

Citigroup New Environmental Initiatives

Introduction

Protecting natural systems while lifting two billion people out of poverty and advancing economic development are the world's greatest challenges. These three foundations of sustainable development are central to the UN Millennium Goals, to national governments, to companies and to civil society. Citigroup has a broad array of policies and programs addressing environment, poverty and the economy. In 2004 we announced a new set of policies and programs focused on sustainable development.

New Initiatives

1. High Caution Zones

Consistent with its responsibilities under and the requirements of the Equator Principles and led by its project finance business, Citigroup will carefully evaluate requests for project finance loans where the borrower's proposed use of proceeds would directly fund activities that Citigroup determines could adversely impact a critical natural habitat.¹

Citigroup will ensure that the appropriate Citigroup bankers throughout the world are aware of and alert to this new Equator-based approach. Citigroup will periodically engage with various stakeholders and evaluate its experience with these policies in a year with stakeholders and report annually in our Corporate Citizenship Report.

Citigroup will not finance any project or provide general corporate loans to any project (where the use of proceeds is known) if the project or use of proceeds is located within critical natural habitats, unless the sponsor or borrower, as appropriate, has demonstrated to Citigroup's satisfaction:

¹ Critical natural habitats are:

(i) existing protected areas and areas officially proposed by governments as protected areas (e.g., reserves that meet the criteria of the World Conservation Union [IUCN] classifications), areas initially recognized as protected by traditional local communities (e.g., sacred groves), and sites that maintain conditions vital for the viability of these protected areas (as determined by the environmental assessment process); or

(ii) sites identified on supplementary lists prepared by the World Bank or an authoritative source determined by IFC's Environment and Social Development Department. Such sites may include areas recognized by traditional local communities (e.g., sacred groves); areas with known high suitability for biodiversity conservation; and sites that are critical for rare, vulnerable, migratory, or endangered species. Listings are based on systematic evaluations of such factors as species richness; the degree of endemism, rarity, and vulnerability of component species; representativeness; and integrity of ecosystem processes.

- The project sponsors have considered economic and technically feasible alternatives to avoid such areas and have addressed these issues in the publicly available EA.
- The project will not significantly degrade² or convert³ the critical natural habitat;
- Project management has adequate capacity and willingness to ensure biodiversity protection and respect for the rights of indigenous communities whose livelihoods or cultural integrity could be adversely impacted;
- Indigenous peoples⁴ impacted by the project, whether directly or by induced impact, have the opportunity and if needed, culturally appropriate representation, and have access to the information to engage in informed participation;
- The governmental authorities at the local, regional or national level have provided mechanisms for the affected communities to be represented or consulted, and international and local laws have been upheld⁵; and
- An Environmental Impact Assessment has been prepared that takes into account such consultations and is publicly available.

Categorical Exclusions

In accordance with the Equator Principles, Citigroup will follow International Finance Corporation Safeguards in effect at the time Citigroup becomes engaged in a project, including the following:

- Citigroup will not finance commercial logging operations or the purchase of logging equipment for use in primary⁶ tropical moist forest⁷.

² **Degradation** is modification of a critical or other natural habitat that substantially reduces the habitat's ability to maintain viable populations of its native species.

³ **Significant conversion** is the elimination or severe diminution of the integrity of a critical or other natural habitat caused by a major, long-term change in land or water use. Significant conversion may include, for example, land clearing; replacement of natural vegetation (e.g., by crops or tree plantations); permanent flooding (e.g., by a reservoir); drainage, dredging, filling, or channelization of wetlands; or surface mining. In both terrestrial and aquatic ecosystems, conversion of natural habitats can occur as the result of severe pollution. Conversion can result directly from the action of a project or through an indirect mechanism (e.g., through induced settlement along a road).

⁴ In financing projects, consistent with the Equator Principles, Citigroup will respect the IFC Indigenous Peoples Safeguard Policy that states, "The Bank's policy is that the strategy for addressing the issues pertaining to indigenous people must be based on the informed participation of the indigenous people themselves. For an investment project that affects indigenous peoples, the borrower should prepare an indigenous peoples development plan that is consistent with the Bank's policy. Any project that affects indigenous peoples is expected to include components or provisions that incorporate such a plan."

⁵ Including those laws related to the ratification and implementation of "Convention 169 Concerning Indigenous & Tribal Peoples in Independent Countries" of the ILO.

⁶ **Primary forest** is defined as relatively intact forest that has been essentially unmodified by human activity for the previous 60 to 80 years.

⁷ **Tropical moist forest** is generally defined as forest in areas that receive not less than 100 mm of rain in any month for two out of three years and have an annual mean temperature of 24o C or higher. Also included in this category, however, are some forests (especially in Africa) where dry periods are longer, but high cloud cover causes reduced evapotranspiration.

- Citigroup will finance only preservation and light, nonextractive use of forest resources in forest areas of high ecological value.
- Citigroup will finance plantations only on nonforested areas (including previously planted areas) or on heavily degraded forestland.
- Citigroup will not finance projects that contravene any relevant international environmental agreement which has been enacted into the law of, or otherwise has the force of law in, the country in which the project is located.

2. Illegal Logging

Citigroup recognizes that illegal logging is increasingly a threat to forests worldwide. We appreciate that forests provide humanity with precious natural resources. As expressed in numerous international forums including the G8, The UN Forum on Forests and the World Summit on Sustainable Development, illegal logging is a significant contributor to the degradation and loss of critical forest ecosystems in many regions around the world. Citigroup recognizes the menace to valued ecosystems and forest community livelihoods posed by illegal logging. We recognize that violations of logging laws around the world can have irreparable damage in fragile forest ecological networks where such illegal activity occurs.

Illegal logging causes a number of adverse environmental, economic, and political or social impacts such as depriving national and local governments of related tax revenue, as well as forest owners and local communities of significant revenues and benefits, and acts as a disincentive to sustainable logging. In some countries the corruption associated with illegal logging undermines the rule of law. As evidenced by recently enacted United Nations Security Council sanctions, illegal logging has been associated with civil wars and, is considered a conflict commodity in various battle zones, funding and sustaining violent upheavals.

In this context Citigroup understands illegal logging to take place where timber is harvested in violation of local and national laws intended to stop illegal logging.⁸ Illegal logging includes: a) using corrupt means to gain access to forests, b) extraction without permission or from a legally unauthorized area, c) the cutting of protected species or the extraction of timber in excess of legal limits or in violation of legally approved forest management plans.

Consistent with Citigroup's Code of Conduct, all employees of the company and its subsidiaries are expected to act in accordance with the highest standards of personal and professional integrity in all aspects of their employment, and to comply with all applicable laws, regulations and company policies. As such, we will not make loans to companies whom we know to be in violation of local or national laws regarding illegal

⁸ Illegal logging has not yet been written into international law although issues relating to illegal logging have been addressed in some fashion by international treaties such as the Convention on Biological Diversity.

logging. Citigroup is committed to contributing to the fight against illegal logging and preventing the flow of funds to illegal logging actors. This battle presents new challenges. Successful participation in this fight requires global cooperation by governments, the private sector and civil society.

Citigroup will pursue four policies and programs regarding illegal logging:

- Request Citigroup customers seeking loans related to the extraction or processing of forest resources to make appropriate representations regarding compliance with applicable law. This means that a customer will represent to Citigroup that it will comply with all applicable laws including national and local laws regarding illegal logging. Representation in this context is a binding and documented assurance which, if false, could constitute an event of default. Documentation includes all of the documents required to secure a loan including government authorization as necessary.
- Take the following steps to combat illegal logging as appropriate 1) engage government and industry forums on trade and governance, 2) participate in on-going forums on illegal logging, and 3) support civil society organizations to advocate for forest law enforcement and policy reform.
- Ensure that our businesses and risk management throughout the world are aware of and alert to the issue of illegal logging.⁹
- Deepen our collaboration with knowledgeable stakeholders to strengthen our collective efforts to help prevent illegal logging. Better information on the extent of the problem is a prerequisite to developing practical and effective countermeasures.

3. Investing in Ecologically Sustainable Development

Citigroup has developed a program to invest in sustainable forestry and renewable energy. Citigroup has identified experienced resources to screen and evaluate potential investments in the sustainable forestry and renewable energy industries to ensure that investment opportunities in these two sectors get exposure and an evaluation consistent with all other investments on an ongoing basis.

We see immediate opportunities in three areas:

- A. Investments in independently certified sustainable logging – Citigroup is evaluating specific investment funds dedicated to FSC certified forest products located in emerging markets. Portfolio companies in these funds are committed to low impact logging, maintaining ecosystem function in the forest lands, and marketing branded sustainable product. Their financial success will protect more forests and employ more local people in sustainable

⁹ A best practice is starting to develop to curtail illegal logging based on the chain of custody verification offered by the Forest Stewardship Council

commerce. Citigroup will have the capacity to evaluate these investments on an ongoing basis.

- B. Investments in renewable energy – Citigroup will identify experts to evaluate investment funds dedicated to renewable energy technologies such as wind, solar, hydrogen, biomass etc. Investments in these companies reduce the environmental footprint of the energy sector.
- C. Residential Clean Energy Financing - Citigroup will explore existing programs to offer consumer financing for solar panels, residential wind turbines and fuel cells, and other forms of clean energy or energy efficiency fit for residential consumers. Citigroup will offer and market a Fannie Mae energy efficient mortgage product by the first quarter of 2004.

4. Climate Change

The Intergovernmental Panel on Climate Change (IPCC)-a United Nations panel of 2,000 of the world's top climate scientists-agree that human activities are changing the climate. As a global company, Citigroup is taking a proactive stance on this important issue. Citigroup will play a role in the financial sector to reduce greenhouse gas emissions from its own operations, and assist customers to develop financial solutions that help reduce emissions in the value chain and invest in renewable energy.

Citigroup published its first ever report on energy used in 2002 in the over 10,000 buildings it leases or owns globally. This process has engaged 150 employees, and is building Citigroup's understanding and capacity in greenhouse gas emissions reporting and energy use reduction.

Beyond its own direct emissions, Citigroup will report the greenhouse gas emissions from the power sector projects in its project finance portfolio beginning the latter half of 2003 and going forward. This report will occur annually in the Corporate Citizenship report. This is the first time that a private bank will offer such data, which will be produced with methodologies peer reviewed with experts and NGOs. As reporting methodologies become standardized for other sectors, Citigroup may expand the report.

Finally, the above mentioned program to identify investments in renewable energy and energy efficiency will help reduce emissions in Citigroup's chain of activities, by adding customers and business partners with an explicit focus on greenhouse gases and energy efficiency.