

*UNEP FI – Hellenic Bank Association Workshop
“Environmental Liability and the Financial Sector”*

Environmental Liability Legislation A Banking Sector Perspective

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Environmental Liability: Background on the legislation

The White Paper

- Issued in February 2000
- Examined how to regulate the PPP
- Concluded in proposing a Directive as a best means to implementing PPP

The Directive

- Issued in April 2004
- The legislative framework for the PPP
- Prevent and Remedy Environmental Damage

The Presidential Decree

- Issued in September 2009
- Transposition of the Directive into Greek Legislation
- May 2010: Process for financial security implementation

Environmental Liability: What is it about? (1)

Internalisation of Environmental Externalities

The very basis of Environmental Economics Science
It is about “external” cost allocation

The PPP

The famous “Polluter Pays” Principle
Already set out in the Treaty establishing the European Community (Article 174(2) TEC

“Community policy on the environment shall aim at a high level of protection taking into account the diversity of situations in the various regions of the Community. It shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay”

Environmental Liability: What is it about?(2)

Prevention and Remediation

From fines to cost of prevention and remediation of Environmental Damage

Financial Security

Insurance Policies

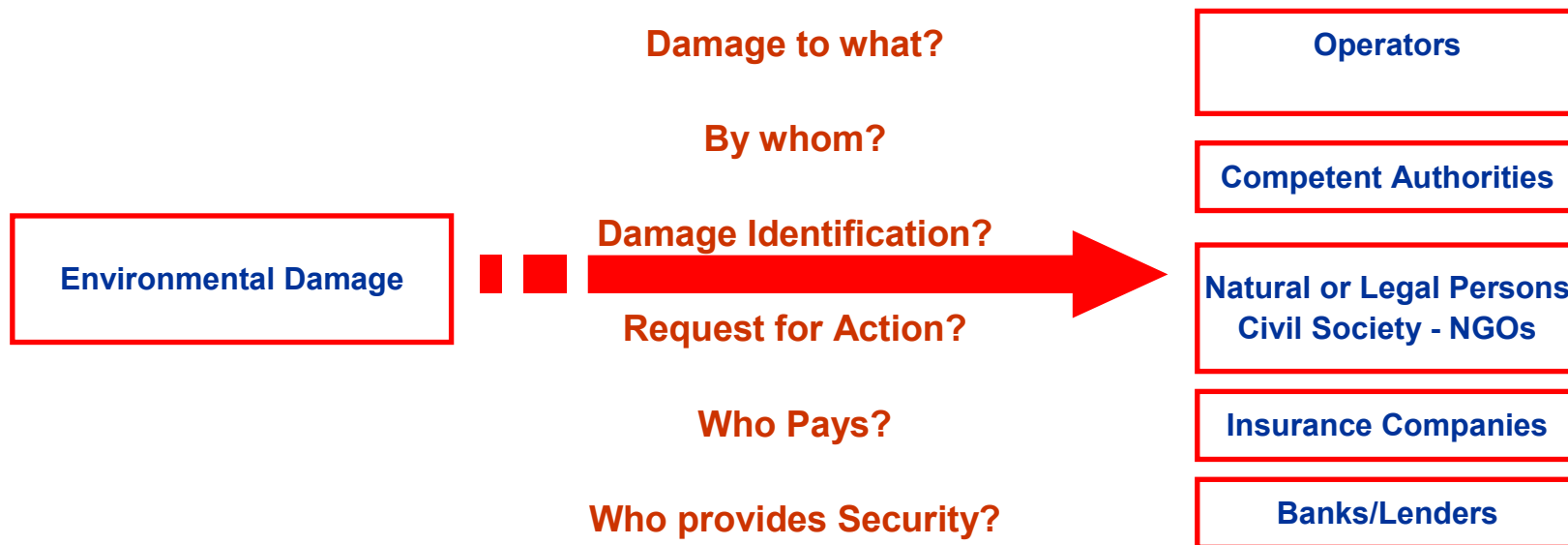
Other Financial Security Measures/Schemes

Environmental Risk Assessment & Management

Synthesis between Risk Assessment & Environmental Management disciplines

Environmental Liability & Environmental Risk

Who are the main stakeholders?



Environmental Liability & Risk Management

Environmental Risk Assessment & Management

- Operator & Operational Activity
- Lender, Insurer
- Consultants, Certified Environmental Auditors etc.
- Competent Authorities

Environmental Risk Assessment & Management



Operator & Operational Activity

- **As part of Environmental Impact Assessment Study (licensing procedure)**
- **As part of an Environmental Management System or Plan (existing operations)**
- **In an ad hoc manner (before inspections etc., or following an accident)**

Environmental Risk Assessment & Management



Lender

- **Credit Application Evaluation Process**
- **Evaluation of securities**
- **As part of own Environmental Management System**

Environmental Liability & the Banking Sector

Why Bother?

Environmental Risks from Banking Activities

- **Credit Risks?**
- **Operational Risks?**
- **Reputational Risks?**

What are Banks doing?

- **Environmental Risk Assessment evolving in various commercial banks e.g. Barclays, BNP Paribas, Credit Suisse, Citibank, Deutsche Bank, DnB Nor, HSBC, Unicredit etc.,**
- **But also at:
European Investment Bank, EBRD etc.**

Environmental Liability & the Banking Sector

Credit Risk?

- **Cost of prevention or remediation of environmental damage can impair customer's ability to pay back loans?**

- **Potential for direct liability in joint ventures?**

- **Collaterals**
 - ✓ **Reduced value of assets**
 - ✓ **Direct liability on contaminated sites?**
 - ✓ **Costs e.g. for waste removal or land decontamination?**

Environmental Liability & the Banking Sector

Operational Risks?

Environmental Risks from our own operations? (i.e. waste management)
Joint Ventures?

Reputational Risks?

Various examples from the press where Banks were connected to
environmental damage

Environmental Liability & the Banking Sector

Financial Security

- **Mandatory according to the Presidential Decree**
- **Can be an Insurance or other Financial security mechanism**
- **Existing Alternative Financial Security Mechanisms**
 - ✓ **Corporate Guarantee (applies only to companies with parent or other affiliates)**
 - ✓ **Letters of Credit/Bank Guarantees**
- **Questions:**
 - ✓ **Is the financial security market ready?**
 - ✓ **What exactly will the security mechanism cover?**
 - ✓ **How much will it cost?**
 - ✓ **Will environmental damage be repaired through the mechanism?**

Environmental Risk Management

Environmental Risk Management in Eurobank

- Environmental Risk Assessment for own operations
- Environmental compliance provisions for contractors
- Environmental compliance provisions in Joint Ventures
- Environmental Risk Assessment Procedure for Lending
- Review of Environmental Assessment Studies in Project Finance
- Evaluation and analysis of Environmental Insurance products available in the Greek market

Environmental Risk Management

Environmental Risk Assessment Procedure

■ Basic Principles

- ✓ Determination of High Environmental Risk Activities
- ✓ Consolidation of environmental fines directory
- ✓ Environmental Risk Questionnaire in Credit Application

■ Possible changes due to the new legislation

- ✓ A different approach to environmental risk management
- ✓ Fines directory replaced
- ✓ New Environmental Risk Questionnaire
- ✓ Environmental Insurance as part of the application procedure
- ✓ Environmental Due Diligence investigation processes

Environmental Liability

Issues of concern

- **Financial Security**
 - ✓ **Mandatory Environmental Insurance?**
 - ✓ **Scope of Insurance cover**
 - ✓ **Maturity of the market for further financial security products**
- **Quantification of prevention and remediation costs**
- **Severe increase in accusations, costs and reputational damage**
- **If significant environmental damage is reported and detected, remediation will have to take place and all stakeholders will be affected**
- **Availability of expertise for advanced Environmental Risk Assessment & Management**
- **Environmental baseline data availability crucial**
- **Customer's Environmental Risk Management procedures may influence credit decisions**
- **Environmental Management Systems & Certifications (ISO14001/EMAS etc) likely to play a more important role**

Environmental Liability

Further Steps

- **Review of Environmental Risk Assessment Procedures**
- **Capacity Building for Credit/Risk Officers on environmental issues**
- **Indicators and statistics**
- **Cooperation with competent authorities on:**
 - ✓ **sector environmental performance data**
 - ✓ **baseline environmental studies**
- **Further development of integrated services to customers**

Thank you for your attention!