Controversial Cases

Environmentally and Socially Controversial Transactions Financed by Chinese Banks

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BANKTrack

Contents

Special thanks to the following writers who contributed to this report: Michelle Chan-Fishel (editor; South-to-North Water diversion project, China International Marine Container, China National Machinery & Equipment Corporation, Ertan Hydropower Development Company), Peter Bosshard (Merowe dam project), Techa Beaumont (Ramu nickel mine), and Jan Willem van Gelder (China Datang, China Guodian, CNPC, China Non-Ferrous Metal Mining, Sinopec, China Poly, Tangguh LNG, Trans Thai-Malaysia, Yue Yuen).

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Introduction

This paper is a companion report to *Time to Go Green: Environmental Responsibility in the Chinese Banking Sector,* published by BankTrack and Friends of the Earth – US.

It contains 16 examples of socially and environmentally sensitive transactions financed by Chinese banks. The cases were chosen for their geographic and sectoral diversity, as well as for their range of Chinese bank involvement (e.g. policy banks, state-owned commercial banks, joint stock banks, etc.). They are not necessarily indicative of each bank's level of environmental or social responsibility vis-à-vis their peers.

Finally, it should be noted that some of these transactions are almost solely financed by Chinese banks, while others have the participation of international banks as well.

South-to-North Water Diversion project, China

The controversial RMB 500 billion South-to-North Water Diversion project in China aims to divert water from the Yangtze River system to the arid North. (Map of scheme on right; image from WaterTechnology.com)

Industrial pollution is a key concern, as is resettlement. According to official government estimates, 400,000 people will need to be relocated for this project.

Environmentalists fear that irreparable harm may be done to the ecology and to river-dependent communities the Yangtze's hydrology is dramatically altered. In addition, archeologists worry that government funds meant to protect cultural relics will only be enough to cover 45 of the 788 sites threatened by the project.[1]

Financing by Chinese banks

In 2005, a RMB 21.3 billion loan was syndicated for the construction of South-to-North Water Diversion project in China. Members of the lending syndicate include:

- **China Development Bank** (RMB 21.3 billion)
- **China Construction Bank** (RMB 8.5 billion)
- **Bank of China** (RMB 6 billion)
- **Agricultural Bank of China** (RMB 6 billion)
- **Industrial and Commercial Bank of China** (RMB 6 billion)
- **Shanghai Pudong Development Bank** (RMB 500 million)
- **CITIC Industrial Bank** (RMB 500 million)

1 Harris, Lucian, "China launches belated archaeological rescue," The Art Newspaper, 19 January 2006 at http://www.theartnewspaper.com/article01.asp?id=139

China International Marine Container, Suriname[2]

The Saramaka are a maroon people (descendants of escaped African slaves) in Suriname who enjoy treaty rights entitling them to land and autonomy, similar to those rights granted to Indigenous Peoples under international law. In the1960s, the construction of the Afobaka dam along the Suriname River flooded Saramaka territory and forced 6,000 persons to be relocated, putting significant pressure on the Saramaka people's remaining lands and resources.

In 1997, the Saramaka discovered that a Chinese logging company calling itself Tacoba had arrived in the area and were beginning operations. In Suriname, a company must obtain special permission from the parliament if its concession area is more than 150,000 hectares. When the community challenged Tacoba about the illegality of its operations, the company responded that it had governmental permission, and any attempt to interfere with or challenge its operations would be punished by imprisonment.

After years of investigation, NGOs discovered that Tacoba is a wholly owned subsidiary of China International Marine Container (CIMC), and that the company was cutting down hardwood for shipping containers. The Saramaka complain that Tacoba's operations have damaged their forest and water resources, reduced their game, and destroyed farms.

CIMC also sources wood from Cambodia, a country where illegal logging is a known problem.

Financing by Chinese banks

According to its annual report, CIMC is financed by:

- **Export-Import Bank of China**
- **Bank of Communications**
- **China Merchants Bank**
- **China Construction Bank**
- **Bank of China**
- **Nanyang Commerical Bank**

It also is financed by some international banks such as **Citibank, HSBC**, and **Standard Chartered.**

For more information, see: www.forestpeople.org

[2] "Pleadings, Motions and Evidence of the Victim's Representatives in the Case of 12 Saramaka Clans (Case 12.338) Against the Republic of Suriname," a brief submitted to the Inter-American Court of Human Rights, 03 November 2006 on file with author. Also from McKay, Fergus. "Logging and Tribal Rights in Suriname," Forest Peoples' Programme at http://www.forestpeoples.org/documents/s_c_america/suriname_logging_and_tribal_rights_dec01.shtml

China National Machinery & Equipment Import-Export Corp., China

China National Machinery & Equipment Import-Export Corporation (CMEC) is one of China's leading construction companies, and is particularly active in overseas investment projects. Domestically, it was one of the companies that helped construct the Three Gorges dam.

Kiani Kertas pulp mill (Indonesia)[3]

Indonesian and international NGOs have long campaigned to protect the rights of indigenous peoples who have been impacted by the Sumalindo tree plantation in Indonesia. The Sumalindo plantation is located in territory of the Menamang people, and was established after the Menamang's ancestral forests were clear-cut without their consent. When community leaders attempted to meet with the plantation owners to discuss the damage, they instead were met with 200 military troops who appeared for "war games." The troops took the leaders prisoner, tortured them, and threatened to kill them if they told their story.

The proposed Kiani Kertas chip and pulp mill will source its timber from the Sumalindo plantation. In addition, NGOs believe that in order to supply the mill as planned with 525 tons of wood per year, owner United Fiber Systems (UFS) will have to source a significant amount of its timber from illegal sources. In addition, the mill will likely impact the livelihoods of some 1,200 fishermen. As a result, NGOs have mounted an international campaign focusing on financiers of the mill. The campaign has achieved several victories, including forcing Deutsche Bank to drop UFS as a client (see image, right), getting UFS to withdraw an application for World Bank (Multilateral Investment Guarantee Agency) financing. NGOs also succeeded in pressuring a Dutch company to pull out of the mill.

However, UFS sidestepped Western financiers when it signed a deal with China National Machinery & Equipment Export-Import Corporation

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3 From World Rainforest Movement January 2006 bulletin at http://www.wrm.org.uy/bulletin/102/Asia.html#Indonesia and "100 Groups Oppose European Involvement In Destructive Pulpmill Projects In Indonesian Borneo," Friends Of The Earth Indonesia press release 17 January 2006 at http://www.foe.org.au/download/Indonesian_pulp_mill_Jan_2006.doc and "IFC, MIGA, Merrill Lynch and ANZ Bank urged to reject United Fiber Systems and Kiani Kertas projects," Friends of the Earth Indonesia press release 16 September 2006 at http://www.eng.walhi.or.id/kampanye/psda/060915_laws-anzbank_mr/

(CMEC) for a loan of USD 690.4 million, about 80% of the mill's costs. Under the deal, CMEC would also construct the project.[4]

For more information, see: www.walhi.or.id

Belinga iron ore mine (Gabon)

The Central African rainforest, which covers Cameroon, the Central African Republic, Congo Brazzaville, the Democratic Republic of Congo, Equatorial Guinea and Gabon, is the second largest rainforest in the world. According to Greenpeace, in as little as five to ten years Africa's apes, the gorillas, chimpanzees and bonobos, could disappear with the region's last undisturbed forest areas.[5]

In 2005, 70 conservation experts (including researchers, NGOs, governmental representatives and conservation managers) released a Regional Action Plan for the Conservation of Chimpanzees and Gorillas in Western Equatorial Africa. The Action Plan represents a consensus of the leading experts in this field, and it identifies important populations and habitats that were critical to protect for the survival of wild chimpanzees and gorillas in Western Equatorial Africa. One of these areas was the Belinga-Djoua (Gabon) which was classified as a "Priority Important Area." According to the Plan, "this site in North-East Gabon is important for ape conservation but threats will increase very significantly in the near future as iron reserves at Belinga are mined and a railway built to export the ore to Libreville."[6]

However, Gabon had difficulty identifying ready investors for the mine; because of the lack of infrastructure, the prospective developers had to build roads, 200 kilometers of railways, electricity resources, ports, etc. in order to extract the ore. In 2006, Gabon found its developer: CMEC won a USD 3 billion contract to develop the ore mine, as well as a port, rail system, and two dams. At the end, a Gabonese government minister said that there was "no contest" between CMEC's bid and the others, saying, "The Chinese state offered to guarantee the project financially and promised to buy the entirety of Belinga's production."[7]

Financing by Chinese banks

- In 2002, CMEC was granted a RMB 8 billion line of credit from the **Bank of China**
- In 2003, the **Export-Import Bank of China** offered the company a 3 year RMB 8.28 trillion line of credit.

4 Gulzar, Rosana. "Tough Fibre," The Edge Singapore 11 July 2005
5 Map of African Forests of Great Apes, Greenpeace website at http://www.greenpeace.org/international/campaigns/forests/africa/map-of-african-forest-of-the-g
6 Tutin, C. et al. Regional Action Plan for the Conservation of Chimpanzees and Gorillas in Western Equatorial Africa, Conservation International, 2005 at http://www.cbfp.org/docs_gb/great_apes_act_plan_english.pdf
7 "China given monopoly to work Gabon's untapped iron ore resources," Agence France Presse, 2 June 2006.

Merowe Dam Project, Sudan

The Merowe Dam which is currently being built on the Nile in Sudan is one of the largest hydropower projects in Africa. The dam will create a reservoir with a length of 200 kilometers. With a capacity of 1250 megawatts, the project's power plant will roughly double power generation in Sudan. The project is being developed by companies from China (China International Water and Electric Company and China National Water Resources and Hydropower Engineering Corporation), Sudan, France, Germany, and Switzerland. It is expected to be completed in 2009.

The Merowe Dam Project will displace 50,000 people from the fertile Nile Valley to locations in the arid Nubian Desert (see photo of resettlement site; courtesy of International Rivers Network). The affected people request to be resettled at sites of their own choice along the new reservoir. The project authorities have responded with repression to these legitimate demands. In April 2006, militias of the project authorities killed three people and wounded 47 when affected villagers gathered peacefully in a school compound.

The project will have serious environmental impacts. According to a study by the Swiss Federal Institute of Aquatic Science and Technology, the dam and the strongly fluctuating water levels will make it difficult for farmers to fish and fetch water, will destroy spawning areas for fish and other organisms, and will create serious risks of waterborne diseases. In violation of Sudanese law, the country's Ministry of Environment did not have the chance to review and certify the project's Environmental Impact Assessment before construction started.

Financing by Chinese banks

The dam is financed mainly by:

- **China Export Import Bank**, the main foreign financier of the project, has contributed of USD 387 million.

Non-governmental organizations informed the Bank about the problems of the Merowe Dam Project at several instances. In a meeting with International Rivers Network in December 2006, the President of China Exim Bank indicated that he was aware of the problems of the project, and would send a team to Sudan to learn more about the situation. By the time this report went to print, the Bank had not announced any measures to remedy the problems of the project.

For more information see: www.irn.org

Jinping Cascade 1 Hydropower Station, China

The Ertan Hydropower Development Company (EHDC) was established in 1988 to develop hydropower along the Yalong River in Sichuan province.

It is the developer and operator of the Ertan hydropower project, a USD 2.2-billion project which received over USD 780 million in loans and USD 150 million in loan guarantees from the World Bank. Other financiers included the China Development Bank and various Chinese domestic banks.8 Ertan was finished in 1999, and was China's largest dam before the Three Gorges project. It required the resettlement of about 46,000 people; a 2006 report by Chen Guojie of the Chengdu Institute Mountain Hazards Environment details the many problems associated with Ertan resettlement.

As part of a broader strategy to develop hydropower on the Yalong River, EHDC plans to build several dams which would have a combined capacity of about 30,000 MW.

Currently, EHDC is working on the Jinping Cascade I hydropower station, also along the Yalong River. (See image of Jinping dam, from EHDC.)

Financing by Chinese banks

In 2005, a RMB 19.663 billion (USD 2.4 billion) project finance loan for construction of the Jinping Cascade I hydropower was provided for the Jinping Cascade I hydropower project. The loan syndicate included:

- **Industrial & Commercial Bank of China (RMB 4 billion)**
- **Agricultural Bank of China (RMB 4.663 billion)**
- **China Development Bank - Sichuan Branch (RMB 11 billion)**

This deal was described as "the biggest syndicated loan for single construction project in West China provided by domestic banks" [9]

8 Ertan Hydropower Plant, Yalong River, China. PowerTechnology.com at http://www.power-technology.com/projects/ertan/
9 Chinese Banks Provide Us$ 2.4 Bln Loan For Hydropower Plant. Asia Pulse, December 2, 2005.

Ramu Nickel Mine, Papua New Guinea

The Ramu Nickel Mine is a proposed nickel laterite mine in the Madang Province of Papua New Guinea, a region that is one of the main centres of tourism in the country and home to one of the most significant tuna fishing grounds in the Bismark Sea. When first proposed, the PNG Fisheries authority concluded that the project was ‘economically, environmentally and socially unsustainable’, and numerous independent studies discredited the proposal to use the controversial practice of submarine tailings disposal in the coastal zone whose pristine waters provided the basis for thriving tourism and tuna fishing industries. The mine is also upstream of the Ramu River, which is water resource relied upon by tens of thousands of indigenous people for drinking ,transport and food production, many who are agriculturalists living subsistence livelihood. (See project map, below; from MCC presentation)

Local indigenous owners of land along the coast line petitioned against the proposal to dump the mine’s waste in the coastal zone, leading to allegations of human rights abuses including an alleged incident in which their primary spokesperson was kidnapped, ordered to revoke his people’s opposition, threatened and bashed at the company’s offices. Despite this, large scale local community opposition continues. Communities downstream of the mine have also opposed the project based on the environmental impacts upon water resources, including erosion from the mine site of metal laden sediments that were already visible during mine feasibility testing.

The benefits of the mine to the PNG nation have been further questioned, when last year the mine was granted a tax holiday lasting 10 years, something never granted before to a PNG resource developer.

The mine is currently in construction phase, and has been subject to criticism by PNG government ministers for breaching labour and approval processes requirements. Mining Minister Sam Akoitai says that MCC has somehow overlooked the need to submit, let alone gain approval for, its feasibility study or development proposal, and that despite having started constructions, it should not be building anything yet. PNG’s labour and industrial relations body has also threatened to shut the mine down if labour conditions do not rapidly improve. This followed investigations revealing that workers were being paid just US $4 a day, with overtime compensated by tins of fish rather than kina, with canteen arrangements "not fit for pigs", and toilet facilities so inadequate and public that employees used nearby bushes instead, out of embarrassment.

Ownership of the mine

The mine is majority owned and operated by Metallurgical Group Corp (known as MCC), which is China's 39th biggest company and the world's 26th biggest contractor, earning USD15 billion in revenue during 2006.

MCC owns 51 per cent of Ramu, after last November selling down 17 per cent each to Chinese nickel houses Jinchuan Group and Jilin Ji'en Nickel Corp. A further 8.56 per cent is owned by the original explorer of the site, Brisbane-based Highlands Pacific Group, 3.94 per cent by the PNG government's Mineral Resources Development Corp and 2.5 per cent by landowner groups. A fully owned subsidiary of MCC, ENFI, is undertaking the preliminary construction of the mine, in Madang province.

Financing by Chinese banks

20% of the project will be financed by the companies, while 80% will be financed by Chinese banks. Chinese banks named as financiers of the Ramu project include:10

- **Export-Import Bank of China**
- **China Development Bank**

Reportedly, the mine will also require the development of a 240 MW hydropower project, called Ramu 2. This project would be supported with a concessional loan of USD 400 million from the Chinese Development Corporation Initiative, and provided through China ExIm Bank.[11]

For more information, see: http://www.mpi.org.au/ or http://www.minesandcommunities.org

10 Ramu Mine Set to Roll, The National, 10 April 2006, at http://www.thenational.com.pg/041006/nation5.htm and C to Start China Nickel Project at End of 2006, China Metals Weekly, 29 May 2006.
11 Power for Ramu Mine, Dominic Krau, PNG-Post Courrier, 28 September 2006.

Asia Pulp & Paper

Although Asia Pulp & Paper Company Ltd. (APP) is headquartered in Singapore, it is the holding company for the pulp and paper interests of one of Indonesia's largest business groups: the Sinar Mas Group. This group is mainly active in pulp & paper, palm oil, food, property development, hotels, telecommunications and finance. (Photo below: Sinar Mas Group's founder, Chinese immigrant Oei Ek Tjhong, who later changed his name into Eka Tjipta Widjaja.)

Since the early 1980s, APP has built up a large pulp and paper production capacity in Indonesia, mainly based upon logging natural forests in Riau and elsewhere. In the mid-1990s APP used its surplus pulp capacity in Indonesia to expand into paper and board production in China and India. At the end of the 1990s, APP had an aggregate pulp production capacity of 2.3 million tonnes per year, located in Indonesia. Its annual paper and packaging production capacity in Indonesia, China and India totalled 5.7 million tonnes.

APP's tremendous expansion was financed mainly by foreign money. But when global pulp prices collapsed and the growth of the Chinese paper market slowed down, APP in March 2001 had to default on its interest and principal payments. With a USD 13.9 billion debt this was the largest corporate debt default in emerging market history.[12]

Asia Pulp & Paper's total pulp production capacity in Indonesia and China now amounts to 3.3 million tons per year, while its paper and packaging materials capacity amounts to 6.3 million tons annually. [13] The Sinar Mas Group aims to increase its global paper and board production capacity to reach 10 million tons per year by 2010. Most of this new capacity will be built in China.[14]

APP in Indonesia, Cambodia, and China

A study by CAPPA (Community Alliance For Pulp & Paper Advocacy) and WALHI (Friends of the Earth Indonesia) published in December 2006 concludes that "Asia Pulp and Paper (APP) is responsible for the large-scale destruction of Indonesia's forests. APP has also generated a number of conflicts with various community groups in Indonesia which have yet to be settled. In Riau Province, Sumatra, the company is

12 Asia's Worst Deal, Michael Shari, Business Week, New York, 13 August 2001.
13 China's Subsidization of its Forest Products Industry, American Forest & Paper Association, Washington, July 2004; Paper plant starts production amid concern over environment, Xinhua News Agency, Beijing, 29 March 2005; A glimpse of the future in China: two new APP mills, Nie Xiaorong, Solutions - for People, Processes and Paper, April 2005.
14 A glimpse of the future in China: two new APP mills, Nie Xiaorong, Solutions - for People, Processes and Paper, April 2005.

responsible for the impoverishment and economic degradation of the Sakai community, an indigenous group.

According to Global Witness, APP's subsidiary Green Elite together with government officials is illegally logging large areas of valuable forests, including parts of the Botum Sakor National Park.[15] The Cambodian logs are transported to APP's Chinese operations.

According to Greenpeace China, APP unscrupulously exploits the natural forest resources in Hainan to feed its giant pulp mill on the island, which started operations in March 2005. "According to Greenpeace's two investigations in March and April 2004, APP was suspected of destroying road protection forests and natural forests in Hainan."

In Yunnan, APP started an enormous forest-pulp-paper integration program together with the provincial government in 2002. In just one year, APP acquired 1.83 million hectares in Yunnan as the basis for this program. "Greenpeace carried out three field investigations in June, September and November 2004, and we have obtained irrefutable evidence to show that APP performed a lot of illegal logging while implementing this program in Yunnan. These facts have been verified by different official reports, including two investigation reports released by the State Forestry Administration in April and December 2004."

Financing by Chinese banks

After APP defaulted on its debt in March 2001, the company tried to arrange a debt restructuring with its Chinese creditors rapidly. In December 2001 **Bank of China** was hired to advise on the debt restructuring.[16] A steering committee of Chinese banks was formed which reached a draft debt restructuring agreement in November 2002. The following banks participated in this committee:[17]

- **Agricultural Bank of China**
- **Bank of China**
- **Bank of Communications**
- **China Construction Bank**
- **CITIC Industrial Bank**
- **Guangdong Development Bank**
- **Hua Xia Bank**
- **Industrial and Commercial Bank of China**
- **Shenzhen Development Bank**

15 Pulping Cambodia: Asia Pulp & Paper and the threat to Cambodia's forests, Luke Reynolds, Multinational Monitor, March 2005.
16 APP hires Bank of China International, Padraic Cassidy, Daily Deal, New York, 21 December 2001.
17 China - Loans, International Financing Review - Issue: 1461, London, 23 November 2002.

- In April 2004 Gold East Paper (Jiangsu) Co., a subsidiary of APP China in Jiangsu province, secured a USD 324 million loan from the Shanghai and Jiangsu branches of **Bank of China** to expand its paper production.[18]
- The pulp plant in Hainan which was opened in March 2005 profited from an extension of older loans from **Industrial & Commercial Bank of China**.[19] The China Development Bank also provided loans to APP China's Hainan project, accepting APP China's equipment as a guarantee.[20]

18 China Gold East Paper To Invest $500 Mln in Paper Making Line, Chinese News Digest, Paris, 13 April 2004.
19 APP China Unit Eyes Listing, Georgina Lee and Dennis Eng, The Standard, Hong Kong, 17 February 2004.
20 China's Subsidization of its Forest Products Industry, American Forest & Paper Association, Washington, July 2004.

China Datang, China

China Datang Corporation is one of China's five large, state-owned power corporations. The company has a subsidiary listed in London and Hong Kong, Datang Power Generation Co. Ltd. Its installed capacity amounted to 54,060 MW in 2006, most of which are coal-fired plants. China Datang has also invested in hydropower in recent years. The company produced 251 TWh in 2006.[21]

China Datang and three other electricity generating companies will not be granted approvals for new construction projects until they stop violating environmental regulations, the State Environmental Protection Agency (SEPA) announced in January 2007. The companies are on the agency's blacklist of 82 "severe violations". SEPA received 600,000 complaints about pollution problems in 2006 and recorded 161 serious environmental accidents, the biggest annual number ever.[22]

Five coal-fired power electricity plants of Datang Power in Hebei province are on the SEPA list, as they lack up-to-date pollution controls and are a major source of smog. In response, the company announced that it is discussing with the relevant authorities to gradually close down the five power plants.[23]

Ningde nuclear power project

In January 2006 Datang Power Generation established a joint-venture with Guangdong Nuclear Power Investment Co. Ltd. which is named the Ningde Nuclear Power Company. Datang Power will have a 49% share. This joint-venture will construct two 1,000-megawatt nuclear power generating units in Nignde (Fujian province). The project will cost 23.4 billion yuan (USD 2.9 billion) and waits for approval from the National Development and Reform Commission. Datang Power Generation would become the first Chinese listed power firm to invest in nuclear energy.[24]

Financing by Chinese banks

- In April 2005 China Datang issued 15-year bonds with a total value of 3 billion yuan (USD 363 million) on the Chinese market. The issuance syndicate was headed by the **China International Capital Corporation**, a joint venture of US-based Morgan Stanley. The bonds bear an annual interest of

21 China's Datang to Invest in $2.9 Billion Nuclear Project, Wendy Lim and Alison Leung, Reuters, Hong Kong, 27 January 2006; Website China Datang Corporation (www.china-cdt.com), Viewed in February 2007.
22 China's environment watchdog to deny power project approvals in bid to gain compliance, Associated Press, Shanghai, 11 January 2007.
23 Announcement to the Hong kong stock exchange, Datang Power International, Beijing, 11 January 2007; China Datang shuts 5 power plants in clean-up bid, Reuters, Hong Kong, 12 January 2007.

5.28% and were rated AAA, because they were guaranteed by **Industrial and Commercial Bank of China**. The proceeds would be invested in financing a hydro-electric power project in Guangxi province.[25]

- In February 2006 China Datang issued two billion yuan (USD 24.69 million) worth of corporate bonds in the domestic market. The bonds bear an annual interest rate of 4.2% with a term of 20 years. The bonds were rated AAA, because they were guaranteed by **Industrial and Commercial Bank of China**. The proceeds would be invested in developing the power supply infrastructure in Shaanxi province.[26]

- The issuance syndicate was headed by the **China International Capital Corporation.** Other financial institutions participating in the syndicate were:[27]

    - **Bank of China**
    - **Beijing Securities**
    - **China Development Bank**
    - **CITIC Securities**
    - **GF Securities**
    - **Goldman Guo Hua Securities**
    - **Guo Sin Securities**
    - **Guotai Junan Securities**
    - **Haitong Securities**
    - **Ping An Securities**
    - **Shanghai Far East Securities**

24 Datang agrees to go nuclear, China Daily, Beijing, 27 January 2006; China's Datang to Invest in $2.9 Billion Nuclear Project, Wendy Lim and Alison Leung, Reuters, Hong Kong, 27 January 2006.
25 Long on power, IFR Asia - Issue No 402, Hong Kong, 7 May 2005.
26 China Datang Corporation issues 2 billion yuan of corporate bonds, Xinhua News Agency, Beijing, 17 February 2006.
27 Two power deals, IFR Asia - Issue No 440, Hong Kong, 18 February 2006.

China Guodian, China

China Guodian Corporation is one of China's five large state-owned power corporations. At the end of 2005 the company owned an installed capacity of 35,060 MW, most of which were coal-fired power plants. The company also owns a limited amount of hydro-electric power plants.[28]

China Guodian and three other electricity generating companies will not be granted approvals for new construction projects until they stop violating environmental regulations, the State Environmental Protection Agency (SEPA) announced in January 2007. The companies are on the agency's blacklist of 82 "severe violations". SEPA received 600,000 complaints about pollution problems in 2006 and recorded 161 serious environmental accidents, the biggest annual number ever.

Several coal-fired power electricity plants of China Guodian are on the SEPA list, as they lack up-to-date pollution controls and are a major source of smog.[29]

Pubugou hydropower project

The Pubugou Hydropower Plant is constructed on the Dadu River in Sichuan province. The project is developed by the Guodian Dadu River Water Resource Exploration Corporation, which is a subsidiary of China Guodian Group Corporation.

Construction started in 2001 and is estimated to be finished in 2008. Pubugou will be the biggest hydropower station in the province with an installed capacity of 3,300 MW and around 14.58 billion kWh of annual power output. The project will require an estimated investment of RMB 20.3 billion (USD 2.45 billion). The dam will be 186 meters high and the reservoir will cover an area of 2,920 ha.

The Pubugou Hydropower Station is the first project of the water resource development campaign on the Dadu River. It will require a total investment of RMB 19.9 billion (USD 2.4 billion). The Guodian Dadu River Water Resource Exploration Corporation has in the past years launched plans for another six stations on the river.[30]

The project has been criticized by environmental groups and local residents, because of the environmental consequences and the low compensations paid to the residents. 14% of the total amount of arable land in Hanyuan County will be flooded. More than 100,000 local residents from 65 villages and 20 towns in Hanyuan County, Shimian County and Ganluo County will relocated to higher altitudes where the land is of poorer quality. Some local residents now have to live have

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28 Website China Guodian Corporation (www.cgdc.com.cn), Viewed in February 2007.
29 China's environment watchdog to deny power project approvals in bid to gain compliance, Associated Press, Shanghai, 11 January 2007.
30 Pubugou hydropower station borrows USD 400 mln from ICBC, Interfax, Shanghai, 9 August 2004; Protests take place at Pubugou Hydropower Plant, Interfax, Shanghai, 29 October 2004.

cope with sheds have built themselves mountains. A petition signed by more than 20,000 local residents has been lodged with the local authorities.

At the end of October 2004 more than 50,000 angry local residents demonstrated at the Pubugou construction site to protest inadequate compensation terms for their resettlement. The demonstration escalated into a confrontation with the armed police, resulting in several injured residents. At least one person was killed.[31]

Early November 2004 10,000 soldiers and paramilitary police were send in the thousands of protesters. They did not open fire but used batons to beat back the crowd. They also released a high-ranking provincial chief which had been trapped in a government building for a few hours, surrounded by villagers demanding that the dam construction be stopped.[32]

In December 2006 a court in Sichuan Province has secretly executed Chen Tao, who was accused of "deliberately killing" a riot policeman during the protest in October 2004. Three others were jailed, one of them for life, a lawyer and a family member said to Reuters agency.[33]

Financing by Chinese banks

In August 2004 the Guodian Dadu River Water Resource Exploration Corporation secured loans from two Chinese banks to finance the construction of the Pubugou project:[34]

- **Industrial and Commercial Bank of China**
  RMB 3.45 billion (USD 416.8 million)
- **China Construction Bank**
  RMB 6.0 billion (USD 724.9 million)

The same two banks have already promised to lend substantial amounts over the coming 15 years to the company to finance its subsequent hydropower projects. The amounts committed are: [35]

- **Industrial and Commercial Bank of China**
  RMB 50 billion (USD 6.0 billion)
- **China Construction Bank**
  RMB 60 billion (USD 7.2 billion)

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31 China tries to calm dam protests, Louisa Lim, BBC, Beijing, 18 November 2004; Protests take place at Pubugou Hydropower Plant, Interfax, Shanghai, 29 October 2004.
32 Official rescued as China dam protest eases, Jason Leow, Straits Times, Hong Kong, 8 November 2004.
33 China Secretly Executes Man after Protest - Lawyer, Reuters, Beijing, 7 December 2006.
34 Pubugou hydropower station borrows USD 400 mln from ICBC, Interfax, Shanghai, 9 August 2004.
35 Pubugou hydropower station borrows USD 400 mln from ICBC, Interfax, Shanghai, 9 August 2004.

In December 2006 China Guodian Corporation acquired a 20% stake in the **Guangdong Development Bank**.[36] Citigroup also acquired a 20% stake and will take over management of the bank.

36 Chinese banking regulator okays GDB's foreign shareholders, Xinhua News Agency, Beijing, 18 December 2006.

China National Petroleum Corporation (CNPC), China

The state-owned China National Petroleum Corporation (CNPC) is China 's largest producer and supplier of crude oil and natural gas, holding a dominant position in domestic petroleum production, processing, and marketing sectors. At the same time, CNPC is also a major producer and supplier of refined oil products and petrochemicals. Outside China the company has exploration and production projects in 23 countries including Sudan, Algeria, Ecuador, Nigeria, Chad, Syria, Kazakhstan, Libya, Indonesia, Thailand, Burma, Mongolia, Turkmenistan, Azerbaijan, Iran, Oman, Niger, Mauretania, Tunesia, Venezuela, Peru and Canada.

In 2005 CNPC produced 105.95 million metric tons of crude oil and 36.7 billion m^3 of gas, an increase of 27.9%. Annual sales amounted to RMB 693.7 billion in 2005, resulting in net profits of RMB 178 billion.

PetroChina Company Limited, CNPC's largest listed subsidiary, is responsible for CNPC's domestic operations in the areas of oil and gas exploration and development, oil refining and petrochemical production, marketing, pipeline transportation, and natural gas sales and utilization. PetroChina was publicly listed respectively in Hong Kong and New York in April 2000, with CNPC holding 90% of its shares.[37]

CNPC in Sudan

CNPC is active in oil exploration, production, transport and refining in Sudan. Since December 1996 CNPC has owned a 40% stake of the Greater Nile Petroleum Operating Company which owns a concession for blocks 1, 2 and 4 in the Western Upper Nile region. CNPC is the operator, while its partners are the Sudan Petroleum Company (Sudan, 5%), Petronas (Malaysia, 30%) and ONGC Videsh (India, 25%).

In 2005 CNPC’s crude production in Sudan reached 16.38 million tonnes and its proven reserve reached 550 million barrels. To transport the oil produced, CNPC operates the Block 1/2/4 oil pipeline, which is 1,506 kilometers long and includes six transportation stations and one offshore terminal. The pipeline is now expanded, raising throughput capacity of the pipeline to 15 million tons.

Other pipelines are constructed by CNPC as well. The 723 km long Block 6 pipeline, which is passing through tropical rainforest has been completed in 2003. And the newest project is a crude pipeline from Block 3 and 7 to Sudan Port. [38]

37 Website CNPC (www.cnpc.com.cn), Viewed in January 2007.
38 Website CNPC (www.cnpc.com.cn), Viewed in January 2007.

According to some sources CNPC paid for its investments in Sudan in part by providing arms to the Sudanese government.[39]

In any case these activities yield income for the Sudanese regime and fuel the conflicts in the southern and western parts of the country. Oil is a critical source of revenue and an asset of paramount strategic importance to the Sudanese government, which has been found to be complicit in what the U.S. Congress and U.S. State Department have termed "genocide" in Darfur and what a United Nations commission of inquiry recently characterized as "crimes against humanity and war crimes . . . [that] may be no less serious and heinous than genocide." For these reasons the Harvard Corporation in April 2005 decided to divest the shares it held in PetroChina.[40]

The humanitarian, security and political situation continue to deteriorate: atrocities continue, people are still dying in large numbers of malnutrition and disease, and a new famine is feared. According to reports by the World Food Program, the United Nations and the Coalition for International Justice, 3.5 million people are now hungry, 2.5 million have been displaced due to violence, and 400,000 people have died in Darfur thus far.[41]

In May 2006 the European Coalition on Oil in Sudan (ECOS) published a detailed report which documents the impact of oil exploitation in blocks 3 and 7 in the Melut Basin in Upper Nile State as told by inhabitants of the area and photographed from satellites. The report concludes that the oil-rich areas in the Melut Basin have suffered the same pattern of oil-related death, destruction and displacement as the Muglad Basin fields in Western Upper Nile, though on a smaller scale. Well over a hundred villages have been emptied and the natural environment has been severely damaged, and the population has not received substantial benefits.

According to ECOS the oil fields have been developed against the background of a war in which the Petrodar Operating Company has not acted as a neutral party but as a loyal partner of one of the warring sides, the Government of Sudan. The Petrodar consortium has shown no due regard for the natural environment or concern for the rights of the population. The signing of the Comprehensive Peace Agreement (CPA) in January 2005 has not brought publicly visible fundamental changes in its attitude or business practices. [42]

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39 Debt sustainability or defensive deterrence? - The rise of new lenders and the response of the old, Francesco Oddone, Eurodad, January 2007.
40 Statement by Harvard Corporation Committee on Shareholder Responsibility (CCSR) Regarding Stock in PetroChina Company Limited, Harvard University Gazette, Harvard, 4 April 2005.
41 Website Save Darfur (www.savedarfur.org), Viewed in January 2007.
42 Oil Development in northern Upper Nile - Sudan, European Coalition on Oil in Sudan, Brussels, May 2006.

CNPC in Burma

In Burma CNPC is exploring oil in the IOR-4 block in the middle of the country and the Bagan block in the south. In 2005 oil and gas were discovered in the IOR-4 block. [43]

In January 2007 of a production sharing contract for oil and gas exploration in three deep-sea blocks off Burma were signed between the Burmese junta and CNPC. The contract was signed just two days after China and Russia vetoed a UN Security Council resolution on Burma to highlight the worsening conditions in the country.

According to the NGO Arakan Oil Watch, foreign oil companies get access to Burma's natural resources by providing money as well as arms to the military regime. According to the NGO CNPC's new oil contract means that there will be more negative impacts on human lives, environments and biodiversity, both marine and inland.[44]

Jilin Petrochemical spill

On 13 November 2005 an explosion in a factory of Jilin Petrochemical Corporation, a subsidiary of CNPC, left six workers killed and 70 wounded. The explosion forced the evacuation of tens of thousands of people. The factory is located in Jilin, a small city in northeast China. The channel of one nitration tower of the benzene production branch got blocked at noon. A worker then bungled an attempt to unblock it.[45]

The explosion also caused a massive benzene spill into the Songhua River. Although local officials were informed of the spill within hours of its occurrence, they withheld information from the public because they were awaiting instruction from senior party leaders in Beijing. On 24 November the polluted water reached Harbin, a city of 3.8 million people in northeast China. When attempts to dilute the spill failed and tests showed benzene levels more than 100 times the safe level in Harbin's drinking water, officials told the public the water supply was being shut off "to carry out repair and inspections on the pipe network." The provincial governor was apparently still waiting for permission from Beijing to

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43 Website CNPC (www.cnpc.com.cn), Viewed in January 2007.
44 Get Out of Burma, Activist Group Tells China, Arakan Oil Watch, 18 January 2007.
45 Cause of Jilin chemical plant blasts found, Wu Yong and He Na, China Daily, Jilin, 15 November 2005.

disclose the spill. Over a week passed before the Chinese government admitted the true story. And once the truth did come out, Beijing still tried to keep close control of information, telling reporters to stop asking questions and instructing news organizations to use reports only from the official New China News Agency. Two weeks later the water reached Russia.[46]

In 2005 the 600 kt/a ethylene production unit of Jilin Petrochemical Company was upgraded in CNPC's petrochemical expansion programme. [47]

CNPC in Peru

In Peru CNPC's subsidiary SAPET came under fire for impinging on the habitats of indigenous peoples in the southeast Amazon. At the end of 2006 the company requested that the government remove an affected area from their oil concession.[48]

In November 2006 SAPET announced it will not enter territory inhabited by isolated Indians. The Indians are believed to number around 600 people and to be part of the Piro tribe, but very little else is known about them. Because of their isolation from outside society, they remain very vulnerable to diseases, and contact can be fatal.[49]

Financing by Chinese banks

- In August 2000 **Bank of China** provided a 20 billion yuan (USD 2.41 billion) line of credit to PetroChina to support the long-term development of the oil company. The credit was the largest of its kind given in China.[50]
- In March 2006 PetroChina mentioned as its principal bankers:[51]
    - **Bank of China**
    - **Industrial and Commercial Bank of China**
    - **China Construction Bank**
    - **China Development Bank**
    - **Bank of Communications**
    - **CITIC Industrial Bank**

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46 Toxic water reaches Harbin, Xinhua News Agency, Harbin, 24 November 2005; The China Syndrome and the Environmental Kuznets Curve, Steven F. Hayward, American Enterprise Institute for Public Policy Research, Washington, November-December 2005.
47 Website CNPC (www.cnpc.com.cn), Viewed in January 2007.
48 China's African encounter, Ben Schiller, Chinadialogue, 6 November 2006.
49 Peru: Historic double triumph for Indians over oil companies, Survival International, 2 November 2006.
50 Bank of China Backs Oil Giant, People's Daily, Beijing, 25 August 2000.
51 Annual report 2005, PetroChina, Beijing, March 2006.

China Non-Ferrous Metal Mining, China

China Non-Ferrous Metal Mining (Group) Co. Ltd. (CNMC) is a Chinese state-owned mining firm, formed in 1983. CNMC was the first Chinese company to seek overseas non-ferrous metals development. The company now is active in Zambia, Burma, Australia, Iran, North-Korea, Cambodia, Kazakhstan, Malaysia, Mongolia and Laos. CNMC's acquired copper, nickel, cobalt, zinc and gold resources abroad have respectively reached 7 million tons, 1 million tons, 300,000 tons, 1.3 million tons and 100 tons.

CNMC aims to spend more than USD 800 million overseas from 2007 until 2009. The company strives to become an influential global mining group in coming years with a focus on overseas non-ferrous metals development.[52]

Chambishi mine in Zambia

CNMC was awarded a 85% share in the Chambishi mine in Zambia's privatisation of its copper mining industry in 1998 for USD 20 million. The mine is now owned by NFC Mining Africa, a joint-venture between CNMC (75%) and state-owned ZCCM Holdings (15%). [53]

In April 2005 a massive and still unexplained blast levelled an explosives factory on the premises, killing 46 people. A witness says rescue workers were still retrieving body parts from the scene the next day. [54] Everyone inside the explosives factory where it occurred died. Mangled pieces of metal littered the factory, three bags packed with body parts collected from the debris lay against a crumbling wall and women wailed nearby. Joyce Nakasula said she had lost her son Davy Simpemba, a worker at the plant. 'I only saw his trousers at the mortuary ... his body was in pieces,' she sobbed to journalists.[55]

In July 2006 one worker was shot by Zambian police at the plant after employees rioted over wages. Another five were taken to hospital after they stormed into the Chinese residence, prompting expatriate management to open fire. [56]

"The Chinese have annoyed us because they don't treat us as important partners in their business," said a Chambishi mine worker who declined to be named. "All they are interested in are higher profits and not the workers who earn them these profits," added the miner, who was involved in the violent protest in July.

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52 Mining firm seeks global investments, China Daily, Beijing, 9 November 2006.
53 China's Africa embrace evokes imperialist memories, John Reed, Financial Times, London, 27 September 2006.
54 China's Africa embrace evokes imperialist memories, John Reed, Financial Times, London, 27 September 2006.
55 Death toll in blast at Zambia mine climbs to 51, Shapi Shacinda, Reuters, 21 April 2005.
56 China's Africa embrace evokes imperialist memories, John Reed, Financial Times, London, 27 September 2006.

Union officials say miners at Chambishi are the lowest paid in the entire mining sector, with the least paid earning USD 100 a month. By comparison the lowest paid miner at the Konkola Copper Mines, Zambia's largest copper producer, earns USD 424 monthly, they said.[57]

In November 2006 CNMC and Yunnan Copper Industry Group Company announced a deal to build a 150,000-ton copper smelting plant in Chambishi, Zambia. The copper plant will be put into operation at the end of 2008 and will involve a USD 220 million investment. CNMC will take a 60% stake. [58]

CNMC in Burma

In November 2006 CNMC announced it plans to build a USD 600 million nickel mineral project in Myanmar, which is awaiting approval from the Chinese Government. [59]

Financing by Chinese banks

In September 2000 China Non-Ferrous Metals Industry secured a USD 57 million loan from the **Export-Import Bank of China** to rehabilitate the Chambishi copper mine in Zambia. The loan was part of the estimated USD150 million required to upgrade the mine, planned to produce 45,000 tonnes per year of copper.[60]

Bank of China at the end of the 1990s established a branch in Zambia to finance Chinese investments in the Zambian mining sector and industry.[61]

57 African resentment against China grows - Welcome for Chinese investors tempered as labor practices come under fire, Reuters, Chambishi, 9 August 2006.
58 Mining firm seeks global investments, China Daily, Beijing, 9 November 2006.
59 Mining firm seeks global investments, China Daily, Beijing, 9 November 2006.
60 China Non-Ferrous Metals Industry, Mining Magazine, September 2000.
61 China opens its market to Zambia exports, Reuters, 5 February 2007.

China Petroleum & Chemical Corporation (Sinopec), China

China Petroleum & Chemical Corporation (Sinopec Corporation) is a Chinese oil and gas company with integrated upstream and downstream operations. The company is listed on the stock exchanges of Hong Kong, New York and London, but the Chinese government owns 71.23% of the shares. 19.35% is owned by foreign investors.

Sinopec is one of the largest integrated energy and chemical companies in China. It is China's largest producer and distributor of oil products and major petrochemical products, as well as the second largest crude oil producer. In 2006 Sinopec produced 40.2 million tons of crude oil and 7.3 billion m^3 of gas. With a domestic market share of over 60% on the retail market, the annual sales volume of oil products reached 111.7 million tons in 2006.

In 2005 Sinopec realised annual sales with a total value of USD 102.0 billion, resulting in a net profit of USD 5.4 billion.[62]

Sinopec is also increasingly active in oil and gas production outside China, in Saudi Arabia, Uzbekistan, Azerbaijan, Kazakhstan, Brazil, Angola, Sudan, Burma, Canada and other countries.[63]

Sinopec in Sudan

In March 2006 Harvard University (United States) decided to divest from Sinopec, citing grave concerns about the Chinese company's involvement in oil production ventures with the Sudanese government headed by CNPC. ''Oil is a critical source of revenue and an asset of paramount strategic importance to the Sudanese government, which has been found to be complicit in what the US Congress and US State Department have termed 'genocide' in Darfur," the statement said.[64]

Sinopec in Burma

In September 2004 Sinopec signed a contract with Myanmar Oil and Gas Enterprise for joint oil exploration and production in the onshore D block in Burma.[65]

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62 Website Sinopec (www.sinopec.com), Viewed in January 2007.
63 China on global hunt to quench its thirst for oil, Robert Collier, San Francisco Chronicle, San Francisco, 26 June 2005.
64 Statement on Sinopec divestment, Harvard University Gazette, Harvard, 23 March 2006; Citing Darfur, Harvard targets firm - Backs divestiture from oil company, Catherine Elton, Boston Globe, Boston, 24 March 2006.
65 China Sinopec Wins Myanmar Oil, Gas Exploration Contract, Gao Lu, Dow Jones, Beijing, 9 September 2004.

Burma is the only country in the world for which the international trade union movement calls for disinvestment, as investing in Burma is not possible without the agreement of the junta. The regime systematically steers business operations, especially the most profitable, towards joint ventures with state-owned companies. The “secretive and corrupt” business environment in Burma lacks all forms of transparency, according to the International Confederation of Free Trade Unions (ICFTU). Whether or not companies are directly owned by the military makes no real difference. Where the former are owned by the army, many of the latter are owned by high ranking military figures, in their “private capacity”, or by their relatives and cronies. Over the last 15 years the military dictatorship in Burma has moved itself into a position of virtual control over all aspects of the business sector.[66]

For more information, see:

- **Federation of Trade Unions - Burma: www.tradeunions-burma.org**
- **Burma Campaign UK: www.burmacampaign.org.uk**
- **The Shwe Gas Movement: www.shwe.org**

Sinopec in Angola

In late 2004, while International Monetary Fund officials were berating Angola for corrupt oil dealings, the **China Export-Import Bank** signed a loan agreement with the Angolan government for USD 2 billion in credits to repair railway tracks bombed in the country's long civil war and to construct new office buildings in the capital - all using Chinese contractors. The timing was flawless: When French oil company Total applied to renew its license on a large oil-production block, Angola refused, handing it instead to Sinopec, with which it then formed a joint venture to bid on other oilfields.[67]

This joint-venture between Sinopec and the state-owned oil company Sonangol is called Sonangol Sinopec International (SSI). In 2004 SSI acquired a 50% share in the development of the Greater Plutonio project in offshore block 18 from Shell (UK/Netherlands). BP (United Kingdom) owns the other 50% and is the operator. Greater Plutonio is a group of at least six oil fields with total oil reserves estimated at 84 million tons. Development of Greater Plutonio is fairly difficult and expensive, as the six fields are located as much as 35 kilometers apart in water depths varying from 1,200 to 1,500 meters. In addition, the group of fields involves reservoirs at different stratigraphic levels.

66 Doing business in or with Burma, ICFTU, Brussels, January 2005.
67 China's appetite for African oil grows - African governments view China as a more cooperative partner than the West, Vivienne Walt, Fortune Magazine, New York, 15 February 2006.

Capital expenditure for the development has been estimated at USD 4 billion over the life of the fields.[68]

Angola is one of the most corrupt and impoverished countries in the world. Oil is the main source of income for the Angolan government and with prices at record highs, total oil revenues for 2005 are estimated at around USD 6.88 billion. However, despite this wealth, Angola remains one of the world's poorest countries. Most Angolan citizens live on less than US$ 2 per day and at least 45 percent of Angolan children are severely malnourished. The IMF found that, between 1997 and 2001, USD 8.45 billion of public money was unaccounted for (an average of 23% of GDP), and the Angolan government still has no transparent system for managing its oil money.

According to the British NGO Global Witness, the country's huge indebtedness, currently standing at USD 9.5 billion or half its GDP, lies at the heart of the problem. The government continues to take out expensive commercial loans backed by oil rather than seeking cheaper loans from development banks, which would require a commitment to manage public money more transparently. Oil-backed loans are condemned by the IMF as detrimental to growth and inherently lacking in transparency, since the use of the funds is undisclosed. In the case of Angola, the World Bank has described the government's oil-backed lending as the core obstacle to the country's development.[69]

Sinopec in Gabon[70]

Sinopec is also exploring for oil in Gabon's Loango national park, located in the southern part of the country. In 2006, NGOs accused the company of polluting the park and dynamiting in the reserve, with some alleging that Sinopec is operating illegally. Gabonese law requires environmental impact assessments to be approved by the environment ministry, something that Wildlife Conservation Society claimed Sinopec had not yet obtained.

The company's actions have also reportedly created concerns from many international donors, including the World Bank, which had planned to invest USD 10 million to preserve Gabon's nature reserves. The donors wrote a letter to Gabon's forestry minister saying that Sinopec's activities "pose a threat to the biology and tourist potential of Gabon's parks and to the credibility of the government and recommend that oil exploration there be halted."[71] The government ordered Sinopec to stop exploration activities in October 2006, but primatologist Christophe Boesch, who works in the area, maintained that since then"100

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68 Banks bid on $1.4bn deal for Sonangol, Euroweek - Issue: 939, London, 3 February 2006; Greater Plutonio - Block 18 - Angola, Website Offshore Technology (www.offshore-technology.com), Viewed in January 2007.
69 Western banks to give huge new loan to Angola in further blow to transparency, Press Release Global Witness, London, 23 September 2005.
70 This section contributed by Michelle Chan-Fishel
71 Alfroy, P. (2006). China's Sinopec 'illegally' destroying Gabon. Sapa-Agence France Presse, September 29, 2006 via Business in Africa online at http://www.businessinafrica.net/news/west_africa/789099.htm

explosions a day have been heard in the park."[72] (Photo below: Loango National Park; courtesy of Wildlife Conservation Society.)

Financing by Chinese banks

- In November 2005 Sinopec Overseas Oil & Gas, a subsidiary of Sinopec, secured a USD 1.1 billion five year loan from an international banking syndicate arranged by six banks including **Bank of China**. The following Chinese banks participated in the syndicate of 14 banks:[73]

  - **Bank of China** USD 139 million
  - **Nanyang Commercial Bank** USD 40 million

- In May 2006 Sonangol Sinopec International, a joint-venture of Sinopec and the Angolan oil company Sonangol, secured a eight-year USD 1.4 billion borrowing base facility. The facility will be used to finance SSI's 50% share in the development of the Greater Plutonio project in offshore block 18. The deal was split between a USD 700 million tranche for international lenders, and a USD 700 million tranche for Chinese banks. The following Chinese banks participated:[74]

  - **Agricultural Bank of China** USD 76 million
  - **Bank of China** USD 75 million
  - **China Construction Bank** USD 144 million
  - **China Development Bank** USD 205 million
  - **China Export-Import Bank** USD 200 million

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72 Oil prospecting in Gabon. Wildlife Extra, October 2006 at http://www.wildlifeextra.com/gabon-oil.html
73 Sinopec allocated, IFR Asia - Issue No 430, Hong Kong, 21 November 2005; Asia Pacific syndicated loans, Euroweek - Issue: 931, London, 25 November 2005.
74 Fourteen banks chosen to arrange Sonangol oilfield deal, Euroweek - Issue: 951, London, 28 April 2006; Sonangol mandates 14 for Block 18, Project Finance Magazine, London, April 2006; Angola, Euroweek - Issue: 954, London, 19 May 2006.

- In April 2006 Sinopec mentioned as its principal bankers:[75]
    - **Bank of China**
    - **Industrial and Commercial Bank of China**
    - **China Construction Bank**
    - **China Development Bank**

75 Annual report 2005, Sinopec, Beijing, April 2006.

China Poly, China

The China Poly Group is mainly active in international trading, real estate and the culture industry. The international trading activities of the Group are undertaken by its subsidiary Poly Technologies, whose annual sales run into the tens of billions of US dollars. In the past twenty year this company "has imported large quantity of advanced equipment and technology for the country and the army, and has exported a large amount of merchandise for civilian use, defence equipment and logistics supplies. It has made outstanding contribution to developing economy and the nation's modernization of defence, winning commendations from government and army leaders for many times." [76]

In a recent report by Amnesty International the China Poly Group is described as "one of the largest Chinese arms exporting companies". [77] The company was established originally by the People's Liberation Army (PLA), the Chinese army. When the government ordered the military to divest itself of numerous businesses, Poly Technologies in 1999 was placed under the central government.[78] Recently, Poly Technologies has also been investing in China and abroad in the exploration of coal, oil, iron, chromium and rare-earth metals. [79]

Controversial weapon supplies

In 1996 Poly Technologies was put under indictment in California in connection with the smuggling of 2,000 AK-47 automatic rifles into the United States, to supply street gangs. Representatives of the company were convicted, but the company was never prohibited to sell arms to the US military. Therefore the US army was free to place an USD 29 million order with the company in April 2005 to supply military goods to the new Iraqi army. [80] The regime in Burma is among Poly Technologies' biggest arms customers.[81]

Financing by Chinese banks

In November 2006 Poly Technologies secured RMB 5 billion of development loans from **China Development Bank**. The loans will be used to finance the investments of Poly Technologies in "resource

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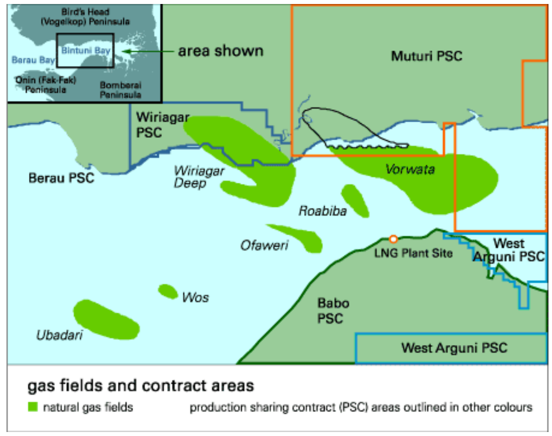
76 Website Poly China Group (www.poly.com.cn), Viewed in February 2007.
77 People's Republic of China: Sustaining conflict and human rights abuses - The flow of arms accelerates, Amnesty International, London, 11 June 2006.
78 Shadowy firm will arm Iraq: Chinese company stands accused of smuggling AK-47s in to U.S., Jonathan S. Landay, The Sun Herald, 28 April 2005.
79 Website Poly China Group (www.poly.com.cn), Viewed in February 2007.
80 Shadowy firm will arm Iraq: Chinese company stands accused of smuggling AK-47s in to U.S., Jonathan S. Landay, The Sun Herald, 28 April 2005.
81 China's Military Mounts Global Assault on $1 Billion Art Market, A. Craig Copetas, Bloomberg, Paris, 13 October 2005.

development" (probably mining) in China.[82] It should also be noted that in 2006 Credit Suisse formed China Poly Finance, a company to help Poly manage its financial assets and raise capital.[83]

82 CDB Offers CNY5bn Development Loans to Poly Technologies, China Business Times, Beijing, 30 November 2006.
83 Equity participation in Poly Finance Company Limited. Credit Suisse E-magazine, January 11, 2006 at http://emagazine.credit-suisse.com/app/article/index.cfm?fuseaction=OpenArticle&aoid=128632&coid=81867&lang=EN

Tangguh LNG project, Indonesia

On the south side of Bintuni Bay in Papua (Indonesia), a consortium of several Japanese oil companies, CNOOC (China) and BP (United Kingdom) is building a LNG plant, the so-called *Tangguh LNG Project*. BP is the operator.



The gas supplying the Tangguh LNG Project will come from several gas fields offshore Papua, which have combined proven reserves of 460 billion m^3. Probable reserves amount to 671 billion m^3. In the first phase of the project the LNG processing plant will consist of two *trains*, producing 7.6 million metric tons of LNG a year (this equals 10.5 billion m^3 of gas). Both trains are scheduled to start commercial operations in 2008-2009. The LNG will be supplied to China, South-Korea and Mexico under twenty year contracts.[84]

The total investment costs for this first phase of the Tangguh LNG Project are estimated at USD 5.0 billion.

Environmental and social issues

Indonesian social and environmental NGOs are opposing the Tangguh project for various reasons. The Tangguh project is being developed without adhering to the principle of Free, Prior and Informed Consent for the indigenous customary landowners. The project is opposed by some affected villagers, and is causing serious social tensions within and between landowning communities.

The indigenous landowners of Tanah Merah are unsatisfied with the Rp $15/m^2$ (USD $0.0015/m^2$) compensation they received in 1999 for the compulsory acquisition of their land for the Tangguh project. This has lead to serious disquiet and efforts are underway by disenfranchised landowners to recover their land and/or sue the Tangguh project.

Community development promises made regarding electrification of villages, jobs and housing made by BP Tangguh cannot be fulfilled in all cases, leading to tension between recipients and those who have missed out. The export-oriented Tangguh project is aimed at serving the needs of international gas consumers, rather than ensuring the energy needs of Papua Province and Indonesia generally can be sustainably met today and for future generations.

84 Website BP (www.bp.com), Viewed in January 2007.

The process of environmental impact assessment for the Tangguh project was seriously flawed, without meaningful consultation of affected communities, and was a "rubber stamp" process since the national government granted the Tangguh license before the EIS process was even completed. Significant impacts are inevitable to the sensitive mangrove environment and waters of Bintuni Bay which perform an important role as nursery habitat for regional fish populations, not to mention forming the basis of local traditional sustainable livelihoods.

BP's community-based security arrangements are untested and are no guarantee that the notoriously corrupt police and military forces will not engage in rent-seeking behavior by stirring up trouble to ensure their presence, and paid services, are required in the project area. The Tangguh project is being developed in Papua province where historical and recurring human rights abuses against local people by the military and Brimob paramilitary police are well-documented, especially against people who are opposed to foreign-owned resource extraction projects or the policies of the national government in Jakarta.

The number of military personnel stationed in Papua province is already the highest in any province in Indonesia, and is being increased. A new headquarters is being established in the province for Kopassus special forces, which have been involved in serious and unresolved human rights abuses in East Timor and elsewhere. Experience shows that an increased military presence means conflict will escalate in the province where the Tangguh project is located.[85]

For more information see:

- **Down to Earth: dte.gn.apc.org/camp.htm#Tangguh**
- **West Papua Information: www.westpapua.se/papua/enviroment/bp.htm**
- **Walhi: www.eng.walhi.or.id/kampanye/tambang/**

Financing by Chinese banks

In April 2005 the Tangguh LNG project mandated five Chinese banks to arrange an unsecured USD 1.25 billion loan to finance the construction of the LNG receiving terminal in Fujian province. Later the loan was reduced to USD 900 million. It has still not been signed. The following banks are arranging the loan:[86]

- **Agricultural Bank of China**

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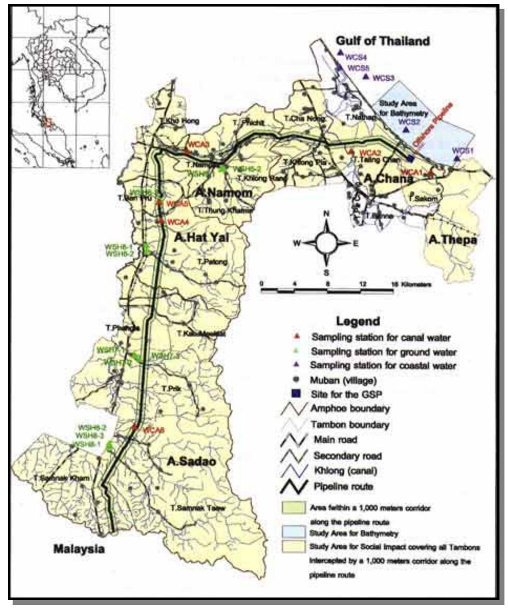
85 Expression of opposition to ADB loan for the BP Tangguh Project due for consideration at ADB Board meeting 14 December 2005, Letter to the ADB from WALHI (Indonesian Forum for Environment), KAU (Indonesian Anti-Debt Coalition) and JATAM (Indonesian Mining Advocacy Network), Jakarta, 1 December 2005.
86 Indonesia, Euroweek - Issue: 900, London, 22 April 2005; Tangguh LNG names seven for $1.3bn loan, Euroweek - Issue: 936, London, 13 January 2006; Tangguh LNG: Slow burn, Project Finance Magazine, London, September 2006.

- **China Construction Bank**
- **China Development Bank**
- **Export-Import Bank of China**
- **Industrial & Commercial Bank of China**

Trans Thai-Malaysia pipeline, Thailand



The *Trans Thai-Malaysia pipeline* started operations in mid-2005 and brings crude natural gas from the Gulf of Thailand onshore in the Songkhla province in Thailand. At a separation plant LPG is separated from the natural gas. The purified natural gas is then transported by pipeline to the Malaysian border in Perlis, where it links into the Malaysian gas grid. The gas pipeline has a total length of 374 kilometers, of which 277 kilometers offshore, 89 kilometers onshore in Thailand and 8 kilometers onshore in Malaysia.

The project is owned and operated by two separate pipeline companies - Trans Thai-Malaysia (Thailand) and Trans Thai-Malaysia (Malaysia) - which are both jointly owned by the state-owned oil companies Petronas (Malaysia) and PTT (Thailand).

The natural gas will be acquired from the Malaysia-Thailand Joint Authority and the contractors for Block A-18, which are Petronas (Malaysia) and Triton Oil (Thailand). Gas supply will be 4.0 billion m^3 for a period of 20 years. [87]

Environmental and social issues

The local population of the districts in southern Thailand where the pipeline passes through, have appealed and fought against the project since the start. They claim the project will threaten their way of life and destroy their food sources, as well as jeopardise the country's food security. The pipeline passes through important areas of wetland forest and some of the few remaining stretches of rare sand dune forest along the coast of Southern Thailand. The villagers are very concerned about the effluents and air emissions which will be caused by the project. The small-scale fishermen and Chana's famed song-bird raising industry rely on clean air and water.[88]

The legal procedures started by local villagers against the project had some success: the Environmental Impact Assessment (EIA) of the separation plant was held up more than a year. Although the ministry's

87 Trans pipeline to roll out, Project Finance International, London, 4 February 2004; Trans Thai signed, IFR Asia, 26 June 2004; Website Trans Thai-Malaysia (www.ttm-jda.com), Viewed in January 2007.
88 A season of discontent, Supara Janchitfah, Bangkok Post, Bangkok, 6 July 2003.

own expert panel voted against the project, the EIA was finally approved in December 2001.[89]

Since construction started in 2002, the Thai military and police intervened several times to stop the demonstrations, blockades and other protests, leaving many injured and detaining a large number of protesters. Strong legal actions were taken against the protesters. After a visit to this region in May 2003, the UN Special Envoy on Human Rights Hina Jilani criticized the government's harassment and intimidation of those using their freedom of expression to protest, creating a "climate of fear".[90] And the situation has further escalated since then, in November 2003 the number of policemen permanently guarding the project site was raised to 400.[91]

Financing by Chinese banks

A project finance package of USD 524.3 million from an banking syndicate of fifteen international banks provided 70% of the total costs of about USD 750 million. The project finance package was arranged by Barclays Bank (United Kingdom) and was signed in June 2004. The package consisted of different tranches with tenors ranging from five to twenty years. The following Chinese banks participated in the syndicate: [92]

- **Industrial and Commercial Bank of China** USD 19.6 million

89 Thailand Development Faces Rare Challenge, Wayne Arnold, New York Times, New York, 5 January 2002.
90 UN envoy cites climate of fear, Marisa Chimprabha, The Nation, Bangkok, 28 May 2003.
91 Another 100 police sent to guard site Doctor says officer's injuries exaggerated, Vichayant Boonchote, Bangkok Post, Bangkok, 13 November 2003.
92 Thailand - Loans, Euroweek, London, 30 April 2004; Trans Thai signed, IFR Asia, Singapore, 26 June 2004; Thailand - Pipeline attracts 14, Project Finance International, London, 28 April 2004.

Yue Yuen, Hong Kong

Yue Yuen in Hong Kong is the largest (sport)shoe manufacturer on the planet with a global 17% market share in the branded wholesale athletic and casual footwear markets combined. Yue Yuen produces shoes for Nike, Adidas, Reebok, Asics, New Balance, Puma and other big names. The company has giant production facilities in China, Indonesia and Vietnam. Pou Chen from Taiwan owns more than half of the shares of Yue Yuen.[93]

A large number of the workers' rights violations in the shoe industry that have come to light since the 1990s took place in factories of Pou Chen and Yue Yuen. The most pressing complaints from workers relate to the militaristic management style, sexual intimidation, compulsory overtime, wages lower than the legal minimum, unsafe working conditions, illegal contracts and intimidation and repression of trade unions.

Despite the fact that Pou Chen and Yue Yuen have changed their policies somewhat under pressure from the brand names that they supply, the previous few years have seen continued breaches of the employment standards of the ILO. A report in 2004 by the American NGOs National Labor Committee and China Labor Watch reported on a Chinese factory of Yue Yuen: compulsory shifts of between 13.5 and 16.5 hours per day and at least 6 working days per week; hourly wages around US$ 0.35 per hour; no trade unions allowed and workers who speak out against their supervisors, who propose improvements in the management of the factory, who talk, or who arrive more than five minutes late for work are severely punished or sacked; arbitrary reductions in wages if production targets are not achieved.[94]

Financing by Chinese banks

In May 2005 Yue Yuen (Hong Kong) secured a USD 420 million five-year loan from an international banking syndicate arranged by four banks including **Bank of China.** Participating in the syndicate were the following Chinese banks:[95]

- **Bank of China** USD 37.5 million
- **Industrial and Commercial Bank of China** USD 23.5 million
- **Nanyang Commercial Bank** USD 16 million
- **Shanghai Commercial & Savings Bank** USD 16 million

93 Website Yue Yuen (www.yueyuen.com), Viewed in January 2007.
94 Where do you draw the line? - Research into the financial links between five bank groups and companies that abuse human rights, Netwerk Vlaanderen, Brussels, November 2005.

Appendix 1: Banks Mentioned in this Report

Agricultural Bank of China

- South-to-North Water Diversion Project
- Jinping Cascade 1 hydropower station
- Asia Pulp & Paper
- Sinopec
- Tangguh LNG

Bank of China

- South-to-North Water Diversion Project
- China International Marine Container
- China National Machinery & Equipment Import-Export Corporation
- Asia Pulp & Paper
- China Datang
- China National Petroleum Corporation
- Sinopec
- Yue Yuen

Bank of Communications

- China International Marine Container
- Asia Pulp & Paper
- China National Petroleum Corporation

Beijing Securities

- China Datang

China Construction Bank

- South-to-North Water Diversion Project
- China International Marine Container
- Asia Pulp & Paper
- China Guodian
- China National Petroleum Corporation
- Sinopec
- Tangguh LNG

China Development Bank

- South-to-North Water Diversion Project
- Jinping Cascade 1 hydropower station
- Ramu nickel mine
- China Datang
- China National Petroleum Corporation
- Sinopec
- China Poly
- Tangguh LNG

[95] Hong Kong, Euroweek - Issue: 905, London, 27 May 2005.

China International Capital Corporation

- China Datang

China Merchants Bank

- China International Marine Container

CITIC Industrial Bank

- South-to-North Water Diversion Project
- Asia Pulp & Paper
- China National Petroleum Corporation

Export-Import Bank of China

- China International Marine Container
- China National Machinery & Equipment Import-Export Corporation
- Merowe dam project
- Ramu nickel mine
- China Non-Ferrous Metal Mining
- Sinopec
- Tangguh LNG

GF Securities

- China Datang

Goldman Guo Hua Securities

- China Datang

Guo Sin Securities

- China Datang

Guotai Junan Securities

- China Datang

Guangdong Development Bank

- Asia Pulp & Paper

Haitong Securities

- China Datang

Hua Xia Bank

- Asia Pulp & Paper

Industrial and Commercial Bank of China

- South-to-North Water Diversion Project
- Jinping Cascade 1 hydropower station
- Asia Pulp & Paper

- China Datang
- China Guodian
- China National Petroleum Corporation
- Sinopec
- Tangguh LNG
- Trans Thai-Malaysia pipeline
- Yue Yuen

Nanyang Commercial Bank

- China International Marine Container
- Sinopec
- Yue Yuen

Ping An Securities

- China Datang

Shanghai Commercial & Savings Bank

- Yue Yuen

Shanghai Far East Securities

- China Datang

Shanghai Pudong Development Bank

- South-to-North Water Diversion Project

Shenzen Development Bank

- Asia Pulp & Paper

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