

# **China Development Bank's overseas investments: An assessment of environmental and social policies and practices**



**BANKTRACK**





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## Introduction

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Over the past several years, Chinese lending has had a powerful global impact, particularly through policy banks such as China Development Bank and the China Export-Import (Exim) Bank. These banks are mandated to provide foreign currency loans and invest overseas, and in 2009 lent more money to other developing countries than the equivalent departments of the World Bank Group.<sup>1</sup> China Development Bank (CDB) is now the world's largest development bank by total assets and China's biggest lender, financing cross-border transactions and investment. The Bank's rise has been rapid: at the end of 2011, CDB reported that its outstanding foreign currency loans, which are used to make the majority of its international investments, amounted to USD 210 billion, a more than sevenfold increase over its foreign currency lending just five years earlier.<sup>2</sup> CDB provides these loans in more than 90 countries and regions around the world.<sup>3</sup>

In particular, CDB has been integral in financing natural resource and infrastructure projects abroad; for example, it provided a USD 30 billion line of credit to the China National Petroleum Corporation (CNPC) in 2009 to bankroll the company's overseas expansion. This financing is a boon to Chinese state-owned enterprises (SOEs) in their attempts to become globally competitive and serves the Chinese government's goals of acquiring natural resources from abroad in order to meet the demands of China's economic development at home. Furthermore, foreign governments have looked favorably on Chinese loans for natural resource and

infrastructure projects as a means of generating wealth in their own countries.

However, the mining, oil & gas, large-scale hydro-power and large-scale agriculture sectors in which CDB invests carry tremendous environmental and social risks. Many of the countries in which these projects are located lack rigorous environmental and social protections. At the same time, CDB's environmental and social standards for investment fall short of best practice<sup>4</sup>, particularly in terms of sector-specific standards, transaction transparency, adequate consultation of local stakeholders in decision making processes and grievance mechanisms.

Yet CDB has taken some initial steps to fulfill its environmental and social responsibilities. CDB has published a summary of its environmental policy and some performance data, participates in initiatives to improve its environmental and social performance at home and abroad, and aggressively finances renewable energy projects globally. But are these steps adequate to provide safeguards for the Bank's burgeoning international lending, especially for natural resource and infrastructure projects? This brief will assess CDB's progress towards becoming a world-class lender.

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1 Dyer, Geoff, Jamil Anderlini and Henny Sender, "China's lending hits new heights," *Financial Times*, 17 Jan 2011, <http://www.ft.com/intl/cms/s/0/488c60f4-2281-11e0-b6a2-00144feab49a.html#axzz1oZP3bWWi>, (accessed 6 Mar 2012).

2 "Performance Highlights," China Development Bank, [www.cdb.com.cn](http://www.cdb.com.cn).

3 China Development Bank Corporate Social Responsibility report 2010, p.13.

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4 Please see BankTrack's "Close the Gap" report for more information about best practice in the financial sector, available at: <http://www.banktrack.org/show/pages/publications>.





## Background

China Development Bank is a Chinese policy bank established in 1994 under the control of the State Council, China's highest governing body, in order to finance strategic projects in-line with government objectives. CDB has been indispensable to the Chinese government in bringing to fruition large-scale projects such as the North-South Water Diversion Project and the Three Gorges Dam, as well as projects associated with the 2008 economic stimulus package such as airports, roads, and high-speed railways. Since the creation of the 'Going Out' policy at the turn of the century, CDB has also played an important role in financing the overseas activities of Chinese state-owned enterprises, particularly aiding SOEs to acquire oil and other natural resources. In fact, supporting Chinese business expansion abroad through mid- and long-term credit and other financing is one of CDB's five priority areas in 2012.<sup>5</sup>

## Capital raising

CDB primarily raises its own capital through issuing long-term (sometimes up to 30 years) bonds to institutional investors on China's interbank bond market and foreign markets. CDB issues bonds in both *renminbi* and foreign currencies, with increasing emphasis on issuing *renminbi*-denominated bonds as part of China's broader strategy of facilitating the use of the *renminbi* as a global currency in order to limit foreign exchange costs and reliance on the United States dollar.<sup>6</sup> In 2011, CDB issued RMB 1.07 trillion worth of bonds. In 2012, the Bank planned to issue at least RMB 240 billion worth of long-term bonds, with an initial sale of RMB

26 billion worth of bonds in January.<sup>7</sup> CDB's implicit guarantee by the Chinese central government enables the Bank to issue longer-term, lower interest bonds. Indeed, the Chinese government assumes part of the risk through the People's Bank of China's obligation to provide short-term loans to CDB should the Bank experience any liquidity shortages. This alleviates CDB's reliance on short-term bank deposits, in contrast with Chinese commercial banks.<sup>8</sup>

However, CDB has begun taking financial risks, such as the acceptance of overvalued real estate as collateral for its domestic loans, that have made the Ministry of Finance and other government regulators wary.<sup>9</sup> In part as a means to limit the government's exposure to risk from such activities, the State Council prompted CDB to restructure as a commercial bank, a process which began in late 2008. The Ministry of Finance and the Central Huijin Investment Ltd., China's sovereign wealth fund, became the Bank's shareholders, roughly splitting ownership down the middle and injecting RMB 300 billion into the newly established China Development Bank Corporation.<sup>10</sup> Observers have speculated that the Bank will eventually spin off from the Chinese government, but as of March 2012 full commercialization had not occurred, indicating that the government is not willing to jeopardize CDB's role as its primary lender to strategic development projects at home and abroad. Despite the Bank's importance in Chinese foreign policy implementation, it operates as a commercial bank and does not provide concessional

5 China Development Bank, "Mid- to long-term credit and investment facilities: Sustaining growth for China in 2012," 15 Dec 2011, [www.cdb.com.cn](http://www.cdb.com.cn).


6 China Development Bank, "CDB to issue 4th Tranche of Dim Sum bonds," 21 Dec 2011, [www.cdb.com.cn](http://www.cdb.com.cn).

7 "China Development Bank to auction RMB 20 bln bond," *China Knowledge*, 6 Jan 2012, [http://www.chinaknowledge.com/Newsires/News\\_Detail.aspx?type=1&cat=FIN&NewsID=46387](http://www.chinaknowledge.com/Newsires/News_Detail.aspx?type=1&cat=FIN&NewsID=46387) (accessed on 6 Jan 2012).

8 "China Development Bank €325,000,000 3.875% Bonds due 2010," Luxembourg Stock Exchange Listing Offering Circular, 5 Oct 2004.

9 Downs, E., "Inside China, Inc: China Development Bank's Cross-Border Energy Deals," *Brookings Institution*, Washington, DC: March 2011, p. 18.

10 "Reorganization, Changes in Share Capital and Particulars of Major Shareholders," CDB 2008 Annual Report, <http://www.cdb.com.cn>.



loans. In fact, a recent study found that CDB's loan rates are generally higher than that of the World Bank.<sup>11</sup>

## Governance

Before the restructuring, a Board of Supervisors was appointed by the State Council to represent the interests of the Chinese government and provide supervision and monitoring of CDB's management, operations and financial performance. Supervisors were chosen from the staff of the company, the Ministry of Finance, the China Banking Regulatory Commission (CBRC) and a designated public accounting firm.<sup>12</sup> After the restructuring, a western-style Board of Directors was established alongside the Board of Supervisors, reporting directly to the Bank's shareholders. As of 2010, the Board of Directors was comprised of 14 directors, including two independent non-executive directors. CDB's Board of Supervisors, which also reports directly to the Bank's shareholders, was paired down after the restructuring and is now comprised of five members, including a Chairman, representatives of the Bank's two shareholders, and CDB employees.

A handful of committees that report directly to either of the two boards reportedly perform many of the supervisory responsibilities that were previously conducted by CDB's internal audit mechanisms.<sup>13</sup> For example, an Audit Committee and a Risk Management Committee report directly to the Board of Directors, while a Performance and Due Diligence Supervision Committee and a Finance and Internal Control Supervision Committee report directly to the Board of Supervisors. Despite the measures taken to create independent decision-making bodies, to clearly separate duties and develop

checks and balances for supervisory and management bodies, Brookings Institute researcher Erica Downs has suggested that CDB has sought to circumvent the corporate governance framework by continuing to seek direct approval from the State Council instead of going to its shareholders, the Ministry of Finance and Central Huijin Ltd.<sup>14</sup>

At the top of this governance structure is Chen Yuan, the highest-ranking executive within the company's senior management. He holds the title of Party Secretary of CDB's CPC Committee and Chairman of the Bank. As the son of Chen Yun, the top economist in the early years of the People's Republic of China, Mr. Chen is politically influential. As of May 2011, he is also the Chairman of the China Banking Association.<sup>15 16</sup> Since he took the helm of CDB in 1998, Chen Yuan has been credited with improving the Bank's profitability by lowering the non-performing loan ratio to the lowest levels among any Chinese bank. This was due in part to Chen Yuan's decision to depoliticize the lending process through the separation of credit risk assessments from loan approval decision-making,<sup>17</sup> a practice that the central government promoted as it sought to reform the banking sector in the early 2000s.

## Overseas governance

As mentioned, CDB has put significant effort into expanding its overseas business in recent years, having increased its outstanding foreign currency loans more than sevenfold in the past five years. In order to facilitate overseas lending, CDB has established two international representative offices in Egypt and

11 Gallagher, Kevin, Amos Irwin and Katherine Koleski, "The New Banks in Town: Chinese Finance in Latin America," *Inter-American Dialogue*, Feb 2012, p. 11.

12 "Board of Supervisors," CDB 2006 Annual Report, <http://www.cdb.com.cn>.

13 "Corporate Governance Report," CDB 2008 Annual Report, <http://www.cdb.com.cn>.

14 Downs, E., 2011, p. 63.

15 China Development Bank, "China Banking Association Elects New Council," 27 May 2011, [www.cdb.com.cn](http://www.cdb.com.cn).

16 The CBA is a quasi-governmental body providing guidance to China's banking sector on various issues, including green finance and corporate social responsibility. Notably, in 2010 the CBA issued corporate social responsibility guidelines for China's banking sector.

17 Downs, E., 2011, p. 14.

Russia. Its subsidiary, the China-Africa Development Fund (CADFund), has established a handful of offices throughout Africa.<sup>18</sup> However, the Bank's investments in more than 90 countries globally far exceed the capacity of these offices. Instead, CDB headquarters made certain that CDB domestic branch offices in locations such as Henan and Chongqing would be responsible for bank operations in different regions of the world. In turn, these domestic branch offices have dispatched work teams to various countries in order to gather country-specific information, establish relationships with local officials and businesses, and provide logistical support to visiting CDB officials. The work teams operate out of Chinese embassies in at least 141 countries, including almost every country in Africa and many resource-rich countries such as Russia, Venezuela, Turkmenistan and Brazil.<sup>19</sup>

### Sectoral focus

According to CDB's 2010 CSR report, the sector that receives the most bank lending is public infrastructure projects, comprising 38 percent of all outstanding loans in 2010. This sector includes large-scale projects such as the South-North Water Diversion Project in China and the Laos's USD 2 billion Nam Ou hydropower project. The petroleum and petrochemical industry, including domestic and international oil and gas projects, comprised 11 percent of CDB's outstanding loans — one of the top four sectors to which CDB made loans. Other sectors that received substantial amounts of CDB loans in 2010 included roads (25 percent), power (15 percent), railway (five percent), agriculture and related industries (three percent), post and telecommunications (two percent) and coal (one percent).<sup>20</sup>



CDB does not provide a sectoral breakdown of its overseas lending, nor does it maintain a public database of agreements it signs. However, in 2009 a CDB official remarked to the media in China that the majority of CDB foreign currency lending abroad goes to energy and natural resource projects.<sup>21</sup> Some of the Bank's most substantial lending abroad has been to support the acquisition of oil and gas by Chinese oil companies. Since 2009, several USD 10-30 billion loan facilities have been established for this purpose, among others.<sup>22</sup> CDB is also starting to make loans to large-scale agricultural projects, which can have serious implications for food security and food sovereignty in developing countries. For example, CDB provided loans and investment for a 100,000-hectare cotton plantation in Malawi that

18 "Organizational Structure," China Development Bank, <http://www.cdb.com.cn/website/cdb/upfile/2011/201168161349251.gif>.

19 Downs, E., 2011, p. 35.

20 CDB 2010 CSR report, p. 37.

21 资源类贷款推高国开行外汇贷款, ("Natural resource loans drive up CDB's foreign currency loans"), *Caijing Magazine*, 28 Oct 2009, <http://www.caijing.com.cn/2009-10-28/110296815.html> (accessed on 6 Mar 2012).

22 Including a USD 30 billion loan to CNPC, and energy-backed loans to oil companies in Brazil and Russia. See other sections of this report for more information.





was that country's biggest cotton processing enterprise in 2010.<sup>23</sup> A January 2012 issue of the Chinese current affairs magazine *Phoenix Weekly* reportedly stated that Chinese companies have acquired roughly 800,000 hectares of farmland around the world.<sup>24</sup> However, the scale and quantity of Chinese investments in global land acquisitions and its involvement in land grabs are widely debated.<sup>25</sup>

At the same time, CDB is pushing a clean energy agenda through its financing of Chinese renewable energy projects and suppliers. In 2010-2011, CDB extended lines of credit worth USD 47 billion to Chinese

wind and solar power companies, making it the largest financier of renewable energy in the world, according to Bloomberg News (although analysts reported that not all of the loans were tapped). Major brands such as Suntech Power Holdings Co., Yingli Green Energy Holding Co., Trina Solar Ltd., JA Solar Holdings Co. and Xinjiang Goldwind Science & Technology Co. have received loans from CDB for purposes including the expansion of their overseas businesses.<sup>26</sup> CDB has also made loans to foreign companies in order to purchase Chinese-made renewable energy equipment. For example, in 2012 it lent USD 55 million to Brazilian solar company Desenvix to purchase Chinese-made wind turbines for a wind power project in Sergipe state.<sup>27</sup>

League tables, such as those compiled by Thompson-One and Bloomberg, are incomplete yet provide some corroborating data. Since 2002, CDB's overseas financing has concentrated on the metals and mining and oil and gas sectors. Financial services and telecommunications are also important sectors.

<sup>23</sup> CDB 2010 CSR report, p. 65-66.

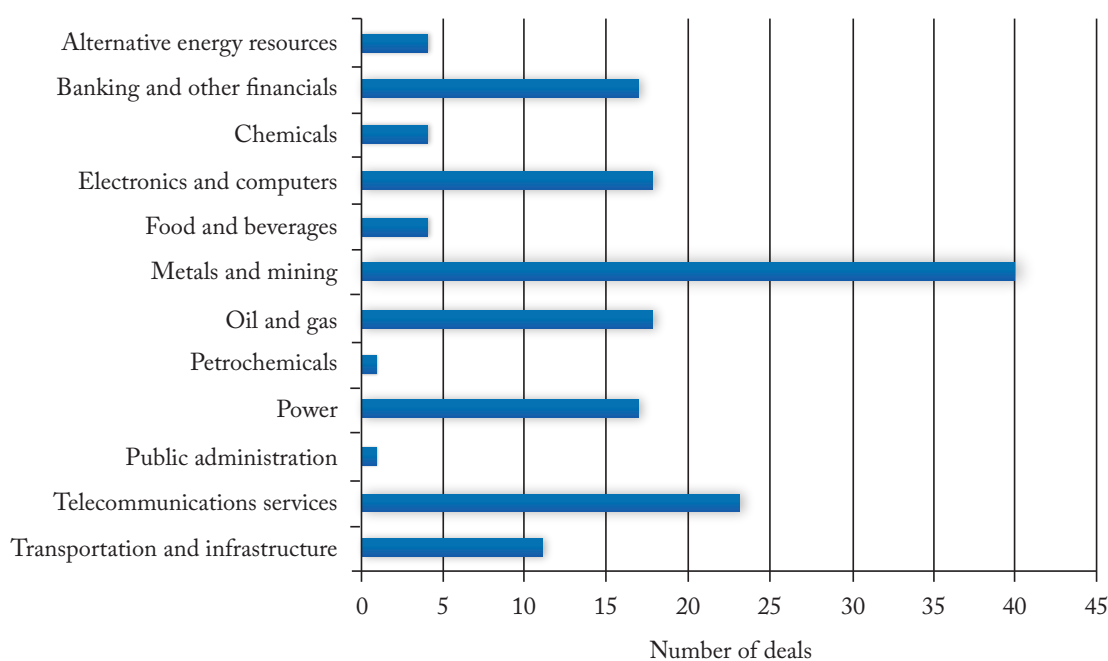
<sup>24</sup> Cai, Peter, "Hungry China expands control over foreign farmland," *The Sydney Morning Herald*, 17 Jan 2012, <http://www.smh.com.au/business/hungry-china-expands-control-over-foreign-farmland-20120116-1q36q.html> (accessed on 6 Mar 2012).

<sup>25</sup> See, for example: Cotula, L., Vermeulen, S., Leonard, R. and Keeley, J., (2009), "Land Grab or Development Opportunity? Agricultural Investment and International Land Deals in Africa," IIED/FAO/IFAD, London/Rome; Gu, J. (2011): or *The Last Golden Land? Chinese Private Companies Go to Africa*, IDS Working Paper 365, March 2011.

<sup>26</sup> Bakewell, Sally, "Chinese Renewable Companies Slow to Tap \$47 Billion Credit," *Bloomberg*, 16 Nov 2011, <http://mobile.bloomberg.com/news/2011-11-16/chinese-renewable-companies-slow-to-tap-47-billion-credit-line> (accessed on 6 Mar 2012).

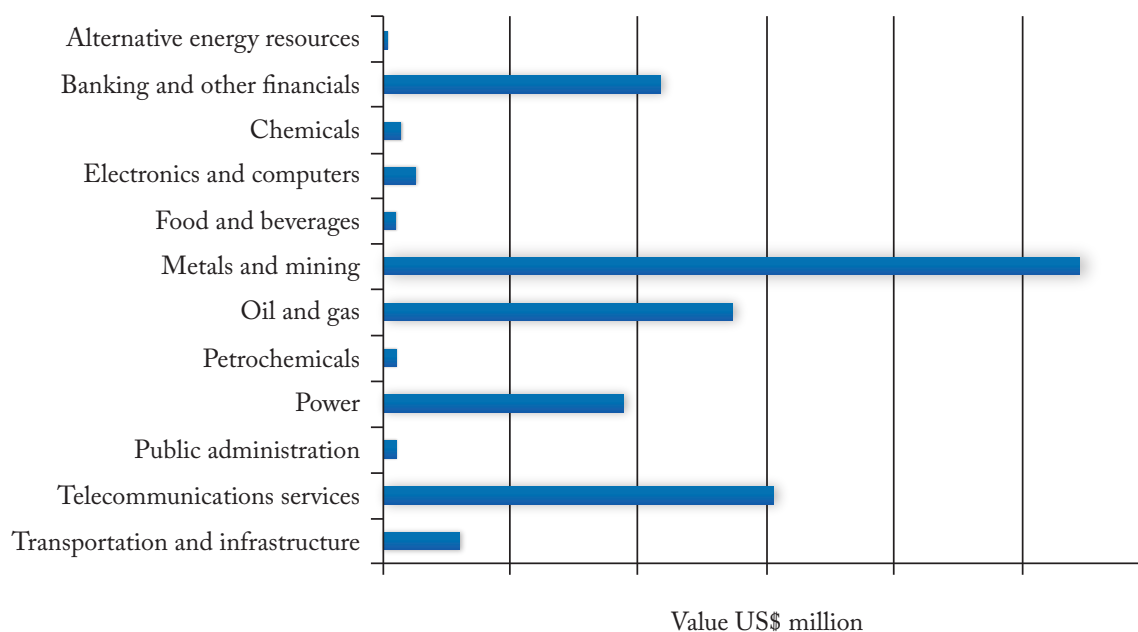
<sup>27</sup> "Desenvix taps Chinese bank for \$55m to fund Brazil wind farm," *Recharge*, 31 Jan 2012, <http://www.rechargenews.com/energy/wind/article300894.ece> (accessed on 6 Mar 2012).

### China Development Bank overseas deals per sector since 2002



Note: Values are partly estimated based on number of financial institutions involved in deals. Source: ThomsonOne Database, viewed in May 2012; Bloomberg Database, viewed in May 2012.

### China Development Bank overseas deals value per sector since 2002



All league table data derived from ThompsonOne and Bloomberg, accessed May 2012. Alternative Energy Resources category does not include fossil fuel projects (including power co-generation), and deals compiled do not include any nuclear, large hydropower, or agrofuels.



## Geographic reach

As of the end of 2011, CDB reported investments in at least 90 countries and partnerships in 140 countries.<sup>28</sup>

League tables produced by ThompsonOne and Bloomberg list 158 CDB deals in Taiwan and 28 countries since 2002. Taiwan and Australia top the list with the most number of transactions (28 and 26, respectively), with Indonesia and Russia coming in a distant third and fourth (12 and 10 deals).

However, the United Kingdom leads the pack by value, largely due to the Bank's deal with Kazakhmys, a UK-based mining company with major operations in Kazakhstan. The value of CDB's Russian transactions are likewise boosted by its equity stake in Vnesheconombank, a former Soviet bank which is also known as the Russian Development Bank.

Russia and Central Asia (part of what the Bank refers to as the "Euro-Asian region" consisting of China, Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Cambodia and Sri Lanka) are important destinations for CDB financing. According to the Bank, CDB provided USD 28 billion to the region as of mid-2011. Financing in this region has covered energy and infrastructure (including two of the China National Petroleum Corporation's oil and gas pipeline projects), agriculture, small and medium sized enterprises, and public welfare projects.<sup>29</sup>

Large telecoms deals also made countries like India, Indonesia, and Mexico rank high on the league tables. For example, a USD 1 billion financing deal for America Mobile, a Mexico-based telecoms company, made

Mexico the sixth most important country for CDB financing by transaction value, despite the fact that it was the only transaction listed.

In contrast, CDB's financing in other countries largely focuses on natural resource extraction. In particular, Australia is a major hub for CDB coal and iron deals. One example is the Bank's participation in a USD 8 billion deal to construct a coal mine in the Pilbara region of Australia, which also includes over 475 km of rail and a coal export terminal.<sup>30</sup>

According to researcher Kevin Gallagher, CDB has also been a major financier of energy and mining in Latin America. Since 2005 CDB has been the leading Chinese financier in Latin America, providing over USD 61 billion to the region, particularly to Argentina, Brazil, Ecuador and Venezuela (CDB's largest foreign borrower).<sup>31</sup> During this period, Chinese lending to energy and mining projects comprised almost two-thirds of all development bank loans to Latin American countries in these sectors.<sup>32</sup>

Countries in sub-Saharan Africa do not top the league tables, but according to CDB's Chief Economist, CDB had provided USD 7 billion in financial support to more than 30 African countries by September 2011.<sup>33</sup>

28 China Development Bank, "CDB International: CDB Launches Offshore Investment Operations in Hong Kong," 6 Dec 2011, [www.cdb.com/cn/english/index.asp](http://www.cdb.com/cn/english/index.asp).

29 China Development Bank, "Euro-Asia Economic Forum 2011: Chen Yuan Advocates Financial Cooperation to Bolster Region's Economic Restructuring," CDB website, 23 Sept 2011.

30 "China tapped for \$11 billion resources investment," Australian Journal of Mining, 22 June 2010.

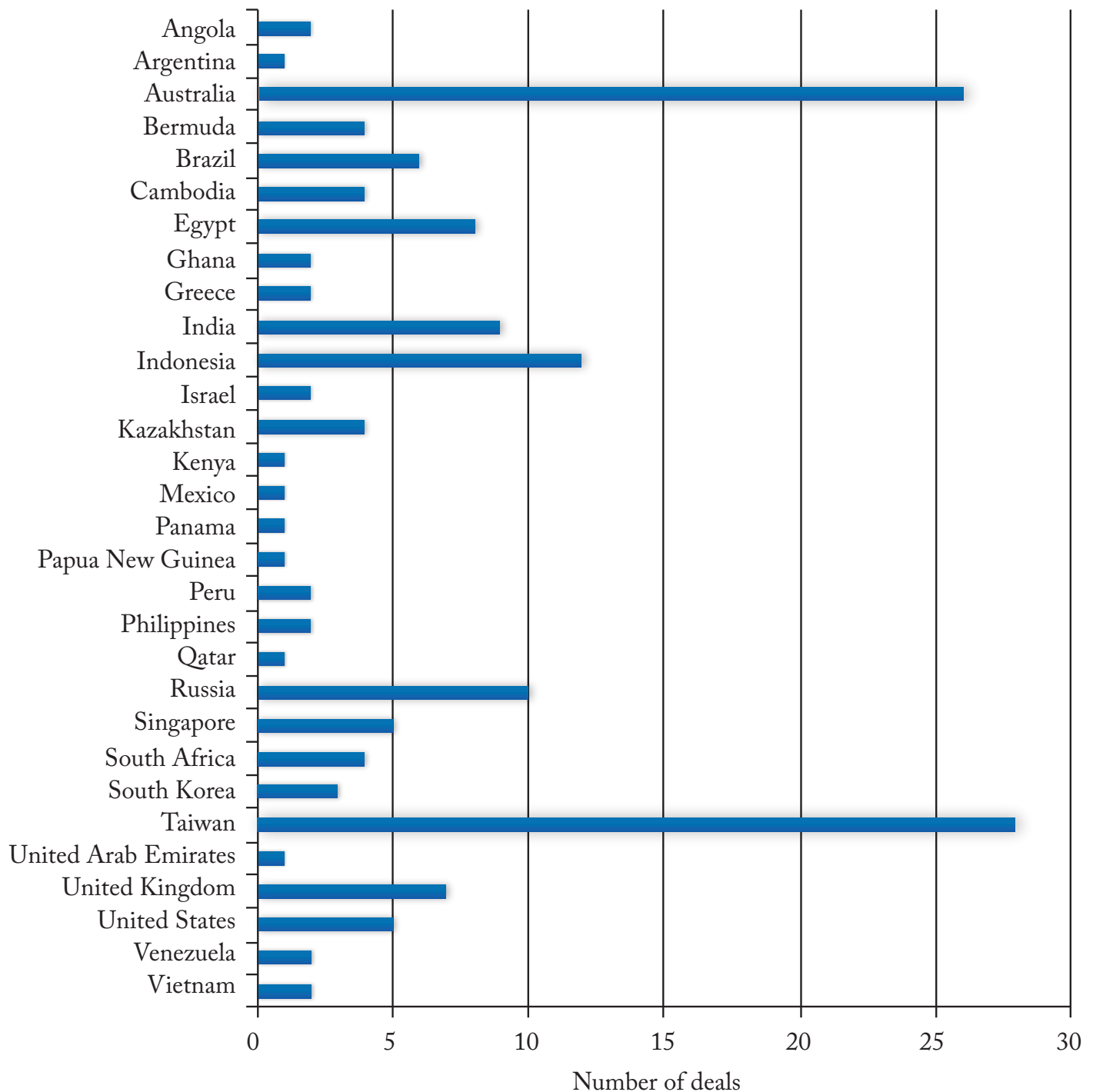
31 Gallagher, et al, 2012, p. 5.

32 Gallagher et al, 2012, p. 17.

33 "China seeks to expand Sino-Africa fund," *Xinhua*, 6 Nov 2011, <http://china-wire.org/?p=2650>.

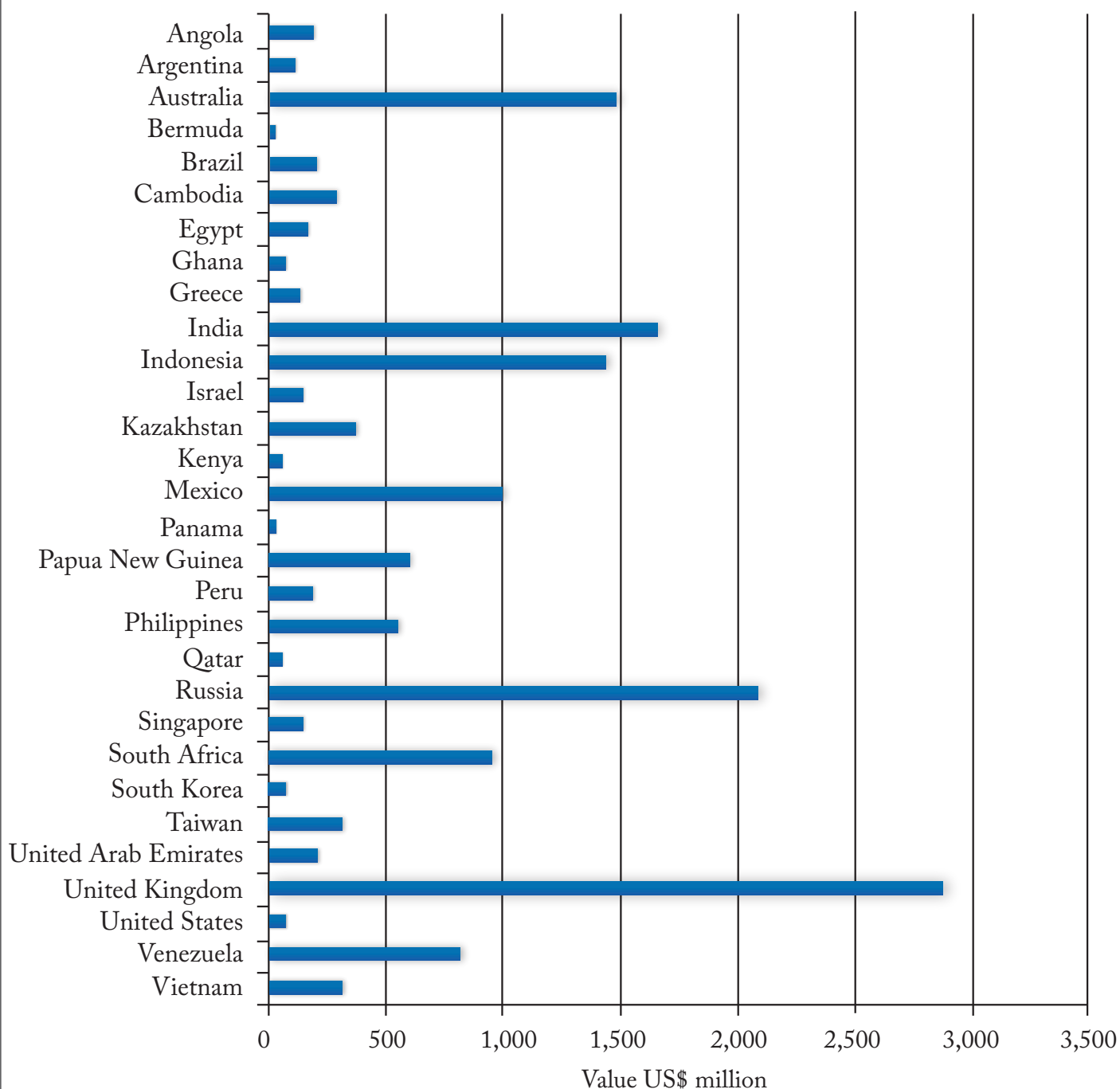


## China Development Bank overseas deals per country since 2002



Note: Values are partly estimated based on number of financial institutions involved in deals. Source: ThomsonOne Database, viewed in May 2012; Bloomberg Database, viewed in May 2012.

## China Development Bank overseas deals value per country since 2002



Note: Values are partly estimated based on number of financial institutions involved in deals. Source: ThomsonOne Database, viewed in May 2012; Bloomberg Database, viewed in May 2012.



## Mechanisms for financing overseas investments

CDB uses different strategies in order to promote Chinese investments in global natural resources and infrastructure projects. First, and perhaps most discussed internationally, CDB provides energy-backed loans to foreign governments and national oil companies. Second, CDB supports Chinese state-owned enterprises through providing financing for the companies' overseas expansions. Finally, CDB invests in Chinese companies that are active abroad through its private equity funds.

### "Energy-backed" loans

CDB extends lines of credit to foreign governments and energy companies with loans secured by revenues from the sale of oil and gas, generally at market prices, to one of China's national oil companies. Some of CDB's energy-backed loans have included infrastructure projects, or specified that equipment or labor be provided by Chinese firms. According to researcher Erica Downs, some distinguishing characteristics of energy-backed loans in recent years have been their large size (up to USD 20.6 billion), long repayment period (up to 20 years), and the speed and ease with which they were loaned at a time or to a country when no other financial institutions were willing to make large loans for long terms.<sup>34</sup>

It should be noted that energy-backed loans are not the only mechanism through which CDB directly provides loans to foreign resource companies or governments. For example, in December 2011 CDB signed a memorandum of understanding with Kazakhmys plc

to extend a USD 1.5 billion loan facility to the Kazakh miner for the development of the Aktogay copper project.<sup>35</sup> Also in December 2011, CDB extended a USD 1.5 billion line of credit to Venezuela's state-owned oil company PDVSA for the construction of a heavy-oil refinery in Brazil.<sup>36</sup> Neither loan was to be paid in resources.

### CDB's energy-backed loans, 2005-2010

Date	Country	Borrower	Amount (USD)	Length of loan (years)
2005	Russia	Rosneft	6 billion	6
2008	Venezuela	BANDES	4 billion	3
2009	Russia	Rosneft	15 billion	20
2009	Russia	Transneft	10 billion	20
2009	Brazil	Petrobras	10 billion	10
2009	Venezuela	BANDES	4 billion	3
2009	Turkmenistan	Turkmengaz	4 billion	unknown
2010	Venezuela	BANDES	20.6 billion	10
2010	Ecuador	PetroEcuador	1 billion	4

Source: Downs (2011), Gallagher (2012)

### Loans to Chinese companies for overseas M&A

Since China's 'Going Out' policy began encouraging Chinese companies to become globally competitive, CDB has had a mandate to assist these companies as they expand abroad. In 2010, CDB supported 438 overseas projects of Chinese companies, worth USD 117.6 billion.<sup>37</sup> CDB has particularly supported large, state-owned enterprises — for example, in 2009 CDB

<sup>35</sup> "Kazakhmys plc Announces \$1.5 billion loan facility to fund Aktogay project," *Reuters*, 16 Dec 2011, <http://www.reuters.com/finance/stocks/KAZ.L/key-developments/article/2451510>, (accessed on 6 Mar 2012).

<sup>36</sup> "PDVSA gets \$1.5 bln China loan for refinery –paper," *Reuters*, 4 Dec 2011, <http://www.reuters.com/article/2011/12/04/brazil-venezuela-pdvsa-idUSN1E7B303W20111204>, (accessed on 6 Mar 2012).

<sup>37</sup> CDB Corporate Social Responsibility Report 2010, p.61, [www.cdb.com.cn](http://www.cdb.com.cn).

<sup>34</sup> Downs, E. 2011, p.1.





lent USD 25.7 billion to central SOEs for their overseas acquisitions.<sup>38</sup> However, private companies such as telecommunications giant Huawei have also received CDB lending for their overseas expansion.

CDB has financially backed Chinese companies in their attempts to acquire natural resources abroad, through financing their mergers and acquisitions of foreign resource companies and greenfield projects. Some examples of CDB support for these companies include:

- CDB's USD 30 billion 5-year loan to the China National Petroleum Corporation for its overseas

expansion in 2009. CNPC Chairman Jiang Jieman said, "The credit agreement is of great importance for CNPC to speed up its overseas expansion strategy and secure the nation's energy supplies."<sup>39</sup> No acquisitions were mentioned specifically in the announcement.

- CDB offered the Aluminum Corporation of China (Chinalco) a USD 19.5 billion loan to finance the company's bid to increase its stake in Rio Tinto, however the Australian government

38 "CDB lending to central SOEs up 48% in 2009," *China Daily*, 3 Mar 2010, [http://www.chinadaily.com.cn/business/2010-03/03/content\\_9529339.htm](http://www.chinadaily.com.cn/business/2010-03/03/content_9529339.htm) (accessed on 5 Jan 2012).

39 Nicholson, Chris, "Chinese Oil Company Gets \$30 Billion Loan for Acquisition," *New York Times*, 9 Sep 2009, [http://www.nytimes.com/2009/09/10/business/global/10oil.html?\\_r=1](http://www.nytimes.com/2009/09/10/business/global/10oil.html?_r=1) (accessed on 6 Mar 2012).



failed to approve Chinalco's bid and the loan was not needed.<sup>40</sup>

- In May 2010, CDB reportedly was to provide USD 5 billion in loans to private Chinese mining companies in Zambia.<sup>41</sup>

### Private equity

Another mechanism through which CDB finances the overseas expansion of Chinese companies for the acquisition of natural resources is through taking equity stakes in the companies. The China-Africa Development Fund (CADFund) (中非发展基金), which was established in 2007, is CDB's main private equity fund for overseas investments. It also provides loans directly to Chinese companies.<sup>42</sup>

Additionally, CDB has a subsidiary company that invests equity in Chinese resource companies seeking to expand abroad.

In 2007, CDB made an initial investment of USD 1 billion into the CADFund, with plans to raise a total of USD 5 billion over the course of several years. The CADFund provides investment on an equity participation basis and offers consulting services to projects in sectors including agriculture, manufacturing, special economic zones, infrastructure, and natural resources such as mining, oil and gas. CADFund does not keep a publicly available database of projects to which it provides loans or that are in the pipeline, so a complete list of projects is unavailable. However, by the end of 2011, CADFund had reportedly lent the vast majority of its USD 1 billion initial funds to 50 projects located

in 30 African countries.<sup>43</sup> In April 2012 the CADFund announced it had received a further capital injection of USD 2 billion.<sup>44</sup> One example of a CADFund project is its joint investment with China Citic Group of an 89.17 percent stake in a leading South African gold miner in 2011, which was to help the company take the next step towards becoming a major international gold producer.<sup>45</sup> In 2011, the CADFund had four offices throughout the continent, including a flagship office in South Africa, as well as regional offices in Ethiopia, Zambia and Ghana. The CADFund also planned to open an office in North Africa in order to have full geographic representation on the continent.<sup>46</sup>

In 2009, CDB established a subsidiary to operate its investment activities more generally, in-line with the Bank's restructuring plan. The China Development Bank Capital Co., Ltd. ("CDB Capital"), a RMB 35 billion (USD 5.1 billion) investment fund, was set up to take responsibility for the Bank's equity investments in strategic and industrial sectors, urban development and more.<sup>47</sup> Among its investments, CDB Capital assumed control of CDB's stake in Chinese resource companies such as Chinalco and Jinchuan Group, which are actively acquiring mineral and other natural resources abroad.<sup>48</sup>

40 Pilling, David, "Don't reject Chinalco's bid for bogus reasons," *Financial Times*, 25 Feb 2009, [http://www.ft.com/cms/s/0/7b389e4a-0371-11de-b405-000077b07658.html?nclink\\_check=1](http://www.ft.com/cms/s/0/7b389e4a-0371-11de-b405-000077b07658.html?nclink_check=1) (accessed on 6 Mar 2012).

41 "China to lend Zambia mining firms \$5 bln – report," *Reuters*, 12 May 2010, <http://www.reuters.com/article/2010/05/12/mining-zambia-china-idUSLDE64B-2NM20100512>, (accessed on 6 Jan 2012).

42 See more about the CADFund, below.

43 Suleman, Mohammed, "Ghana: CADFund inaugurates West African Office in Nation," *AllAfrica*, 14 Nov 2011, <http://allafrica.com/stories/201111141562.html> (accessed on 6 Mar 2012).

44 Ding Qingfen, "China-Africa Development Fund sets new aims for Africa," *China Daily*, 13 Apr 2012, <http://www.trademarksa.org/news/china-africa-development-fund-sets-new-aims-africa>.

45 Chilwane, Liphert, "Gold One increase output 85%," *The New Age*, 6 Jan 2012, [http://www.thenewage.co.za/39634-9-53-Gold\\_One\\_increase\\_output\\_85\\_percentage](http://www.thenewage.co.za/39634-9-53-Gold_One_increase_output_85_percentage) (accessed 12 Mar 2012).

46 Suleman, Mohammed, "Ghana: CADFund inaugurates West African Office in Nation," *AllAfrica*, 14 Nov 2011, <http://allafrica.com/stories/201111141562.html> (accessed 11 Mar 2012).

47 "Overview of Operations (3)," CDB 2010 Annual Report, [www.cdb.com.cn](http://www.cdb.com.cn).

48 Ebrahimi, Helia, "China Development Bank starts \$5.1 bn arm to target private equity deals," *The Telegraph*, 1 Sep 2009, <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/privateequity/6122354/China-Development-Bank-starts-5.1bn-arm-to-target-private-equity-deals.html>, (accessed 10 Mar 2012).





## CDB's environmental policies and practice

### Environmental policies

CDB publicly disclosed a summary of its environmental policies as early as its 2005 bond prospectus. During this time, CDB's international bond underwriters, were repeatedly criticized for years by international NGOs for CDB's role in financing the Three Gorges dam. Since then the Bank has included some information about its environmental policies and management in annual reports, CSR reports and on its website. In 2005, CDB was the only Chinese bank known to have an environmental policy, which was heavily oriented to comply with the State Council's 2003 Environmental Impact Assessment Law and the State Environmental Protection Agency's (now the Ministry of Environmental Protection) list of industries and projects that are considered environmentally sensitive. As the Chinese government further codified restrictions on lending for highly polluting and energy-intensive projects and other environmental protection measures beginning in 2007, CDB has in turn created a handful of compliance-oriented guidance documents to inform the Bank's lending practices, including:<sup>49</sup>

- Guidelines of CDB in Developing and Evaluating Environmental Protection Projects;
- Guidelines of CDB on Special Loans for Energy-saving and Emission-reducing Businesses;
- Working Plan of CDB for Loans to Reduce Pollution and Emissions.

In 2010, CDB further enhanced its risk prevention framework by introducing 142 performance indicators based on the United Nations Global Compact's ten principles related to human rights, the environment, labor and corruption.<sup>50</sup> Finally CDB noted the development of a system to help clients manage host country legal risks (presumably this includes helping clients comply with host-country environmental laws, if any exist).<sup>51</sup>

CDB's environmental and social risk prevention framework may be further improved as the Chinese government better articulates its expectations. For example, in February 2012, the China Banking Regulatory Commission (CBRC) released the *Green Credit Directive*.<sup>52</sup> This seven-chapter and 30-provision directive establishes for the first time guidance for Chinese policy banks, commercial banks, rural cooperative banks, and rural credit cooperatives regarding green credit policies and management systems, capacity building, monitoring and supervision, information disclosure, etc. The directive:

- Emphasizes effective management of both environmental and social risks (including resettlement issues), stating: *"banks shall effectively identify, assess, monitor, control and mitigate environmental and social risks"*;
- Makes specific reference to greater transparency and disclosure of information, stating that banks shall *"disclose information as required by laws and regulations and subject themselves to market and stakeholder supervision;"* and

<sup>50</sup> "Performance in 2010," CDB 2010 CSR report.

<sup>51</sup> CDB 2010 CSR report, p.50.

<sup>52</sup> "中国银监会关于印发绿色信贷指引的通知," China Banking Regulatory Commission, CBRC directive (2012) No.4, 24 Feb 2012, <http://www.cbrc.gov.cn/chinese/home/docView/127DE230BC31468B9329EFB01AF78BD4.html>.

<sup>49</sup> "Jointly promoting the establishment of a financing mechanism for environmental protection," CDB 2007 CSR report.





## CDB environmental and social policy highlights

Loan Cycle	Guidance
Pre-lending	<p>Clients must be in compliance with all environmental laws of the People's Republic of China;</p> <p>All loan applications require an environmental impact assessment (EIA);</p> <p>For highly polluting and energy-intensive industries such as coal mining, oil and gas exploration and development, power generation and transmission, hydropower, etc., EIAs must be approved by relevant environmental authorities;</p> <p>EIAs must be completed by an independent evaluator;</p> <p>Environmental standards and costs can be written into loan covenants in order to commit borrowers to environmental promises;</p> <p>The Bank can exercise the "one-ballot veto" procedure that allows loans to be rejected by the credit committee solely for environmental reasons;</p> <p>The Bank assigns two personnel to do due diligence for each loan application: one to evaluate the loan and the other to evaluate the client;</p> <p>The Bank also has an appraisal department to assess environmental and social risks, and also manages environmental and social issues across business units.</p>
Post-lending	<p>In order for loan requirements to be considered fulfilled, clients must provide proof from a relevant environmental department that the project meets environmental protection requirements.</p>

Source: CDB 2005 bond prospectus; CDB 2007, 2008 and 2009 CSR reports; 2008 CDB presentation during Green Credit Policy delegation meeting in Washington, DC; 2012 CDB presentation during International Green Credit Forum in Beijing, China.

- Makes specific reference to Chinese commercial banks' overseas investments and activities, and the incorporation of international standards, stating that *"banks shall strengthen environmental and social risk management for proposed overseas projects, ensure project sponsors are compliant with local environmental, land, health and safety laws and regulations in the project country or region banks shall publicly commit to adopt relevant international best practices or standards for the proposed overseas project, ensure the proposed project is consistent with international best practices in essence."* This implies that Chinese banks will be required to apply standards such as the Equator Principles for project finance to

international projects. However, since CDB may not be considered a commercial bank by some standards it is unclear if this directive will apply.

Looking abroad, where CDB's project standards are often compared to those of its fellow development financiers such as the World Bank Group, the Chinese lender lags behind its international peers. Many international commercial banks apply International Finance Corporation environmental and social financing standards by adopting the Equator Principles. CDB established an "Equator Principles Working Panel" in February 2008 to introduce this framework into the

## CDB versus other international development banks

	Equator Principles	Industry Specific Social & Environmental Guidelines	Grievance Mechanism	Social Issues and Human Rights
China Development Bank	No	No	No	No
World Bank	Yes	Yes	Yes	Yes
Asian Development Bank	Yes	Yes	Yes	Yes
IFC	Yes	Yes	Yes	Yes

organization,<sup>53</sup> but so far the Bank has tended to reference broad and aspirational norms such as the UN Global Compact rather than more specific transactions-oriented standards.

Both the World Bank and International Finance Corporation (IFC) have developed industry-specific social and environmental guidelines that are applied to relevant projects, whereas CDB makes no mention of specific policies, even for sensitive industries such as oil and gas development. The World Bank also stipulates that its projects comply with international environmental laws and regulations, adequately consult local stakeholders in decision-making processes and make available a grievance mechanism to handle project disputes, all of which CDB does not currently do.<sup>54</sup> However, CDB has vaguely mentioned efforts to improve public participation systems in its post-lending management<sup>55</sup> — perhaps a nod to the controversies arising from projects with detrimental impacts to the environment and local people.

Finally, the CDB does not have a publicly disclosed policy on social issues or human rights. In light of the recently-released *Guiding Principles of Business and Hu-*

*man Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework*, both development banks, such as the IFC, and commercial banks are starting to strengthen their human rights policies. In particular, the Guiding Principles maintain that state-controlled enterprises such as development finance institutions have both the state duty to protect human rights and the corporate duty to respect human rights: “an abuse of human rights by the [state controlled] business enterprise may entail a violation of the State’s own international law obligations,” while such institutions are “are also subject to the corporate responsibility to respect human rights.”<sup>56</sup> The Guiding Principles particularly note that state owned enterprises should require human rights due diligence, especially for transactions which pose significant human rights risks. However, CDB does not meet either the higher human rights practices required of state-controlled institutions nor the lower practices required of commercial banks.

### Green initiatives

Additionally, CDB has embarked on a variety of green initiatives. For example, CDB and China’s Ministry of Environmental Protection have cooperated on a research project to develop environmental and social performance assessment methods to be used to evaluate bank loans.<sup>57</sup> In another research project, CDB, the

<sup>53</sup> Remarks of Li Lifeng, Deputy Director General/Senior Engineer Project Appraisal Department II at International Green Credit Forum, Beijing, 16-17 May 2012.

<sup>54</sup> Gallagher et al, 2012, p. 24.

<sup>55</sup> “CDB’s major development in risk management and internal control in 2010,” CDB 2010 CSR report, p.50.

<sup>56</sup> Ss at [http://www.ohchr.org/Documents/Issues/Business/A-HRC-17-31\\_AEV.pdf](http://www.ohchr.org/Documents/Issues/Business/A-HRC-17-31_AEV.pdf).

<sup>57</sup> CDB CSR report 2010.



Three Gorges Dam on the Yangtze River. Photo credit: [hughrocks](#).

Chinese Academy of Sciences and the World Wildlife Fund compiled the Yangtze River Protection and Development Report 2009, which analyzed the impacts of climate change and large-scale construction projects on the ecology and environment of the Yangtze River and proposed policy solutions.<sup>58</sup> The report found that 96 lakes along the Yangtze River Valley had disappeared in the past 30 years.<sup>59</sup>

Internationally, CDB has become involved in several initiatives focused on the prevention and management of environmental and social risks, including those focused on investing in conflict-affected and politically unstable areas. For example, CDB:

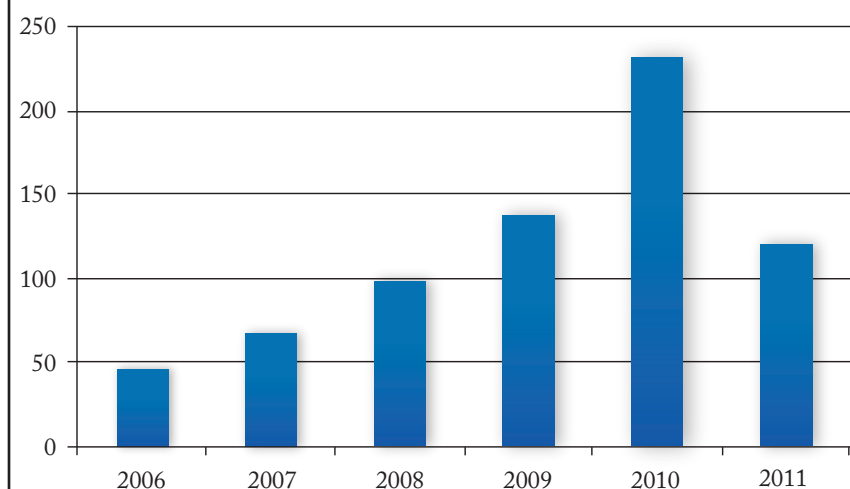
- Sent a delegation on a two-week study tour organized by the United Nations Environment Programme – Finance Initiative (UNEP-FI) in Frankfurt, Germany to learn about corporate social responsibility and sustainable finance.
- Studied the Global Reporting Initiative (GRI) corporate sustainability reporting standard and promoted its use in China. In December 2009, CDB sponsored a GRI workshop in Beijing that profiled trends in sustainability reporting and discussed key issues for banks regarding disclosure.<sup>60</sup>
- Participated in the United Nations Global Compact since 2006 and issued its first CSR report according to UNGC guidelines in 2008. CDB

<sup>58</sup> CDB CSR report 2009, p. 83.

<sup>59</sup> "China's lakes diminish: report," *China Daily*, 16 Jan 2012, [http://www.chinadaily.com.cn/china/2012-01/16/content\\_14456072.htm](http://www.chinadaily.com.cn/china/2012-01/16/content_14456072.htm) (accessed on 6 Mar 2012).

<sup>60</sup> Email exchange with Sean Gilbert, GRI Beijing office director, Feb 2010.

**CDB new lending to environmental protection projects, 2006-2011 (in billions RMB)**



\*2011 data is for the first half of the year only. Source: CDB 2008, 2009 and 2010 CSR reports.

has participated in UNGC annual meetings and also side meetings, such as the expert group to develop guidelines for responsible investing in conflict areas in 2009-2011.<sup>61</sup>

Most of the above listed activities are more “learning opportunities” than commitment to changing its financing policies. However, the Bank’s participation in these initiatives may be informing the development of its standards and practices. At the opening ceremony of the UNEP-FI exchange, Mrs. Yuan Wang, Chief Economist of the Bank stated: “Through this program, we could seriously think over what responsibilities China Development Bank and every one of our staff should take in fulfilling sustainable development, then bring

61 “Business and Peace – Meetings and Events,” United Nations Global Compact, [http://www.unglobalcompact.org/issues/conflict\\_prevention/meetings\\_and\\_workshops.html](http://www.unglobalcompact.org/issues/conflict_prevention/meetings_and_workshops.html), accessed on 11 Mar 2012.

these concepts back and implement in the whole process of our operational work.”<sup>62</sup>

## Environmental performance

As a policy bank, CDB plays an important role in financing government environmental protection initiatives. Since 2005, the Bank has partnered with China’s Ministry of Environmental Protection (MEP) to finance key environmental protection projects involving industrial pollution control and recycling, comprehensive pollution control in key river basins, and clean energy such as wind, solar and eight other types of clean(er) energy.<sup>63</sup> For example, in 2009 CDB signed a development finance agreement (开发性金融合作协议) with MEP in which the Bank committed to provide a RMB 100 billion line of credit to support major projects on environmental protection between 2009 and 2015.<sup>64</sup> Bank officials

have acknowledged that that CDB is uniquely positioned to finance environmental protection projects, given the Bank’s ability to provide large, long-term, lower interest loans that other commercial lenders may not favor.<sup>65</sup>

In terms of CDB’s real lending, the Bank has steadily increased its lending for environmental protection projects in recent years. From 2006 to 2010 CDB increased lending for environmental protection almost fivefold from RMB 46.9 billion to 232 billion.

62 Email exchange with Wei Peng, UNEP-FI, March 2011.

63 CDB CSR report 2009 and 2010.

64 CDB CSR report 2009.

65 Remarks of Li Lifeng, Deputy Director General/Senior Engineer Project Appraisal Department II at International Green Credit Forum, Beijing, 16-17 May 2012.



According to CDB, these loans fall into three categories, including:

- Urban and river basin environmental protection infrastructure (for example, water and air pollution protection, solid waste treatment, etc.);
- Industrial pollution control (for example, pollution treatment, recycling and energy-efficiency projects for industrial customers); and
- Ecological projects (for example, forest, wildlife and natural area protection and restoration)

However, CDB does not maintain a public database of individual projects, so analysis of these ‘eco-friendly’ loans is impossible. In the past, CDB has included large hydropower and nuclear power as ‘eco-friendly,’ although this categorization is disputable and controversial. Overall, CDB reports that its lending for environmental protection comprises a growing proportion of its new lending portfolio in recent years. In 2008, environmental protection loans comprised 8.4 percent of new loans,<sup>66</sup> while in the first half of 2011 it comprised 13 percent of new loans.<sup>67</sup>

CDB has been less consistent with its reporting on phasing out lending to highly polluting and energy intensive projects. In July 2007, just after the Chinese government introduced the Green Credit Policy instructing banks to cut lending to certain dirty industrial sectors including oil, mining and coal,<sup>68</sup> CDB reported that it cut loans to the targeted sectors by 38 percent



from 2003 lending levels.<sup>69</sup> However, CDB does not include this information regularly in its corporate social responsibility and annual reports, as some Chinese commercial banks (such as Industrial and Commercial Bank of China and China Construction Bank<sup>70</sup>) have begun to do in recent years

Given CDB’s prominent role lending to oil, mining and other energy projects abroad, it is unlikely that CDB is reducing its lending to highly polluting and energy intensive sectors. Instead, CDB is arguably China’s most important lender to Chinese companies looking to acquire oil and minerals abroad. Also, CDB’s biggest loans abroad have been backed by the sale of fossil fuels.

<sup>66</sup> “Environmental Indicators,” CDB 2008 CSR report.

<sup>67</sup> China Development Bank, “1/8 of CDB H1 2011 Loans Lent to Green Projects: RMB589.6 Bn Financed for Environmental Protection, Energy Conservation and Emission Reduction,” [www.cdb.com.cn](http://www.cdb.com.cn), 4 Aug 2011.

<sup>68</sup> There are 14 sectors to which lending is restricted: thermal power, steel and iron, cement, aluminum, coal, metallurgy, building materials, mining, chemicals, oil, pharmaceuticals, light industry, textiles, and leather. The full list (“环境保护部办公厅函”) can be found on the Ministry of Environmental Protection website: [http://www.mep.gov.cn/info/bgw/bbgth/200807/t20080707\\_125138.htm](http://www.mep.gov.cn/info/bgw/bbgth/200807/t20080707_125138.htm).

<sup>69</sup> “CDB Controls Loans to ‘High Polluting and High Energy-consuming’ Industries for Energy Saving and Emissions Reduction,” China Development Bank, 19 July 2007, <http://www.cdb.com.cn/English/NewsInfo.asp?NewsId=2555>.

<sup>70</sup> 于晓刚(Yu Xiaogang), “中国银行业环境记录 (2009),” *Green Watershed*, 2009, p.7.



A view of Desun Gembira village. Photo credits: David Gilbert/RAN.

## Transparency and accountability

Inline with the move towards greater transparency and accountability, the China Banking Association, a quasi-government professional association, released guidelines instructing Chinese banks to issue annual corporate social responsibility (CSR) reports in January 2009.<sup>71</sup>

CDB was slightly ahead of the curve, having released its first CSR report in 2007, and has released one every year since. The reports follow the Global Reporting Initiative standards and the GRI Financial Sector Supplement. Also, CDB has its reports verified by a third-party auditor (in 2010 this was provided by

Pricewaterhouse Coopers Zhong Tian CPAs Limited Company), in-line with international best practices.

However, despite CDB's early adoption of transparency standards in China, the Bank still fails to disclose much information about its key policies listed in its CSR reports. For example, the Bank's 142 performance standards highlighted in the 2010 CSR report have not been made public in CDB reports or on its website. (The GRI reporting guidelines allow, but do not require, public disclosure of actual environmental standards and policies.) Therefore it is unclear how the indicators have been incorporated into CDB's lending process. Similarly, information about the Bank's post-lending public participation system mentioned in its 2010 CSR report has not been made available, which, when combined with real-world evidence highlighted in the case studies below, suggests that CDB's environmental and social protection frameworks are weak. Additionally, as mentioned in the Environmental Policy section, the Bank does not have an established grievance mechanism through which impacted communities and concerned citizens may raise issues about specific projects. By not establishing a grievance mechanism, CDB is losing out on the opportunity to enlist the support of society in monitoring client and project compliance with relevant environmental laws and standards.

<sup>71</sup> “中国银行业金融机构企业社会责任指引,” *China Banking Association*, Jan 2009.





## Controversial cases

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Below are case studies of CDB-financed projects that have serious impacts on the environment and local people. Taken from a range of geographic locations and key sectors to which CDB makes loans, these examples are intended to illustrate the potential and actual controversies that arise from the Bank's financing decisions. In addition, taken as a whole, they highlight the need for CDB to improve its environmental and social policies, implement appropriate credit risk measures, and vigilantly monitor for environmental and social risks throughout the life of the loan.

### China National Petroleum Corporation (CNPC)

In September 2009 CDB provided a USD 30 billion, five-year loan to the China National Petroleum Corporation to finance the company's overseas expansion. The loan came at a time when few banks would extend such a large line of credit for natural resource exploitation, and so was a tremendous boost to CNPC as it competed with much larger international oil companies to acquire oil concessions abroad. However, CNPC's overseas expansion since receiving the CDB loan has included environmentally and socially sensitive projects, such as the Shwe oil and gas project and the Canadian tar sands projects, described below.

The two projects demonstrate the Bank's difficulties in ensuring implementation of its own environmental policies as well as China's new Green Credit Policy Directive. For example, CDB's environmental policy requires the preparation of an Environmental Impact Assessment. Chinese law requires at least summary EIAs to be disclosed and in some cases for affected stakeholders to be consulted. However, the EIA for the Shwe gas project has not been publicly released. Similarly,

neither project complies with the Green Credit Directive's requirement to follow international best practice, especially given Shwe project's impacts on endangered species, and the monumental clear-cutting associated with the Alberta tar sands project. Finally, the failure to obtain the free, prior and informed consent of First Nations peoples in Canada not only violates Canadian law, but it also falls short of the UN Guiding Principles for Business and Human Rights, which CDB and CNPC, as state-owned enterprises, have particular duties to uphold.

### Sino-Myanmar oil and gas pipelines project, China National Petroleum Corporation (Myanmar)<sup>72</sup>

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The 'Shwe' gas project entails exploitation of underwater natural gas deposits off the coast of western Myanmar's Arakan State and the dual oil and gas pipelines that will transport this gas (along with oil imports from Africa and the Middle East) to southwest China. There are several components of the project which have been undertaken by five foreign companies<sup>73</sup> along with the Myanmar Oil and Gas Enterprise. As one of those foreign companies, China National Petroleum Corporation, through its subsidiary the Southeast Asia Pipeline Co. Ltd., is constructing:

- A deep-sea port and oil storage facilities on Mada-y Island that will allow oil tankers to offload oil from the Middle East and Africa before further transporting it to China via overland pipelines. CNPC contracted construction to HydroChina Co., which sub-contracted the transportation of

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<sup>72</sup> Unless otherwise noted, all information is derived from the Shwe Gas Movement's Sept 2011 report *Solid Out: Launch of China pipeline project unleashes abuse across Burma*. The organization based its report on field investigations done by local people and desk research. For more information, see Shwe Gas Movement's website at [www.shwc.org](http://www.shwc.org).

<sup>73</sup> In addition to CNPC, the other foreign investors include South Korea's Daewoo International and KOGAS, as well as India's Gas Authority of India Limited (GAIL) and ONGC Videsh.

materials to a Burmese company. According to *Oil and Gas Journal*, construction on the deep-sea port began in October 2009.

- Dual trans-border pipelines that will transport the Shwe gas 2,800 km from Arakan State to Nanning in southern China's Guangxi Province and will carry oil from the deep-sea port 1,100 km to a refinery just outside of Kunming in southern China's Yunnan Province. According to CNPC and *Caijing Magazine*, construction began on the Myanmar (Burma) side in June 2010 and in southern China during September of that same year. According to CNPC, the company began pipeline welding in August 2011.<sup>74</sup> When complete, CNPC will oversee all pipeline operations while the Myanmar military is contracted to provide security.

### Project impacts

Shwe Gas Movement, an NGO tracking this project, states that, "Burma's military government is allowing China to build pipelines across the country that will drain Burma of its massive natural gas reserves, dashing hopes of economic development. Building the pipelines and extracting the gas are fuelling further conflicts and abuses: battles between armed groups and the government have broken out near the pipeline route and land confiscation and forced labor has started in project areas."<sup>75</sup> Among the impacts the organization documented:

- *Land confiscation:* Thousands of acres of farmland have been forcibly confiscated in Arakan and Shan

states as well as Magwe and Mandalay divisions to clear areas for the pipeline and associated infrastructure. If compensation was provided, it is often a one-time, meager payment. For example, 13 farmers in Shan State reported being brought to a local courthouse and forced to sign over their land for a one-time cash payment of 40,000 kyat per acre when their land produced 500,000–600,000 kyat per acre each year from cultivating rice paddies and seasonal crops.

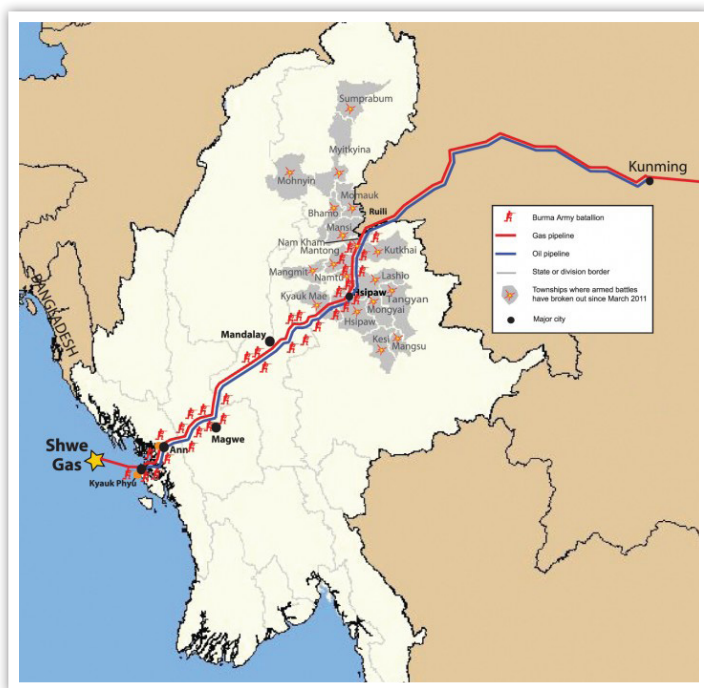
- *Loss of livelihood:* A majority of the local population are either farmers or fishermen. Many farmers have had their land confiscated or trampled by project equipment. At the same time, the Burmese navy is restricting local access to fishing areas and levying taxes on local fishermen.
- *Increased militarization and abuse:* Increased conflict between the Burmese military and ethnic militias has been reported in project areas as the government attempts to consolidate power in ethnic areas. Roughly 6,600 Burma Army soldiers have taken up posts in at least 21 townships along the pipeline corridor. As recently as January 2012, eyewitnesses reported that up to 1,500 Burmese troops were en route to northern Shan State close to where Kachin Independence Army troops were stationed, and that a bloody clash erupted on 20 January.<sup>76</sup> That area, which encompasses the towns of Namtu and Nam Kham, is where the oil and gas pipelines will pass through on route to Yunnan. Increased abuses including forced labor, forced evictions and rapes have been reported.
- *Lack of economic development:* According to the Central Intelligence Agency World Factbook,

<sup>74</sup> "Myanmar section of Myanmar-China Oil and Gas Pipeline starts welding," CNPC, 5 Aug 2011, [http://www.cnpc.com.cn/en/press/newsreleases/Myanmar\\_section\\_of\\_Myanmar%EF%BC%8DChina\\_Oil\\_and\\_Gas\\_Pipeline\\_starts\\_welding\\_.htm](http://www.cnpc.com.cn/en/press/newsreleases/Myanmar_section_of_Myanmar%EF%BC%8DChina_Oil_and_Gas_Pipeline_starts_welding_.htm), accessed 9 April 2012.

<sup>75</sup> *Sold Out: Launch of China pipeline project unleashes abuse across Burma*, Shwe Gas Movement, September 2011, p. 28.

<sup>76</sup> Aye Nai, "Troops deployed to guard China pipeline," *Democratic Voice of Burma*, 27 January 2012.





Burma consumes less than five percent the amount of electricity consumed by Thailand or China. In Arakan State, from which the Shwe gas flows, 90 percent of households use candles for light and firewood to cook even though natural gas would be a safer option. Yet reports indicate that residents along the pipeline route will not have access to the Shwe gas, which will be shipped to China. In response to their lack of access to the natural gas, the Arakanese people have begun to protest the export of the fuel to China, including a 250-person protest in the state capital of Sittwe on 17 January 2012.<sup>77</sup>

- **Corruption:** The Myanmar government will make an estimated USD 29 billion over 30 years from the sale of the Shwe gas to China. The sale of natural gas accounted for nearly 50 percent of


Burma's export revenues in 2008-2009. The revenues from the oil and gas sector in Burma have no independent oversight and are recorded in Burma's public accounts in kyat at the official exchange rate of 6 kyat to USD 1 while the market value of the kyat stands at approximately 1,200 kyat to USD 1. This massive discrepancy means that the majority of gas revenues are not recorded in Burma's official budget, leaving them available for discretionary spending and making it impossible to trace how the majority of Burma's gas earnings are being spent.

- **Environmental degradation:** Forests have been clear-cut to build the pipeline corridor, rivers have been dredged for materials to construct the deep-sea oil terminal, and human waste has been dumped in a local creek used by local people and their livestock. The construction and operation of large petrochemicals facilities are planned for areas that are home to critically endangered species.

### **Local stakeholders**

The Sino-Myanmar oil and gas pipelines project has affected ethnic communities throughout Burma. Among those impacted by CNPC's deep-sea port and oil storage facilities are local communities on Mada Y Island in Arakan state. Offshore gas drilling and related infrastructure is affecting at least seven communities in nearby Kyauk Phyu Township, Ramree Island. The pipeline corridor construction impacts communities throughout Shan state (including Namkham and Mungwe townships), Magwe division and Mandalay division. NGOs such as the Shwe Gas Movement and EarthRights International have done extensive research in these areas to better understand the situation of local people and provide that information to the international community.

<sup>77</sup> "Press release: Arakanese take to the streets to demand gas be used for Arakan electricity," Shwe Gas Movement, 17 Jan 2012.



## Canadian tar sands, China National Petroleum Corporation (Canada)<sup>78</sup>

Tar sands, a mix of heavy crude oil, sand, clay and bitumen, are being exploited from underneath the boreal forests of western Canada's Alberta province. Over fifty oil and oil services companies are involved in more than 100 tar sands projects covering 140,200 square kilometers of land in the Athabasca, Cold Lake and Peace River areas of Alberta. Cumulatively, these areas contain an estimated 1.8 trillion barrels of crude bitumen, 169.3 billion barrels of which are proven to be recoverable. The tar sands projects include surface and in situ mining operations, processing plants, tailings ponds to hold mine waste, and pipelines and terminals to transport the fuel onward for refining and distribution.

In February 2010, Cretaceous Oilsands Holdings Ltd, a wholly-owned subsidiary of CNPC's PetroChina International, bought a 60 percent stake in two tar sands projects from Canada's Athabasca Oil Sands Corp for USD 1.7 billion. These included the MacKay River project and the Dover project. In January 2012, Cretaceous bought the remaining 40 percent share of the MacKay River project from Athabasca for USD 666.5 million, which gave CNPC full equity ownership of the MacKay concession while it remained 60 percent owner of the Dover project.<sup>79</sup> Additionally, there is speculation that CNPC is interested in constructing the Northern Gateway Pipeline to transport the heavy tar sands oil to the west coast of Canada and to further markets in China and other parts of Asia.<sup>80</sup>

## Project impacts

The Alberta tar sands exploitation has been called "the most destructive project on earth" for its devastating impacts on indigenous peoples, water resources, forests and the climate.<sup>81</sup> Significant risks include:

- *Devastating the health and culture of First Nations peoples:* Multiple indigenous communities live downstream and downwind of the tar sands extraction sites. Toxic waste from mine operations, including high levels of arsenic, are leaking into the Athabasca River, local waterways and soil, where it is contaminating drinking water and poisoning fish and moose populations, staples of First Nations peoples' diet. Communities living downstream from these waste ponds have seen spikes in rates of rare cancers, renal failure, lupus, and hyperthyroidism. In the lakeside village of Fort Chipewyan, for example, 100 of the town's 1,200 residents have died from cancer.<sup>82</sup>
- *Forest depletion:* Tar sands deposits underlie an area of boreal forest approximately the size of France. According to the Government of Alberta, to date 663 sq. km of forests have been clear-cut in order to explore and produce tar sands, of which about 10 percent of land has been reclaimed through the planting of 7.5 million trees.<sup>83</sup> However, the Society for Ecological Restoration International has noted that reclamation, as defined by the Government of Alberta, does not constitute restoration, raising questions that companies' rec-

78 For more extensive information about Canada's tar sands development, including reports, financing and company information, see: "Canadian tar sands," *BankTrack*, [http://www.banktrack.org/show/dodgydeals/canadian\\_tar\\_sands#tab\\_dodgydeals\\_basics](http://www.banktrack.org/show/dodgydeals/canadian_tar_sands#tab_dodgydeals_basics), accessed on 5 April 2012.

79 Press Release, Athabasca Oil Sands Corp., "Athabasca exercises its option to sell its interest in the MacKay River Oil Sands Project," 3 Jan 2012.

80 This was reported by Cattaneo, Claudia, "PetroChina bids to help build \$5.5-billion Northern Gateway pipeline," *Financial Post*, 28 Mar 2012, [http://business.financialpost.com/2012/03/28/petrochina-bids-to-help-build-5-5-billion-northern-gateway-pipeline/?\\_lsa=014fb7ff](http://business.financialpost.com/2012/03/28/petrochina-bids-to-help-build-5-5-billion-northern-gateway-pipeline/?_lsa=014fb7ff).

81 Canada's Toxic Tar Sands: The most destructive project on earth, Environmental Defense, February 2008.

82 Edwards, Rob, "RBS in battle with the Cree First Nation over dirty oil development project on tribal lands," *The Herald*, 18 April 2010 at <http://www.heraldscoreland.com/news/transport-environment/rbs-in-battle-with-the-cree-first-nation-over-dirty-oil-development-project-on-tribal-lands-1.1021471>.

83 Government of Alberta, "Facts and Statistics," Government of Alberta Energy Dept., [www.energy.alberta.ca/oilsands/791.asp](http://www.energy.alberta.ca/oilsands/791.asp), accessed on 5 April 2012.



Tar sands extraction site in Alberta, Canada. Photo credit: David Dodge, Pembina.

lamation activities will not be sufficient to initiate a full recovery of the ecosystem.<sup>84</sup>

- *Water scarcity and pollution:* The bitumen extracted from tar sands is a very heavy form of crude oil requiring more intensive processing than most conventional crudes. As many as five barrels of water are needed to produce a single barrel of oil using in situ mining techniques that will be used in the majority of tar sands exploitation over the long-term. These water-intensive extraction techniques make tar sands exploitation a great burden on the water resources of the area. Additionally, although the Government of Alberta has stated that industry's water usage and pollution levels

are strictly limited in the area, academics from the United States National Academy of Sciences and independent scientists commissioned by the Government of Alberta have raised significant concerns about the design and monitoring of the regional government's oversight program, and the dubious methods being used to dispose of toxic mine waste.<sup>85</sup>

- *Climate impacts:* During tar sands oil production alone, levels of carbon dioxide emissions are three to five times higher than those of conventional oil, due to more energy-intensive extraction and refining processes. Although capital investments have been made to develop technologies to lower the energy intensity of extraction (such as Carbon Capture and Storage), there is currently no technology to capture or limit GHG emissions from tar sands extraction and best estimates predict that the earliest such technology could come on-line is 2050. In the meantime, tar sands are the fastest growing sector of Canada's GHG emissions, at a time when scientists stress the need to reduce energy consumption globally.


### Local stakeholders

Communities including the Athabasca Chipewyan, Mikisew Cree, Chipewyan Prairie Dene, Woodland Cree, Beaver Lake Cree, and Fort Mackay First Nations have all filed lawsuits over egregious tar sands developments. Failure to obtain free, prior and informed consent from these communities creates substantial material risks to continued development of the tar sands.

84 Society for Ecological Restoration International, "The SER International Primer on Ecological Restoration," [www.ser.org/pdf/primer3.pdf](http://www.ser.org/pdf/primer3.pdf).

85 Greenpeace Canada, "Government Fiction vs. Tar Sands Facts," September 2010, [http://dirtyoilsands.org/publications/government\\_fiction\\_vs\\_tar\\_sands\\_facts](http://dirtyoilsands.org/publications/government_fiction_vs_tar_sands_facts), accessed on 5 April 2012.





## Ultra mega power plants, Reliance Power (Madhya Pradesh and Jharkhand India)

Reliance Power Limited (“Reliance Power”) is an India-based power construction, operation and generation company with several coal-fired power plants in operation or development throughout India. The company is currently in the process of ramping up its power capacity from 900 MW to 35,000 MW, with six new coal-fired power plants under construction. It expects to increase its power production capacity to 5,000 MW by the end of 2012, more than five times its capacity in 2011.<sup>86</sup>

A substantial part of the new capacity will come from several “ultra mega” coal-fired power plants with eight times the capacity of an average plant. These include the Sasan project in Madhya Pradesh, Krishnapatnam project in Andhra Pradesh, Chitrangi project in Madhya Pradesh and Tilaiya project in Jharkhand. All will produce between 3,960–4,000 MW of power generation from nearby coal mines or imported coal.<sup>87</sup>

### Project impacts

There are serious environmental and social risks involved with Reliance Power’s coal-fired power projects.

With respect to the environment, Reliance Power has stated that it will employ energy efficiency measures such as recycling water used in the power generation process, restricting the use of power plants and vehicles to the required minimum, and using more advanced, efficient technology. The Sasan, Chitrangi and Tilaiya projects have already received environmental clearance

from the Government of India. However, several concerns remain for all the projects, including:

- *Contribution to climate change:* Each of the 3,960–4,000 MW coal-based power plants will emit upwards of 26–27 million tons of carbon dioxide into the atmosphere (including emissions from local related mining and refining activities) annually, making them some of the largest sources of greenhouse gas emissions in the world.
- *Misuse of CDM credits:* The Sasan, Krishnapatnam and Tilaiya power plants receive carbon credits through the United Nations Clean Development Mechanism (CDM) because they are “employing more efficient super critical coal technology.” This represents a serious misuse of the CDM, which is meant to stimulate investments in clean energy for sustainable development. Previously, the CDM Executive Board rejected a similar application from the first Ultra Mega Power Plant — the Tata Mundra in India — clearly demonstrating that these projects are not the investments in sustainable development that are so desperately needed. According to Reliance Power, the Sasan project could earn the company 22.4 million carbon credits during its first ten years of operation, while the Krishnapatnam project could earn 12.3 million carbon credits, and the Tilaiya power plant could generate 21.3 million carbon credits over a ten-year period.<sup>88</sup>

Serious social risks have also been raised; for example:


- *Displacement of local people:* The Sasan project will likely displace 6,000 people living among five vil-

86 Reliance Power, “Company Profile”, Website Reliance Power, [www.reliancepower.co.in/about\\_us/company\\_profile.htm](http://www.reliancepower.co.in/about_us/company_profile.htm), viewed February 2012; India Energy News, “Reliance Power negotiates with US, Chinese banks to raise funds for two power projects”, *India Energy News*, 28 December 2011.

87 Reliance Power, “Coal Based Projects”, [http://www.reliancepower.co.in/business\\_areas/power\\_projects/coal\\_based\\_projects.htm](http://www.reliancepower.co.in/business_areas/power_projects/coal_based_projects.htm).

88 Reliance Power, “Carbon Credits”, [http://www.reliancepower.co.in/business\\_areas/carbon\\_credits.htm](http://www.reliancepower.co.in/business_areas/carbon_credits.htm); The Times of India, “R-Power eyes Rs 2000 crore green money from Tilaiya”, *The Times of India*, 5 October 2011.





lages, many of whom are poor farmers and laborers living in impermanent structures.<sup>89</sup> However, the company's environmental and social impact assessment identifies just 1,000 displaced households, which understates the severity of the problem and inadequately plans for resettlement.

- *Pollution impacts on health and agriculture:* The company's environmental and social impact assessment for the Sasan project gloss over the potentially severe impacts of water pollution and water scarcity in the project area in which local communities are heavily dependent on rain-fed agriculture for their livelihoods.

## Financing

China Development Bank, along with several Indian, Chinese and American financial institutions, fund Reliance Power's new and existing projects. In October 2010 CDB, Bank of China, Industrial and Commercial Bank of China and China Export-Import Bank signed a USD 12 billion financing deal with the company to purchase at least USD 10 billion worth of power plant equipment from the Shanghai Electric Corporation, a Chinese supplier.<sup>90</sup> The first equipment orders were to go to Reliance Power's Krishnapatnam and Tilaiya ultra mega power plants.

In a separate deal that same month, CDB, BOC, China Exim Bank and Standard Chartered Bank provided Rs 5,000 crore (roughly USD 1.1 billion) in project finance to Reliance Power that was to be used to import

power generation equipment for the company's Sasan ultra mega power plant.<sup>91</sup>

According to the new Green Credit Policy Directive, CDB should "effectively identify, assess, monitor, control and mitigate environmental and social risks," including those related to resettlement. As a financier of the Sasan power plant, which is creating significant resettlement problems, the Bank should (among other actions), ensure that the borrower adequately provides for all households affected.

## Asia Pulp & Paper (APP) Group (China, Singapore and Indonesia)<sup>92</sup>

APP Group is comprised of Singapore-registered APP China, which controls six paper mills, two pulp mills and various pulp plantations;<sup>93</sup> two other subsidiaries listed on the Jakarta stock exchange, which have extensive pulp and paper mills and plantation holdings in Indonesia;<sup>94</sup> and a wide global network of other affiliates. APP Group is involved in logging, plantation development, pulp production and processing activities primarily in Asia. The company is part of the Sinar Mas Group, an Indonesian conglomerate mainly active in pulp & paper, palm oil, food, and finance.<sup>95</sup> As of 2012, APP Group reportedly produces more than 15 million tons of pulp and paper per year, mainly in Indonesia and China. These activities generate an annual turnover of around USD 10 billion.<sup>96</sup> With these figures, the APP Group would rank as the third-largest pulp and

89 Singh, Sapna Dogra, "6,000 people to lose land to Sasan project," *Business Standard*, 27 August 2007 at <http://www.business-standard.com/india/news/6000-people-to-lose-land-to-sasan-project/295949/>, accessed on 1 June 2012.

90 Domain-b, "Reliance Power, Shanghai Electric ink record deal for equipment," *Domain-b*, 1 Nov 2010, [http://www.domain-b.com/companies/companies\\_r/rel\\_power/20101101\\_shanghai\\_electric.html](http://www.domain-b.com/companies/companies_r/rel_power/20101101_shanghai_electric.html), accessed on 5 April 2012.

91 Jayakumar, PB., "Three banks to support R-Power's Sasan project," *Business Standard*, 15 Dec 2010, <http://www.business-standard.com/india/news/three-banks-to-support-r-powers-sasan-project/418339/>, accessed 5 April 2012.

92 For more information, please see the APP profile on the BankTrack website at: [http://www.banktrack.org/show/companyprofiles/asia\\_pulp\\_and\\_paper#tab\\_companyprofiles\\_basics](http://www.banktrack.org/show/companyprofiles/asia_pulp_and_paper#tab_companyprofiles_basics).

93 APP China, "About Us", website APP China (<http://www.app.com.cn/english/aboutus/xsdw/index.html>), accessed June 1, 2012.

94 Asia Pulp & Paper, website (<http://www.asiapulppaper.com>) accessed June 1, 2012

95 Sinar Mas, "Business Units", Website Sinar Mas ([www.sinarimas.com/en/business-units/](http://www.sinarimas.com/en/business-units/)), accessed April 2012.

96 Rushton, M., "APP exclusive: Chairman, Teguh Ganda Wijaya, talks to PPI", *Pulp & Paper International Magazine*, 19 January 2010.



Asia Pulp and Paper logging trucks inside their PT Wira Karya Sakti logging concession. Photo credit: David Gilbert/RAN.

paper company in the world. However, because the APP Group is not transparent about its production figures, it is not included in the ranking of the largest global pulp & paper producers published by Pulp & Paper International.<sup>97</sup>

In the early 2000s, Asia Pulp & Paper defaulted on USD 13.9 billion in bonds, affecting over 300 international financial institutions including leading investment banks, mutual funds and export credit agencies.<sup>98</sup> It was the largest debt default of any Asian company up to that point, and company's financial problems at the time indicated that its internal governance, accounting and resource management practices were deeply flawed

and were having significant negative environmental and social impacts. A confidential 2,000 page KPMG report identified more than USD 4 billion in questionable accounting and financing irregularities in APP's Indonesian operations at that time.<sup>99</sup> Despite many claims by the company to have reformed its practices, APP continues to be the subject of censure by many civil society organizations and by the financial community.

### Impacts

Some of the impacts that APP Group's operations have had in China and Indonesia include:

<sup>97</sup> James-Van Beuning, R. et al., "The PPI Top 100: A case of déjà vu", *Pulp & Paper International*, 11 September 2009.

<sup>98</sup> Eyes on the Forest, "APP: default on environmental covenant," *Eyes on the Forest*, Mar 2012.

<sup>99</sup> Rahman, A et al. "ASIA PULP & PAPER COMPANY LIMITED: Does the Balance Sheet Balance?" Asheq Rahman,\* Frances Massey University, New Zealand and Macquarie University, Australia. Undated at [http://www.aaaiasection.org/media/resources/Rahman\\_-\\_ASIA\\_PULP\\_&\\_PAPER\\_25-1-11.pdf](http://www.aaaiasection.org/media/resources/Rahman_-_ASIA_PULP_&_PAPER_25-1-11.pdf).



- *Deforestation:* Indonesia's rainforests are some of the most biologically diverse in the world. According to Food and Agriculture Organization data, since 1990 these forests have been destroyed at a rate of over one million hectares per year.<sup>100</sup> The pulp and paper industry is a leading cause of this deforestation, which is also driving precipitous declines in the populations of Sumatran tigers, elephants, orangutans and many other species. As the largest pulp and paper producer in the country, and as numerous studies have confirmed, APP contributes substantially to this destruction. In April 2012, journalists revealed that the Indonesian Ministry of Environment has a USD 228 billion damages case planned, largely against APP-linked entities, for illegally clearing land in Sumatra.<sup>101</sup> In China, Greenpeace- East Asia has documented illegal forest destruction on the part of APP China, particularly in the southwestern Yunnan province. In November 2007 the Forest Steward Council issued a statement that banned APP from using the certifier's name until it was able to prove it had stopped destroying or converting forests in the course of its operations. China's State Forestry Administration has confirmed reports of illegal deforestation.
- *Social Conflict:* Between concessions controlled by APP, its affiliates and other fiber suppliers, the company's Indonesian land bank is estimated at approximately two million hectares. Much of this land has been taken without community consent and despite previous community claims. Many communities have also been displaced by the company and its affiliates' operations. In one of



Pak Norani, of the village Desun Gembira, works with other community members as boatmakers. They say that their livelihood has been destroyed by Asia Pulp and Paper (APP), when APP cleared the forests they relied on for timber to make boats, part of their customary lands, without permission or compensation. With the wood running out, Pak Norani says his family will be destined for poverty. Photo credit: David Gilbert/RAN.

the most shocking cases, in late 2010 dozens of community members from one Sumatran community blocked wood barges stealing wood from their claimed lands; they were protesting that their rights to community forest lands were being given over to APP for pulp plantations. This resulted in police violence and one fatality. APP is now planning to compound these issues by building the world's largest pulp mill nearby.<sup>102</sup>

<sup>100</sup> Indonesia Forest Information and Data. Mongabay at <http://rainforests.mongabay.com/deforestation/2000/Indonesia.htm>, accessed June 1, 2012.

<sup>101</sup> Jajang Jamaludin. Going After the Big 14. *Tempo* Magazine. 22 April 2012. As reported in Mongabay. <http://news.mongabay.com/2012/0503-riau-logging-lawsuit.html>.

<sup>102</sup> Schaefer, Kurt, "World's largest market pulp line planned for 2015-16 in Indonesia," RISI, 6 February 2012 at <http://www.risiinfo.com/blogs/World2019s-largest-market-pulp-line-planned-for-2015-16-in-Indonesia.html>.





A barge of timber owned by Asia Pulp and Paper in Riau, Sumatra, Indonesia with an armed guardtower visible above the barge. Private security of this particular timber plantation, Arara Abadi, has been implemented in a number of violent attacks on local community members. Photo credit: David Gilbert/RAN.

- *Climate impacts:* In 2010 Rainforest Action Network and the Japan Tropical Forest Action Network published a report that assessed emissions solely from operations, deforestation and peatland conversion associated with APP's pulp and paper production. The study calculated annual emissions at 67-86 million tons of CO<sub>2</sub>e per year, which would rank APP's Indonesian pulp and paper business ahead of the emissions of more than 160 countries. APP is believed to produce paper with the highest carbon footprint in the world, in the

range of 16-21 tons of CO<sub>2</sub>e per ton of paper.<sup>103</sup> In May 2009 Greenpeace released a report that calculated the carbon emissions of Sinar Mas, APP's parent group, from clearing and burning peatland rainforests for palm oil and paper plantations in Riau province, Indonesia. According to the group, the company has released 113 million tons of carbon dioxide, about two thirds of that produced by the whole of Belgium in 2005.<sup>104</sup>

<sup>103</sup> *Asia Pulp & Paper's Hidden Emissions: Calculating the Real Carbon Footprint of APP's Paper*, Rainforest Action Network and Japan Tropical Forest Action Network, October 2010 at [http://ran.org/sites/default/files/app\\_hidden\\_emissions.pdf](http://ran.org/sites/default/files/app_hidden_emissions.pdf); and "Asia Pulp & Paper's emissions from paper production 500 times higher than claimed," Mongabay, 4 November 2010 at [http://news.mongabay.com/2010/1104-app\\_emissions.html](http://news.mongabay.com/2010/1104-app_emissions.html).

<sup>104</sup> "Sinar Mas: Climate killer," at <http://www.greenpeace.org/asia/news/stories/climate-energy/2009/Sinar-Mas-climate-killer/> and *The Hidden Carbon Liability of Indonesian Palm Oil*, May 2008, at <http://www.greenpeace.org.uk/files/pdfs/forests/hidden-carbon-liability-of-palm-oil.pdf>.

- *Water pollution:* In China, subsidiaries of APP-China have been cited by environmental regulators for breaching pollution laws. Media reports have noted that the company and its subsidiaries were responsible for ten cases of serious water pollution in China between 2005 and 2008.<sup>105</sup>
- *Breaking legally binding environmental commitments:* According to a March 2012 report by Eyes on the Forest, a coalition of environmental NGOs in Riau, Sumatra, APP Group has violated the environmental covenants that were part of a restructuring agreement required by the company's creditors after its USD 13.9 billion debt default. The remote sensing evidence collected by environmental group Eyes on the Forest show that APP has felled roughly one-third of forests designated for conservation in APP's Pulau Muda forest management unit, highlighting the company's lack of respect for and commitment to its creditors.

## Financing

In April 2011, CDB provided a seven-year loan with a value of RMB 553 million (USD 85.1 million) to Indah Kiat, a subsidiary of Asia Pulp & Paper. At the end of December 2011, the amount outstanding under this loan was USD 52.5 million.<sup>106</sup> Additionally, CDB served as a bookrunner for two bond issuances of APP China in March and May 2011 that helped the company raise a total of RMB 5,000 million (USD 764.5 million).<sup>107</sup>

The bank's underwriting activities, particularly in light of APP China's blatant record of violating Chinese

environmental law, contravenes CDB's environmental policies as well as the Green Credit Policy. Similarly, the Bank's financing of APP's Indonesian operations, which are engaged in illegal logging and land clearing, demonstrate the distance between CDB's policies (and those of the Green Credit Policy) and implementation on the ground.

105 “金光集团 APP:中国六子公司 十次污染记录” (Sinar Mas Group APP: China's 6 subsidiaries' 10 Instances of Pollution Recorded), Sohu.com News Center, 9 July 2008, <http://www.freedominfo.org/features/20070509.htm>.

106 PT Indah Kiat Pulp & Paper, “Annual Report 2011”, *PT Indah Kiat Pulp & Paper*, March 2012.

107 Bloomberg Database, “Corporates by ticker”, *Bloomberg Database*, viewed April 2012.



## Conclusion

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In conclusion, CDB is proving to be an important financier of Chinese overseas investments. The Bank is involved across a spectrum of geographic regions and sectors, and provides financing for both Chinese companies as well as foreign governments and companies whose activities are relevant to China. As such, CDB's international financing now rivals that of the World Bank and other development financiers. In particular, CDB has gained a reputation for financing Chinese overseas natural resource and infrastructure projects.

As a policy bank, CDB has financed green initiatives of the Chinese government, such as pollution cleanup of major waterways in China. Additionally, it is a leading financier for the expansion of Chinese companies into renewable wind and solar energy abroad. These initiatives are a testament to the power of the Bank to drive important environmental protection projects.

Yet, as the case studies presented in this report show, CDB continues to finance environmentally and socially sensitive projects, particularly in the extractive industries and large-scale infrastructure sectors. Green initiatives, trainings and performance indicators adopted by the Bank have yet to manifest themselves in safeguards sufficient to protect the environment and local communities. In particular, the Bank lacks publicly disclosed, sector-specific environmental and social policies, measures to include local communities in project decision-making processes; deal transparency and grievance mechanisms. As CDB grows more influential in international development finance and its deals more high profile, its performance is likely to carry more weight and draw more careful scrutiny.

Friends of the Earth and BankTrack offer the following recommendations to strengthen the environmental and social responsibility of CDB. We encourage the Bank to openly engage with stakeholders, including Chinese civil society, in the development and implementation of environmental and social policies and practices that:

- **Fully apply the new CBRC directive on Green Credit Policy**

The CDB should fully implement the new CBRC directive on Green Credit Policy, and particularly ensure that it extends the directive's main requirements (involving roles and responsibilities, capacity building, etc.) to all overseas financing. It should also fully implement the particular section of the directive that addresses overseas financing, including: strengthening risk management for proposed overseas projects, ensuring project sponsors are compliant with relevant environmental, land, health and safety laws and regulations; and implementing international best practices or standards for overseas financing.

There are numerous international norms which CDB should adopt, including those related to avoiding development in high conservation value areas, reducing violent conflict, avoiding corruption, requiring extractive industries to disclose payments to and contracts with governments, mitigating environmental and social risks in project finance (Equator Principles) and others. Adhering to international best practice and implementing strong and effective safeguards can protect the CDB from environmental and social risks, since simply following local or national laws may not



be adequate to protect communities and the environment.

- **Involve and secure the rights of affected communities**

CDB should require that all borrowers whose activities have significant adverse effects on local communities involve those communities at an early stage of project development, in the pre-financing phase. In particular, the Bank should implement best practice by requiring that those borrowers also provide a clear channel and mechanism to address community grievances after the project begins.

- **Promote transparency and stakeholder engagement**

Improving transparency and access to information at all levels is critical. The Bank should publish more detailed data regarding CDB's overall financing portfolio, especially highlighting transactions in environmentally and socially sensitive projects or areas.

It should also go beyond the GRI format and publish in full its existing guidelines and performance standards, information on borrowers' environmental compliance records, and information regarding loans to borrowers which experience major environmental accidents. This type of reporting promotes compliance and assists the public in monitoring CDB's implementation of the Green Credit Policy and the Bank's own standards. The quality and implementation of CDB's standards would be greatly enhanced by bank engagement with stakeholders, including Chinese civil society.

- **Ensure compliance and implementation**

Establishing an open and transparent body within the CDB to oversee compliance would be a positive step and would send a strong message that the CDB is serious about ensuring it only supports projects that benefit all stakeholders and minimize negative impacts on people and the environment. Although the CDB may wish to develop unique standards and oversight mechanisms, the experiences of institutions such as the World Bank and IFC could provide guidance to the CDB in developing compliance mechanisms.

- **Build a more sustainable financing portfolio**

CDB should continue to increase financing for environmentally beneficial activities, such as environmental protection, energy efficiency, and pollution prevention. However, it should also adopt strict environmental and social standards for financing activities that have mixed environmental and social impacts; for example it should require all large hydropower transactions to comply with World Commission on Dams guidelines as a condition of financing. Finally, it is critical for the Bank to avoid undoing its positive environmental work by simultaneously reducing support for environmentally harmful activities. In particular, we encourage CDB to implement a plan to publicly report and reduce financed greenhouse gas emissions (i.e. emissions created by financing particular transactions), starting by phasing out of tar sands and the most inefficient and carbon-intensive coal projects. Better reporting of high-emission transactions can demonstrate the Bank's commitment to supporting China's broader goals of reducing national and global carbon emissions.



**China Development Bank's overseas investments:  
An assessment of environmental and social policies and practices**

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