideline. HSBC is prepared to deal with customers who do not have full FSC or equivalent certification, provided they are committed to achieving such independent certification and are following a credible, timebound action plan to achieve certification.

I recognise that I cannot answer the specific questions you have asked, however I hope that this goes some way to explain the approach that HSBC has been taking with the forest land and forest products sector.

Yours sincerely

  
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