

Going Global:
Chinese Oil and Mining Companies
and the Governance of Resource Wealth

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EXECUTIVE SUMMARY

1. This report is the result of a six-month research project undertaken at the Woodrow Wilson International Center for Scholars in Washington, D.C. The focus of the work is on the impact of China's oil and mining companies' recent overseas expansion on the governance of resource wealth.

2. The paper covers four topics:

The structure of the Chinese oil and mining industries, focusing on overseas operations;

the emergence over the last ten years within the large-scale, OECD-based extractive industry, of a "new model" for resource extraction focusing on minimizing negative social and environmental impacts and on resource revenue transparency;

the development of corporate social responsibility concepts in China, and the extent to which this is leading Chinese oil and mining companies to apply the "new model" for resource extraction, and

the role of Chinese infrastructure loans to resource-rich developing countries in resource wealth governance.

3. China's upstream oil industry is dominated by four large corporations that are majority state-owned, but also listed on Chinese and international stock exchanges, including the New York Stock Exchange. Each of these companies (CNPC, Sinopec, CNOOC, and Sinochem) has overseas as well as domestic upstream operations. The mining industry currently includes some twenty large corporations that have overseas exploration or production activities, and a very large number of smaller mining companies, both state and privately owned, that operate predominantly within China. Consolidation in the state-owned mining sector to create a smaller number of large corporations is underway, and further concentration is expected. The large state mining houses are, like the oil companies, starting to secure stock exchange listings in Hong Kong and New York. Though most of the large

mining companies that currently operate overseas are majority state-owned, some wholly private-sector mining companies are found overseas, too.

4. The majority state-owned oil and mining companies now operate within a rapidly evolving strategic framework established by SASAC (State-owned Assets Supervision and Administration Commission of the State Council). These companies are expected to focus on becoming internationally competitive and internationally listed corporations, signaled by securing Global Fortune 500 status. (As of mid-2008, eight Chinese extractive companies had achieved this goal.)

5. From around the turn of the century, Chinese corporations have been encouraged to “go global” and invest overseas. This has resulted in a close to global presence of Chinese oil and mining companies, involved in resource-rich countries from Australia to Zimbabwe.

6. Since 2005, Chinese corporations in all sectors including oil and mining have been pressed to be socially and environmentally responsible as well as profitable. There are now loosely defined corporate social responsibility requirements in company law, SASAC guidelines and stock exchange rules; more stringent domestic environmental standards, some increase in enforcement resources, and some incentives for good environmental performance. Major Chinese companies publish corporate responsibility reports; most have substantial philanthropic programs; many have joined the U.N. Global Compact. Most large oil and mining companies now have in-house environmental and safety departments; however few if any have social or community relations specialists, and most recognize that they are at an early stage of understanding their new responsibilities. Usually, the Project Preparation department overseas handles legal permitting, including land acquisition and any resettlement. For projects executed within China, community issues are dealt with by the Party Secretary or the Administration Manager.

7. China’s major oil and mining companies are now of a comparable scale to the major OECD-based corporations, and are integrated into the global oil and mining industry. They have been buying exploration and production concessions from governments of resource-rich countries; buying shares in concessions held by other companies; buying shares in established oil and mining companies, and taking over non-Chinese extractive industry companies. Chinese companies have

joint ventures with OECD-based corporations, and buy and sell services in the global industry.

8. Over the past decade, the major OECD-based oil and mining companies, along with multilateral development banks, OECD donors, and international advocacy NGOs have been applying a new model for resource extraction. This is built primarily around the application of international standards to mitigate negative local environmental and social impacts; spending on community projects; and addressing the risks of corruption and mismanagement of government revenues from oil and mining through transparency and public disclosure of these revenue flows. The principal reasons for developing this new model were operational problems in many developing countries in which companies had made large investments, pressure from non-governmental organizations campaigning about the damaging impacts of extractive industry operations in countries with poor governance and weak institutions, and a growing public and business interest in corporate social responsibility.

9. The Extractive Industries Transparency Initiative (EITI) is the principal vehicle promoting transparency by encouraging governments of resource-rich countries to publish independently audited reconciliations of monies paid by extractive industry companies and received by governments. A voluntary consortium, EITI is actively supported by the World Bank and the IMF, OECD governments, and forty oil and mining companies, including all the OECD based majors. Twenty-six resource-rich countries are implementing EITI: except for Norway, all are developing countries.

10. To date, Chinese oil and mining companies have not adopted the “new model” for resource extraction projects. The initial approach in “going global” was to act as if the company were in China, and to invest overseas with little knowledge of the country or its laws. Now Chinese oil and mining companies are becoming more experienced, and the predominant approach involves getting better local information through project feasibility studies, compliance with local environmental, labor and land acquisition law; support for local philanthropic projects, but without involvement in issues of revenue management. Recently, under domestic pressures to be socially and environmentally responsible, there has been some movement towards the adoption of international environmental and social standards. In particu-

lar, China EXIM Bank has issued environmental and social guidelines that require Chinese or international standards to be applied to projects they support overseas where host country impact assessment and monitoring legislation is insufficient; and a first Chinese bank has signed up to the Equator Principles that require World Bank standards to be applied to project finance. Further, some companies are gaining experience with higher standards by operating in countries such as Australia, Canada, and South Africa.

11. Chinese oil and mining companies face local operating problems comparable to those experienced by OECD companies. However such problems are currently less of a priority for corporate management than are other aspects of internationalization such as overcoming barriers to investment, contract stability, taxation and currency transfer. The financial crisis appears to be providing some opportunities for Chinese companies to avoid these community problems by investing in more stable countries, and through “finance for resources” deals that limit Chinese companies’ operational exposure. Deals recently concluded with state oil companies in Russia and Brazil will provide Chinese loan financing to local companies to develop oil resources, and a guaranteed volume of sales of the resultant oil and gas to Chinese oil companies. However, shareholders in Western companies are resisting similar deals, as illustrated in the rejection in June 2009 of the Chinalco financing offer to Rio Tinto.

12. Although a few studies have been published in China that look at issues of the “resource curse” with respect to resource-rich areas within China, there is otherwise little awareness or discussion of the arguments about resource revenue management that underpin the case for EITI. The mainstream arguments about what is needed to generate development in poor, resource-rich, countries focuses on providing economic and social infrastructure (roads, railways, ports, schools and hospitals), and on the potential for resource wealth to trickle down and stimulate wider development. Neither the government of China, nor any Chinese oil or mining companies, are active within EITI except where Chinese companies operate in countries that implement transparency systems.

13. China has, however, become indirectly involved in revenue management as a consequence of the government’s program of concessional loans to developing country governments to construct infrastructure. This program includes (though

is not limited to) resource-rich countries such as Angola, Sudan and Nigeria. Loans from China EXIM Bank are used to pay for construction projects undertaken by Chinese companies. The effect of such programs in resource-rich countries is to convert some resource revenues into development goods. China's program has stimulated renewed international interest in infrastructure as a prerequisite for development.

14. This report concludes that although Chinese oil and mining companies are at the beginning of a path towards better environmental and social performance, the principal focus for this will remain on operations within China. Companies currently underestimate the potential long-term impact of environmental, labor, and community relations problems overseas on the performance of existing overseas operations, and on access to future resources.

15. This report identifies several steps that might draw Chinese corporations more strongly into resource wealth governance initiatives:

- Support the build-up of environmental and social management capacity within Chinese corporations and consultants. This might be done, for example, through promoting the exchange of experience programs (internationally and among Chinese companies) by drawing on industry sector associations, the Global Compact, multilateral banks, NGOs and donors. Such programs have played an important role in building capacity in OECD companies; at a policy level, Chinese corporations are already committed to improving performance.
- Regarding Chinese involvement in EITI, the case for transparency has yet to be made to Chinese corporations and policymakers in terms of energy security and economic development. Further, voluntary initiatives involving primarily OECD players run counter to China's position of supporting "south-south" cooperation and U.N.-based programs.

Starting points for trying to involve China include:

- Promoting collaborative research between Chinese and international development policy researchers on resource revenue management issues;
- Including EITI in U.S.-China strategic dialogues on energy;

- Linking transparency into the U.N. Global Compact, and
- Recognizing that Chinese companies are now significant global players, and that Chinese development aid plays an important role in resource-rich countries and has introduced some new approaches to resource wealth governance issues. Develop collaborative projects involving industry and development specialists to strengthen the existing risk mitigation framework for resource projects by adding a component that focuses on how exploitation of non-renewable resources can be actively used to promote development, for example, by developing a performance standard on securing development benefits from extractive industry projects.

16. Key recommendations for Chinese companies are:

- Learn from the experience of earlier investors, recognize the importance of creating a “local license to operate” as well as fostering good relations with host governments, and understand the best international practices that they can follow.
- Build-up in-house environmental and social performance management capacity through recruitment and training of social scientists.
- Evaluate the potential of EITI as a component of corporate social responsibility and a tool for reducing long-term risk exposure.

INTRODUCTION

RESOURCE WEALTH GOVERNANCE

In the last ten years, oil and mining companies from China have made a spectacular entry onto the world stage. In rankings of the world's largest corporations, Chinese companies are suddenly in the top tier. According to one influential Washington-based energy consultancy, China National Petroleum Corporation (CNPC) now vies with ExxonMobil to be the world's largest listed energy company. In 2006 and 2008, Exxon Mobil took the number one position; in 2007, CNPC.¹ Faced with demand for oil and minerals that China's large domestic production is insufficient to meet, Chinese companies have been buying up oil or mining concessions worldwide—from Australia to Zimbabwe.

This report examines what effect these “new kids on the block” are having on the governance of resource wealth. A fragile consensus has emerged between oil and mining multinationals, NGOs and OECD governments about what is needed to prevent resource extraction from being a curse rather than a blessing for poor producing countries. This goes part-way to enabling resource extraction to create a foundation for economic and social development through procedures to identify and reduce negative local impacts, and to increase public debate on development trajectories by publishing information on government resource revenues, although as yet it includes no explicit focus on going beyond “do no harm” to using the one-off opportunity to extract resources to positively achieve development. Is China's entry helping, hindering, or even adding to this consensus? Is China on track to be a responsible stakeholder with respect to resource extraction?

The analysis in this report is based on the concepts of the “resource curse” as an umbrella that describes a set of specific economic and political challenges of resource dependency, and of “corporate social responsibility” as an approach that reflects a rational response by business to a set of non-traditional (non-commercial, non-technical) risks. It builds on my previously published work that reported on

the economic, social and political risks that resource extraction poses for those producer countries that lack strong market economies and democratic political systems, and on how multinational oil companies have responded to these factors.² Whereas oil and mining have provided a basis for sustained economic growth and high standards of living in countries such as Norway, Canada and Australia, much of the world's resource endowment lies in countries without established market economies or robust democracies. Such countries are at risk, at best, of having enclave oil economies and authoritarian governments. At worst, resource-rich countries face having an impoverished citizenry living alongside a corrupt elite, and on-going violence and conflict based on struggles to control resource wealth. Further, the nature of resource extraction is that it damages the environment and brings profound social change, often squalor and conflict to producing areas, in a “gold rush” effect. Absent effective measures to control its social and environmental impacts, resource extraction typically has damaging local effects even as it brings wealth to capital cities.

What is the “resource curse” and why does it matter?

The term “resource curse” is used to mean the mix of macro-economic, political, and local effects of oil production in a country that can de-couple growth in GDP from improvements in the standard of living and quality of life of the majority of its population, and, in some circumstances, can exacerbate conflicts such that conditions deteriorate. The ideas underpinning the “resource curse” were first expounded in the 1970s. The notion of “Dutch Disease” was developed to explain the unexpected negative effects of production of North Sea gas on the rest of the economy of the Netherlands. In 1975 OPEC co-founder Juan Pablo Pérez Alfonso of Venezuela described oil as “the devil's excrement”: “It brings trouble, waste, corruption, consumption, our public services are falling apart. And debt.”³ The “resource curse” explains the phenomenon by which countries rich in oil have, with few exceptions (of which Norway is the best case), failed to use this wealth to secure sustained economic development, significant improvements in the quality of their citizens' lives, or democratically accountable governments. Increases in national wealth, as indicated by GNP per capita, are typically not matched in oil-states by parallel improvements in development, as indicated in the U.N. Human Development Index, or better governance, as indicated in the composite measures reported by the U.S. Millennium Challenge Corporation's country assessments or in the business climate for the non-oil economy. Oil-states

are characterized by high levels of inequality—as measured by the Gini coefficient. For example, despite an annual rate of economic growth of more than 20% between 2006–2007, Angola scored below the average for the sub-Saharan African countries as a whole on all of the World Bank indicators of the business climate.⁴ Though now classified in economic terms as a “lower middle income country,” it languishes in the bottom 10% of countries ranked according to the United Nations’ Human Development Index.⁵ Thus, while lacking indigenous oil, and having to import it using hard currency can be an obstacle to a country’s economic development, so too can be the possession of oil resources in exportable quantities.⁶

The key factors that create the “resource curse” are government ownership of sub-surface resources and the earnings that governments therefore receive when oil is produced from these resources.⁷ Except where oil concessions have been poorly negotiated, governments secure the majority of the profits from oil production—the oil “rent” which comprises the difference between the costs of production and the sale price. (For example, Shell published data for its operations in Nigeria showing that based on 2006 oil prices, the government’s tax take was 95% of the profit.)⁸ This “rent” is divided between the state and the companies producing the oil through a variety of mechanisms including taxes, royalties, and production-sharing agreements.

Government revenues from oil rents create both economic and political problems. The key characteristics of oil rents that cause economic problems are their size and yearly variability, depending on production levels and prices. Economists argue that for most oil-exporting states, the magnitude of government oil revenues inflates the value of the domestic currency, resulting in a less competitive non-oil sector. Where there has not hitherto been much traded production—for example, in new oil-producing countries such as Chad—establishing non-oil industries proves difficult. In others countries, such as Nigeria and Angola, the production and export of agricultural commodities has plummeted alongside the growth of the oil industry. The results of “Dutch Disease” include unemployment, which in turn aggravates poverty and potentially, political instability. Variability in government oil revenues, especially where these form the backbone of government income, makes effective government spending difficult.

Within producing countries, the political risks associated with oil revenue dependence are threefold. First, corruption; second, governments that do not need to be accountable to their citizens; and third, conflict over control of oil revenues—

between factions of the elite or between producing regions and the rest of the country. Corruption risks are centered primarily on the process of selling concessions to explore for and produce oil and gas. Unless these are auctioned in a transparent way, through a public process and with full disclosure of the terms of winning bids, the incentives for corruption and side deals are strong. While the terms of oil concessions are in the public domain in developed oil-producing states like Canada, the U.S. and Norway, it is rare for this to be the case in non-OECD countries.

Where governments are insulated from the necessity of raising domestic tax revenue because of the regular injection of oil money into the treasury, elites become less accountable. The active support of its citizens is less important to governments with the resources to buy-off or repress opponents than for governments that need a level of public support to be able to raise taxes. External pressures for better governance are weak when governments need not rely on assistance from foreign countries or international lending bodies. This was brought sharply into focus in Chad, when a hard-negotiated deal between the World Bank and the government of Chad about how oil revenues were to be spent on development was largely overturned by the government once the oil revenues started flowing.⁹

Daniel Yergin rightly titled his compelling history of the oil industry, *The Prize*.¹⁰ In it he documents the struggles within and between states and companies for control of oil and the associated wealth. Over recent decades, such struggles have continued. For example, control of areas known to have oil resources have been contested by Nigeria and Cameroon; Australia and Timor Leste; and China and Japan, although in each case, to date, these have been resolved without recourse to violence. Efforts are being made to mediate the dispute between Uganda and the Democratic Republic of the Congo over the demarcation of their border in the potentially oil-rich Lake Albert region. Boundaries within the Caspian remain unresolved because of the different allocation of underwater oil potential that each littoral state would get depending on whether the rules on boundaries for seas or for lakes are applied.

Within states, there has been a trend towards secession movements in oil-rich areas, especially where these have shown significant differences from the rest of the country, for example, being populated by a religious or ethnic minority. As Amartya Sen has shown, the power of different aspects of identity can shift over time.¹¹ What was a weak aspect of community identity, for example, ethnicity, can become a dominant one when there is wealth to be fought over. This has been evidenced

in Scotland, where a once marginal Scottish nationalist movement has incredibly been pressing for full independence. The prospect of a viable independent state financed by oil money has, in the last the forty years since North Sea oil was discovered, attained unprecedented political autonomy. It has certainly strengthened South Sudan its long civil war against the North and it is one of the factors contributing to the insurgency that is reducing oil output from the Niger Delta.

These economic and political factors can become even more damaging through their interaction. In a recent paper, Elena Paltseva examines relationships between political autocracy, devolution, and growth using the game theory-based analytical tools increasingly favored in the study of this area of political economy. She concludes that autocracies with natural resources such as oil tend to be economically stagnant and resistant to political change: “If a country is sufficiently rich in natural resources, an autocratic ruler will always resist political change because of the lost stream of revenues.”¹² She argues further that where the ruler’s benefits from control are high, the local private sector never starts to invest because they realize that capital will eventually be expropriated. This in turn inhibits the devolution of power to other groups; the autocrat sacrifices capital accumulation in order to keep the benefits of the oil revenue stream for himself. This analysis matches the observed weakness of the business climate in oil states.¹³

There is also a local dimension to the resource curse. Unless resources are developed with extreme care to avoid environmental damage, with full and appropriate compensation for people who lose land, homes, fishing grounds, and the like to the industry; and with deliberate and effective measures to make sure that local people and businesses are employed, the local impacts of oil development can be highly damaging.

The clearest example of the effects of resource curse are seen in the Niger Delta, where almost fifty years of large-scale oil production has not improved living conditions, opportunities, or the environment. A toxic mix of popular anger, crime, and political violence has been created through a mix of failed oil revenue management and poor practices by the industry—particularly in its early years. As a result, the population lives in insecurity and the world’s oil-consuming countries suffer the impact of price spikes every time oil facilities are shut down through sabotage or for security reasons, as happened frequently in 2008.¹⁴ To date, extensive social spending programs by oil companies, military crack-downs, formal negotiations, and locally-based conflict resolution processes have all failed to improve the situation or even to halt deterioration.

Resource curse effects are not only damaging for the populations of resource-rich countries, and potentially for regional stability, they also pose challenges to the operations, and hence profitability, of oil and mining companies, and to the reliable supply of oil, gas and minerals onto world markets. This is most evident in the Niger Delta. On an escalating basis since the mid-1990s, oil companies have experienced kidnappings and sabotage, the theft of a significant proportion of their output through what is known as “bunkering,” and the inability, for security reasons, to operate some of their facilities. An estimated 20% of Nigeria’s potential oil output is lost to the companies with businesses there, and hence to world markets.¹⁵ Similar problems have been experienced, though on a lesser scale, at sites in many other countries, resulting in loss of investments, higher costs, or continuing tensions with host communities. Further, very effective campaigns by non-governmental organizations (NGOs) around the turn of the century forced U.S. and European-based extractive industry companies, to face these issues. Gas station boycotts, litigation under the Alien Tort Claims Act (ATCA),¹⁶ and shareholder activism contributed to an environment where both the corporate headquarters of the major multinational oil and mining companies, and their managers in many locations, recognized the need to develop a new model for resource extraction.

Through a ferment of largely uncoordinated activity between around 1998 and 2006, involving a huge number of meetings, consultancy and NGO studies, seminars, and projects, as well as innovative collaborations between companies, NGOs, donors and OECD governments, a set of tools and approaches were developed that characterize this new model. It has three levels. First, stringent standards for assessing and managing the local impacts of resource projects, with the aim of reducing negative impacts and providing benefits to the people who live alongside mines, oilfields or pipelines. The primary responsibility for implementation rests with the extractive industry companies, often prodded and monitored by the banks and insurers backing the projects as well as by NGOs. The second, and the least-well developed component in terms of standards and practice, is development of the forward and backward economic linkages that enable a host economy to widen its benefits from resource extraction through involvement in supplying inputs to oil and mining operations (backward linkages), and by processing crude oil and mine products (forward linkages). Efforts by companies to strengthen backward linkages are usually triggered by the host countries through their “local content” requirements, but sometimes by the companies themselves, guaranteeing some employment to residents of communities impacted by projects.

The third element of the model concerns the revenues that the sale and operation of resource concessions provide for host governments. In most parts of the world, governments own sub-surface resources. Rights to explore for and produce oil, gas and minerals are sold, on a time-limited basis, to extractive industry companies. Typically, governments secure revenues from the initial sale of concessions, and, when exploration is successful and followed by production, they gain a share of the proceeds through a variety of tax, royalty and production-sharing arrangements. These revenues, often dwarfing other sources of government income, pose macro-economic management challenges to the best run states and are often a magnet for corruption and conflict. The Extractive Industries Transparency Initiative (EITI) was launched in 2002 by a consortium of governments, multinational oil and mining companies, and NGOs. It sets standards for systematic reporting and auditing of the payment of resource taxes, etc. by companies, and for documenting their receipt into government coffers. Following its launch as a broad concept that encouraged companies and governments to report publicly on revenues, EITI now has a secretariat, and well defined processes and reporting standards. Civil society must be involved in establishing country specific reporting frameworks, and regular country reports that match revenues paid and received must be independently validated. From 2010 onward, only countries that fully comply with these standards within a given period of time will be accepted as members of EITI. In addition, OECD donors and the major multilateral development agencies now routinely seek to address the question of resource revenues in their engagement with resource-rich countries. The general focus of attention is on transparency; specialized agencies such as the World Bank and International Monetary Fund also advise governments on legal frameworks for resource extraction, and on the management of the volatile revenue streams that characterize the sector. While revenue transparency and management are principally the responsibility of governments and their technical advisors, companies can, and in some cases have, played active roles in promoting transparency, as do some bankers and insurers—for example, the World Bank's IFC and MIGA, and the U.S. Overseas Private Investment Corporation (OPIC). Companies can choose to be active supporters of EITI; all companies operating in countries that participate in EITI must comply with local requirements for disclosure of payments.

While providing a basis for less damaging resource extraction, the new model stops far short of including an overall vision for how oil and mining could provide a basis for economic transformation in developing countries that are resource-rich,

or a framework for collaboration between companies, governments, communities and donors on how to achieve this. For example, project impact assessments do not include a systematic review of potential local development impacts, or specify the type of collaboration and commitments needed between the private sector, government and communities to achieve this. Further, for resource-rich areas with multiple oil or mining operations, there is no holistic, long-term thinking at a strategic level for mineral, or oil, or timber-rich areas. What kinds of investments are sought and over what period? What infrastructure, physical and human, will be needed to develop this? How will it be financed? What will be done to broaden the base of the economy in resource-rich areas? How will cumulative environmental and social impacts be handled?

This study therefore seeks to answer four related questions. First, what is the involvement of Chinese oil and mining companies in the global resource extraction industry? Second, to what extent, if at all, are the Chinese companies that are operating globally adopting this “new model” of resource extraction? Third, what are the drivers of the behavior of Chinese corporations with respect to this set of issues? Finally, is the presence of Chinese companies in the global oil and mining market bringing anything new to consideration of resource wealth management and helping to fill the crucial gaps in the framework?

STUDY APPROACH

This report was produced during a six month tenure (September 2008–March 2009) as a Public Policy Fellow at the Woodrow Wilson International Center for Scholars in Washington, D.C. It is based on a mix of desk research, interviews and meetings. The foci of the research have been the “top down” perspectives of policymakers and businesses based in China rather than on the countries in which Chinese companies are investing—not only because of constraints on my time and travel budget, but also because several other researchers are investigating these issues from a developing country perspective—and on understanding current practice rather than developing theory.

I have concentrated on two of the three core areas of resource wealth governance: management of local environmental and social impacts, and revenue management. This is primarily because of time pressures on the research, exacerbated by the fact that there are no established standards for forward and backward linkages against which corporate behavior can be measured. A more complex and time

consuming, case study-based methodology would have been needed. I include a few observations on forward and backward linkages, however, in Part Three.

The main sources of written information are the oil and mining trade press: daily and weekly publications such as “Mining Weekly” and Rigzone.com; company web sites and reports; Chinese government, World Bank Group and IMF documents, as well as a rich set of papers on Chinese state-owned companies; Chinese links with Africa, and corporate social responsibility in the extractive industries and among Chinese companies. I have drawn upon the scholarly literature to understand the Chinese systems of decision-making and the main themes of Chinese economic development since the 1970s. In November 2008 I went to China to meet with managers of the Chinese extractive industry companies, insurers, consultants, experts on Africa and Asia from the Chinese Academy of Social Science (CASS) and a number of other individuals with experience in the sector. In Washington and London, I have been able to meet with some, but far from all, of the many people working on aspects of these issues who have generously contributed their time and expertise. I have also conducted telephone interviews and had email exchanges with individuals involved in some of the overseas investments that, in my opinion, will shape future developments.

The report has been produced with three audiences in mind. One is the growing, though specialist, community of people in companies, government departments, development agencies, NGOs and think tanks who are interested in the linkages between extractive industries, corporate behavior, development, and the security of energy and mineral supplies. While much of this community is currently found in the United States and Europe, I hope that this report will be of interest also to the parallel communities in resource-rich countries, especially in China. Finally, I hope that it will also be of interest to general readers, as well as students and researchers of international relations and Chinese foreign policy.

As I show in Part Two, the Chinese oil and mining sector is large and diverse. The major companies are corporations that generally comprise many subsidiaries and affiliates. Much of the analysis focuses on the state-owned oil and mining companies currently registering in the Fortune 500 list of the world’s largest corporations. In this report, I use one corporate name to cover all the entities in each group because for the issues I am addressing, it is not relevant to distinguish individual entities. For example, I refer throughout to China National Petroleum Corporation (CNPC), rather than to PetroChina, or any of the other companies in the Group; and to Chinalco, rather than Chalco, or any of the mining companies’

local operating entities, etc.

This report is organized in six parts. Following this introduction, Part One describes the Chinese oil and mining industries—the drivers for, and the business results of, its recent global expansion. Part Two presents an overview of approaches to resource wealth governance developed by OECD-based companies and institutions since the late 1990s. Part Three examines Chinese companies' approaches to resource wealth governance issues, framing the discussion in the context of corporate responsibility because this is becoming an important concept in China. Part Four examines how China's bilateral aid program fits into the picture—important because of the links between resource extraction and development aid spending—and also because the Chinese experience of, and approaches to, social and economic development are, I argue, directly relevant to revenue management issues. The final part draws conclusions and offers a short series of recommendations to United States government agencies, the EITI Board and secretariat, and to extractive industry companies.

PART ONE

THE CHINESE EXTRACTIVES INDUSTRY

SUPPLY AND DEMAND

China is well endowed with petroleum and minerals. Until the surge in industrial growth in the 1990s, domestic resources met most of China's needs.

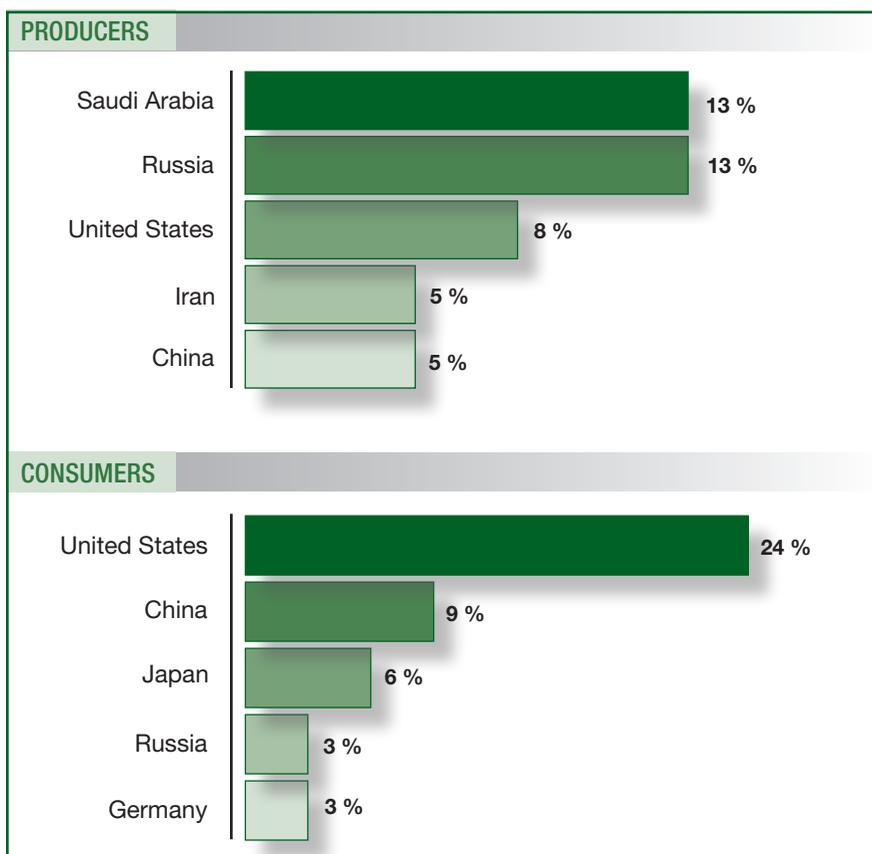
In 2007, China was the fifth largest oil producer after Saudi Arabia, Russia, the U.S., and Iran, accounting for almost 5% of global output. Domestic oil production has been increasing year by year since 1981. Since the mid-1990s, however, the country has become a net importer of crude oil, accounting for just over 9% of global consumption in 2007.

Table 1: Chinese oil production and consumption
(mn. tonnes per year)

	1970	1980	1990	2000	2005	2006	2007
Production	30.7	106.0	138.3	162.6	180.8	183.7	186.7
Consumption	28.2	85.4	112.8	209.6	327.8	353.3	368.0

Source: *BP Statistical Review of World Energy*, historical dataset. See www.bp.com.

Table 2: Top 5 oil producers and consumers 2007
(percent of global total)



Source: *BP Statistical Review of World Energy, June 2008*

Demand for oil in China, as in the non-OECD world overall, is still increasing whereas growth in the OECD, including the United States, has levelled off and is forecast to decline. In 2008, China's imports are reported to have exceeded domestic production for the first time. The International Energy Agency forecasts that by 2030, China will rely on imports for nearly three-quarters of consumption.¹⁷

China is by far the world's largest producer, and user, of coal, accounting for 41% of both production and consumption in 2007, compared to the second-placed U.S. at 19% and 18% respectively.¹⁸ United States Geological Survey estimates show China to have been the fourth largest producer of copper in 2007, though at

Table 3: Global trends in demand for oil

(mn. tonnes per year)

	1990	2006	2030*
OECD	1,896	2,209	2,070
- of which, U.S.	770	939	881
Non-OECD-	1,209	1,636	2,810

Source: International Energy Agency

* International Energy Agency forecast, World Energy Outlook 2008, reference scenario.

0.9mn. tons, well below the top producer, Chile (5.7mn. tons), and the U.S. (1.2mn. tons). In 2007, China mined more iron ore than any other country (although both Russia and the Ukraine are believed to have substantially greater reserves of iron ore than does China).¹⁹ China's steel industry is the largest consumer of iron ore in the world. Domestic production is supplemented with imports mainly purchased from three companies—Vale, Rio Tinto and BHP Billiton,²⁰ a dependency on a small set of suppliers that China is keen to reduce.

INDUSTRY STRUCTURE

Overview

The Chinese extractive industry sector comprises a mix of predominantly state-owned companies (SOEs) and private companies. The largest Chinese state oil and mining companies have subsidiaries that are listed on international stock exchanges, including the New York exchange. The focus of both state and private companies is on domestic production, although since the 1990s, oil and mining companies have also been investing in overseas projects. Overseas investments have been made on every continent, and in a large number of countries, including Organization for Economic Cooperation and Development (OECD) members such as Australia, and pariah states such as Zimbabwe. Chinese overseas investments take many forms, ranging from acquisition of companies with an exist-

ing portfolio of projects, to small shareholdings in projects operated by western companies, to Chinese-operated oil fields and mines. Chinese companies are increasingly integrated into the global extractives industry as both suppliers of, and customers for, construction services, major equipment items such as drilling rigs, and engineering, legal and financial services.

The policy since 1997 of establishing a “socialist market economy” has resulted in a major change in the structure of state-owned enterprises. Enterprises are being converted into profit-seeking corporations in which the state holds a controlling share but is removed from day-to-day management. They are being encouraged through the National Reform and Development Commission (NRDC) to consolidate into a smaller number of large, internationally competitive groups and to adopt modern systems of corporate management. “To facilitate the adjustment of product structure and enterprise organization, leading enterprises will receive support to grow more powerful to improve industrial concentration and enterprise competitiveness by acquisitions, mergers and restructuring.”²¹ This process is now more or less completed for the oil industry and though much has been done,²² in the mining sector, further change is still seen as necessary to concentrate companies into a small number of large, competing, corporations in each sub-sector. For example, in iron and steel, the goal by 2010 is to have two or three enterprises with output capacity of more than 30Mt/yr (metric tonnes per year).²³

State-owned enterprises are expected to respond to the overall objectives established in the state’s five-year plans. (As discussed in Part Four, this includes the shift “from growth rate to sustainable development” that requires corporations to pay greater attention to the environmental and social impacts of their businesses.)²⁴ The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) is the government shareholder in the state-owned companies. “SASAC performs the responsibility as the investor on behalf of the state; supervises and manages the state-owned assets of enterprises according to law; and guides and pushes forward the reform and restructuring of SOEs. SASAC appoints and removes top executives of the enterprises under the supervision of the Central Government, evaluates their performances, and grants them rewards or inflicts punishments. SASAC also directs and supervises the management work of local state-owned assets.”²⁵

Although the major Chinese companies are clearly different from western extractive industry companies because of this state ownership, they operate in several important ways like Western companies. In particular, the Chinese compa-

nies compete for assets with each other, both within China and overseas, as well as with international oil companies, and are partially listed on stock exchanges and therefore to an extent required to be responsive to shareholders. The major Chinese state-owned enterprises are explicitly under pressure from SASAC to be globally competitive corporations, as measured, for example, by achieving listing as a Global Fortune 500 company, and improving corporate governance.²⁶ By July 2008, eight Chinese extractive industry SOEs had made it into the Global Fortune 500 listing—the highest ranked being Sinopec at 15th, and the lowest, China Metallurgical Group (MCC), at 480.²⁷

Upstream oil

The upstream exploration and production oil industry is dominated by three large companies—Sinopec, CNPC and CNOOC—comparable in scale to the western “super majors” such as ExxonMobil and Chevron. All three developed out of the former Ministry of Petroleum,²⁸ have complex corporate structures, some listings on international stock exchanges, and a majority of shares held by the government. In 2006, these were the three largest Chinese outward investors in any sector, as measured by outward foreign direct investment (FDI) stock.²⁹ Although internationally the spotlight has been on the overseas activities of Chinese oil companies, it is important to note that all three companies still produce most of their output within China. In 2002, another SOE, Sinochem, previously a trading company, diversified into upstream oil and gas operations.

China National Petroleum Corporation (CNPC) was established in 1988. It has since become an integrated international energy company with many different businesses covering oil and gas upstream and downstream operations, oil-field services, engineering and construction, petroleum material and equipment manufacturing and supply, capital management, finance and insurance services, and new energy operations. CNPC accounts for almost 60% of China’s domestic production of oil, and 80% of gas output. CNPC also owns oil assets and interests in twenty-seven countries, and provides oilfield, engineering and construction services in forty-nine countries worldwide. In 1999, CNPC established a subsidiary company, PetroChina, which is now listed on the New York, Hong Kong and Shanghai stock exchanges.³⁰

China Petroleum and Chemical Corporation (Sinopec) was incorporated in 2000. It is an integrated energy and chemical company involved in the exploration, production and trading of petroleum and natural gas; refining and sales

of petroleum products, and the production and sales of chemical products through a number of affiliated companies. Sinopec is the largest oil refiner and chemicals producer in China, and the second-ranked domestic producer of crude oil and gas. Sinopec was listed on the New York, Hong Kong and London stock exchanges in 2000, and on the Shanghai exchange in 2001. Sinopec currently has fewer international operations than CNPC, and most of those are conducted as joint ventures with overseas partners.

China National Offshore Oil Corporation (CNOOC) was established in 1982. It is the largest offshore oil and gas producer in China, operates the first liquefied natural gas (LNG) project in China, and has expanded through subsidiary companies into midstream and downstream businesses, as well as hydrocarbon-related activities including fertilizer production, power generation, engineering, financial services and logistics. CNOOC has a large number of partnerships with international oil companies in relation to its offshore China operations, and has made a range of investments in upstream oil and gas projects overseas since it listed on the Hong Kong and New York stock exchanges in 2001. In 2005, CNOOC made an unsuccessful bid to acquire Unocal.

Sinochem is the successor of China Import Company, and was established in 1950 as the first state-owned import and export enterprise specializing in foreign trade. In the 1970s it was responsible for the export of crude oil produced in China, and its trading operations diversified to straddle agriculture, real estate, finance, chemicals and energy. Since 2002 Sinochem has diversified further into upstream oil and gas production both in China and overseas. It listed on the Shanghai stock exchange in 2002, and a subsidiary listed in Hong Kong in 2005.

Mining

Globally, the mining sector is less concentrated than the oil industry. None of the largest mining houses match the size (by revenue) of the largest international oil companies, and most focus on a few metals or minerals. This diversity is strongly mirrored in the Chinese mining industry which comprises a very large number of companies operating at varying scales, and under a variety of ownership structures. Diversity in the scale of operations in the mining industry is illustrated in a September 2006 report showing that within the Chinese domestic iron-ore industry, “271 state-owned enterprises accounted for 65% of production, while 1,507 collectives produced 14% and the remaining 21% is owned by over 2,000 privately held entities.”³¹ However, consolidation is underway, for example, Chinalco

Table 4: The largest Chinese and Western oil companies: key comparators

Company	Fortune 500 rank	Oil/gas Production Mn.bpd	Profits \$bn.
ExxonMobil	2	4.2	41
Chevron	6	2.6	19
Conoco Phillips	10	1.9	12
Sinopec	16	0.7	4
CNPC	25	3.7	15
Marathon Oil	108	0.3*	4
Sinochem	257	0.02	0.6
CNOOC	409	0.8	4

Sources: Production company web sites; “Fortune Global 500, 2008,” published July 2008.
 See http://money.cnn.com/magazines/fortune/global500/2008/full_list/.

*January-June 2007

bought up three domestic competitors in 2007, and further mergers are expected across the mining sector.³²

Unlike upstream oil and gas, not all the state-owned mining enterprises are controlled by SASAC. Some provincial authorities and banks own mining companies. For example, the People’s Government of Gansu Province, and China Development Bank are the major shareholders in Jinchuan Group, China’s leading nickel producer.³³ Several of the larger Chinese state-owned mining companies are subsidiaries of corporations whose core business has been engineering, construction, or metals trading. Most of the mining companies sell technical services as well as operate their own mining projects. There are also some complex joint ventures such as the China Non-ferrous Metals International Mining Corporation Ltd. (CNMIN) which has China Non-ferrous Metals Mining Corporation (CNMC) as a main shareholder, as well as nine other metals companies, and a number of

research and survey organizations.³⁴ To add to the complexity, the privately-owned mining sector includes large corporations and smaller companies that have operations overseas as well as within China.

Table 5 compares basic data on the four Chinese companies listed in the Fortune 500 with that for the four largest non-Chinese mining and metals companies. This shows the Chinese companies to be concentrated in the lower half of the ranking, which is based on revenues. A much larger set of Chinese mining companies than the four companies in the Fortune 500 list is active abroad. The principal mining and metals companies that had some prospecting or production operations overseas in December 2008 are profiled in Table 6.

Table 5: The largest Chinese and western mining companies: key comparators

Company	Fortune 500 rank	Revenues \$bn.	Profits \$bn.	Home country
Arcelor Mittal	39	105	10	Luxembourg
BHP Billiton	183	39	13	Australia
CVRD (Vale)	235	32	12	Brazil
Baosteel	259	30	3	China
Rio Tinto	263	30	7	U.K.
China Minmetals	412	21	0.5	China
Chinalco	476	18	1	China
China Metallurgical Group (MCC)	480	18	0.4	China

Source: Fortune Global 500, July 2008

Table 6: Profile of Chinese mining companies with overseas operations

Company	Focus	Type	Listings outside China
Aluminum Corporation of China (Chinalco)	Mainly bauxite and aluminum	SOE	Hong Kong, New York
Baosteel Group Corporation	Iron and steel	SOE	None
Nanchuan/Bosai	Bauxite	Private	None
China Machinery and Electrical Equipment Export and Import Company (CMEC)	Engineering, construction, power stations, energy, mining	SOE	
China Metallurgical Group Corporation (MCC)	Engineering, construction; mining	SOE	Hong Kong (P)
China Minmetals Corporation	Metals mining and trading	SOE	Hong Kong
China National Geological and Mining Corp. (CGM)	Metals production and trading	SOE	None
China Non-Ferrous Metals Mining Group (CNMC)	Engineering, construction, mining	SOE	None
Jinchuan	Nickel and platinum	SOE	None
Luanhe Industrial Group	Steel and mining	Private	None
Shenhua Group Corporation	Coal and power generation	SOE	Hong Kong
Shougang Group	Iron and Steel	SOE	Hong Kong
Sinosteel	Steel and mining		Hong Kong (P)
Tonghua iron and Steel	Iron and Steel	SOE	None
Wuhan Iron and Steel	Iron and steel	SOE	None
Yankuang	Coal	SOE	Hong Kong, New York

(P) Planned listing

Sources: Company web sites, industry newsletters.

GOING GLOBAL – “ZOU-CHU-QU”

Government policy

China’s oil and mining companies produce most of their output within China. In this respect they differ from the leading U.S. or Europe-based extractive industry companies that generate the bulk of their output internationally. In relation to their operations within China, the SOEs—especially the oil companies—have had international links through joint ventures with Western companies since the “Opening Up” of 1979.

In the mid-1990s, Chinese extractive industry companies started to look overseas for new resources. Three inter-linked drivers were behind this change. First, as state-owned corporations, the enterprises have responsibilities for ensuring supplies of oil, metals and minerals to the Chinese economy. In the case of oil, domestic consumption started to outstrip domestic production in 1993, requiring that the oil companies source additional resources overseas. CNPC made its first overseas investments in 1993; CNOOC in 1994. Second, government policies, enunciated initially in the 15th Congress of the Communist Party of China (1997) and subsequently in the 10th Five Year Plan for Economic and Social Development (2001–2005), prodded state-owned companies to become more competitive internationally and to invest overseas as well as domestically. Jiang Zemin’s report to the 15th Congress signaled the intention to “establish highly competitive large enterprise groups with trans-regional, inter-trade, cross ownership and transnational operations,” and to “...encourage Chinese investors to invest abroad in areas that can bring China’s competitive advantage into play so as to make better use of both Chinese and foreign markets and resources.”³⁵ The 10th 5-Year Plan established economic development as the central goal, and defined the shortage of petroleum resources as one of the country’s problems. Premier Zhu Rongji, outlining the plan, noted that “...we need to take all possible measures to conserve oil, accelerate exploration and exploitation of oil and natural gas resources, and make effective use of overseas resources.”³⁶ The third driver was China’s accession in 2001 to the World Trade Organization, which facilitated overseas investments.

Implementation of the “Going Global” policy has sped up since 2000. It has been supported by government through the removal or simplification of restrictions on capital outflows, and by positive incentives for outward investment. Under the 2006 Outward Investment Sector Direction Policy “obtaining resources or raw materials that are lacking within China and which the development of the

economy urgently requires...” is one of several categories of overseas investment projects that is actively encouraged by the state, and for which companies making investments have access to incentives.³⁷ Outward investment in the extractives sectors requires (in common with all other sectors) approval from the State Administration of Foreign Exchange (SAFE), and, for investments over \$30 mn., from the National Reform and Development Commission (NRDC). NRDC reviews proposals “to determine whether the projects comply with the laws and regulations of the state and the industrial policies; whether the projects contribute to sustainable development of the economy and society; whether the projects follow the administrative prescriptions of national capital projects and foreign loans; and whether the investors possess adequate capacity to carry out the projects.”³⁸ Forms of outward investment available directly to extractives companies include access to concessional finance from state-owned banks, export credit insurance, and various exemptions from corporate tax obligations. In addition, some of the government’s bilateral aid programs are linked to acquisition of natural resources assets by Chinese enterprises, and enterprises receive “soft” support from China’s diplomatic missions abroad. (See Part Four.)

“Going Global” trends – oil, gas and mining

China’s outward investment surged since 2000, such that investment in 2006 was nineteen times greater than that of 2000. This has given rise to much discussion internationally, especially of investment in resource exploitation in Africa, with discussion of a “new scramble for Africa.” In fact, there are three dominant trends that challenge this stereotype.

The first trend is that, though natural resource investments are important, they have not been the dominant type of outward investment from China. Good data on Chinese outward investment flows are available from 2003. Over this period, investment in oil, gas and mining has been very substantial, but has been less than that in the tertiary sector (lease and business services, wholesale and retail, transport and storage). Data published by OECD, based on MOFCOM (Ministry of Commerce of the People’s Republic of China) statistics, shows outward investment in mining, quarrying and petroleum over the four years, 2003–2006, totaling just over \$13bn. compared to almost \$20bn. in the tertiary sector. However, in 2006, oil and mining outward investment was, at \$8.5bn., five times greater than in 2005.³⁹

The second trend is that, in terms of destination, Chinese outward investment in oil and mining is truly global. As discussed in greater detail below, Chinese in-

vestors can be found in almost every location that has proven or suspected oil or mineral resources, including OECD countries, the Middle East, Central Asia, Latin America, and Africa. As is the pattern for all resource companies, investments are made in places where the resources are, and where there are governments willing to sell concessions or concession-holders willing to sell a share. Moreover, in relation to Africa, a recent OECD report concluded that “While natural resources-seeking is clearly a primary motivation for Chinese investors, China’s outward foreign direct investment in Africa has not been particularly skewed towards the natural resources sector in international comparison.”⁴⁰ Chinese corporations are able to make this global spread of investment because the Chinese government imposes no sanctions on investment. Chinese companies are free to invest in countries like Sudan, Iran, and Cuba that are prohibited to United States-based companies. This lack of restrictions on investment locations is tempered, however, particularly in the oil sector, by being a late-comer to an international scene in which the known, large fields are already owned by others.

A third important trend of Chinese outward investment in the oil and mining sectors is its diversity in form. It includes both the acquisition of specific resource concessions or shares in resources concessions (projects), and acquisition of overseas companies (or shareholdings in companies) that hold a range of assets. Despite the failure of CNOOC’s bid for Unocal in 2005, there have subsequently been successful acquisitions of resource companies as well as significant investments in international mining houses.

In early 2009, a new form of overseas investment has been put forward by China, triggered by the credit crunch. This “finance for assured supply” model involves long-term loans from Chinese banks to overseas oil and gas companies to support them as they develop new resources and pipelines, etc. In parallel with this financial assistance, the foreign company makes a long-term contract with a Chinese state oil company to supply a guaranteed annual volume of product at prevailing market prices. Deals of this structure have been agreed with Russia’s Transneft and Rosneft, and another is in negotiation with Brazil’s Petrobras. Under the agreed Russia deal, China Development Bank will lend \$25bn. over 25 years to Rosneft and Transneft, who in turn guarantee the supply of 15mn. tons of crude oil annually to CNPC at market prices. All parties share responsibility for constructing the necessary export pipelines.⁴¹

Distinguishing outward investment and commodity imports

Purchases of oil, and the purchase of oil exploration and concession rights, are distinct ways of securing oil supplies. Since 1993 China has been a net importer of oil and since 2004, it is the third largest importer globally after the United States and Japan. Oil imported into China does come in part from equity shares in oilfields operated by other companies. However, ownership of oilfield concessions is not required to import oil—as illustrated by the majority of countries that have neither oilfields nor oil companies. Saudi Arabia is the largest source of China’s imported supplies, but Chinese companies operate no oilfields there.⁴² Angola is currently the second largest source of Chinese imports, but only one of the oil blocks in production has any Chinese ownership.⁴³ Further, not all oil produced by Chinese companies overseas flows to China. In an analysis published at the end of 2006, Erica Downs argues that “while some equity barrels flow to China, others are sold on the international market. The cases of Sudan and Kazakhstan—the two largest sources of foreign oil production for Chinese NOCs (national oil companies)—indicate that crude quality and transportation options help determine where the NOCs sell their equity oil. Equity barrels from CNPC’s operations in Sudan have probably flowed to China in recent years in large part because the Nile Blend crude...is easy for Chinese refineries to handle...in contrast, most of the equity barrels produced by CNPC in Kazakhstan in recent years appear to have been sold on world markets because of the difficulty of transporting them to China.”⁴⁴

An overseas welcome?

With exportable quantities of oil or mineral resources, countries, especially developing countries, are able to punch above their weight internationally. As the sellers of concessions for resource extraction, governments multiply their bargaining power and geo-political weight by having U.S., European and Chinese companies involved, as is the case, for example, in Angola, Kazakhstan, Gabon, and Peru. Furthermore, having Chinese investors can serve to offset political attacks on “seller” governments for being “pro-American.” According to one analyst, “Foreign leaders now sometimes sell resources to China because dealing with Beijing is less politically dangerous than selling to Western firms. If they sell resources to American companies, leaders find themselves vulnerable to accusations by political opponents of being too pro-American” and find Beijing a counterweight to American power.⁴⁵

The entry of Chinese companies onto the global market appears to have been generally welcomed within resource-rich developing countries, though regarded with greater ambiguity in Australia and Canada. However, the China brand will be jeopardized, and this initial welcome for the large state-owned companies is likely to evaporate quickly where any Chinese investors (SOEs, government or private companies) halt projects that are not commercially viable. For example, although the fall in commodity prices has not yet led the major state-owned oil and mining companies to slow down projects overseas, the private and government sectors are acting differently. For example, the many private Chinese mining and metals companies that started businesses in the Katanga province of the Democratic Republic of the Congo pulled out overnight in early 2009, leaving wages unpaid and prompting the province's governor to declare that they would not be welcomed back. "Not as long as I am governor. Katanga is not a jungle. They worked as if it was a jungle."⁴⁶ And March 2009 brought reports of Chinese withdrawal from plans for large-scale, government-financed infrastructure projects in the country, where the Chinese ambassador is reported as saying, "The political situation is not very stable...The international markets are not favorable."⁴⁷

Impacts of recession

It is too early to be sure about what impact the downturn in demand for oil and minerals and the global recession will have on the overseas activities of Chinese companies—whether they will pull back or take the opportunity to acquire additional assets at fire sale prices. There is active debate about whether or not to use the recession to upgrade overseas portfolios, buying into higher quality assets more in developed than developing countries (an approach known in China as the "Hunters Policy"). Key issues include the extent to which such a shift is feasible—given the failed attempt to acquire Unocal, and the circumstances in which it is desirable—given the problems that some acquisitions (especially outside the natural resources sector) have had.⁴⁸ As of February 2009, the signs are that Chinese resource companies will use the recession as an opportunity to hunt. CNPC has announced that consideration is been given to setting up a fund to buy overseas assets. In the mining sector, offers have been tabled to inject capital into Rio Tinto, and to buy Australia-based Oz Minerals, and to provide concessional finance to Russia in return for a long-term oil purchase agreement.

OIL

History

The Chinese oil companies have a history since the 1970s of engagement with western oil companies through those companies' investments in exploration and production in, and off-shore, China. Outward investment by Chinese oil companies started in 1993 when the CNPC signed a service contract for Block 7 in the Talara Oilfield in Peru. CNOOC's overseas operations began in 1994 with the acquisition of a stake in the Malacca Strait oil block in Indonesia. Sinopec's first international foray began when it won a contract in Algeria in 2002. Sinochem launched its international operations by establishing Sinochem Petroleum Exploration and Production Co. Ltd. in 2002, and acquiring two foreign-owned companies with upstream assets in 2003. Overseas expansion has accelerated since 2003.

Locations

The array of the international exploration and production operations assets of these companies is, as for all other international oil companies, in flux due to the frequent buying and selling of assets. (The pace of change in the sector is illustrated by an unrelated series of events in December 2008. That month, CNPC signed a framework agreement for oil exploration with Cuba,⁴⁹ PDVSA of Venezuela announced that nineteen international companies, including both CNPC and Sinopec, had paid the \$2mn. fee to become potential bidders on an upcoming bid round for seven heavy crude blocks in the Orinoco belt (for which the Venezuelan Petroleum Ministry expects to sign contracts with winning firms in June 2009),⁵⁰ and Sinopec acquired Toronto-listed Tanganika Oil, which has assets in Syria.⁵¹

Based on information published on corporate web sites as of December 2008, each of the companies has activities in Africa, Asia, and the Americas; none has operations in the United States though all three companies are active in Canada. A comparison of the distribution of the assets of Chinese companies with those of the three largest U.S. oil companies (ExxonMobil, Chevron and Conoco) shows that apart from the sanctioned states (Sudan, Myanmar and Iran), only the Chinese companies have assets in Iraq or Syria, and in the Former Soviet Union (FSU) states of Uzbekistan and Turkmenistan. Neither the Chinese nor the American companies have production operations in Saudi Arabia—the world's largest source of oil, although Chinese (as well as European companies) are involved in explora-

**Table 7: Distribution of Exploration and Production Assets:
Number of Countries (December 2008)**

Company	Africa	Americas	Asia Pacific	Europe	FSU	Middle East	Total
CNPC	10	4	4	-	5	4	27
CNOOC	3	1	5	-	-	-	9
Sinopec	2	2	1	-	1	1	7
Sinochem	1	1	1	-	-	2	5

Sources: Company web sites and U.S. Energy Information Administration (www.eia.doe.gov)

tion for gas in Saudi Arabia.⁵² CNPC has the widest array of international assets of the three Chinese international oil companies, as shown in Table 7.

Most oil concessions internationally are held by a consortium of companies, each with a defined shareholding. This arrangement has two important corollaries. One is that it generates on-going, high-level, business relationships across functions between employees of the shareholder companies, for example, Chinese companies with their Western oil industry partners. The other is that within consortia, one of the shareholders is designated as the operator, the rest being non-operator shareholders. Where a company is the operator, it has scope to determine how the activity is conducted, including with respect to aspects such as environmental management, community relations, local hiring and procurement. Operator companies are also the principal interlocutor with governments with respect to the project. Non-operator shareholders generally do not become involved in the non-commercial aspects of the operation, although they do concern themselves with overall costs and productivity. Some blocks are operated not as consortia but as joint ventures (JV). In these, the shareholder companies typically nominate individuals into the JV which operates at arm's length from the shareholder companies. An example is the Joint Venture operation of Oman's Block 5 in which CNPC is a participant.

Roles

In their overseas investments, CNPC, Sinopec, CNOOC and Sinochem are involved variously as operator, non-operator shareholder, and joint venture partner. There are some differences in the partners that each of the companies has. In particular, CNPC's overseas exploration and production relationships are primarily with host-country state oil companies, with CNPC the operator of the project. In contrast, Sinopec, CNOOC and Sinochem have links through their overseas operations with western oil companies as well. For example, Sinopec collaborates with Total in Yemen and Canada—with Sinopec operators in Yemen and Total in Canada; CNOOC is a non-operator shareholder in the BP-operated Tangguh liquefied natural gas project and oil and gas fields off-shore West Java; BHP Billiton-operated assets in Australia; and Total-operated assets in Nigeria. Sinochem is partnered with Sweden's Lundin in its Tunisian operations and with Repsol in Ecuador. In terms of operatorships, analysis of the (incomplete) data available indicates that CNPC is the operator in substantially more countries than the other companies.

Chinese state oil companies have been active in acquiring entire companies, and stakes in smaller (and non-U.S.) companies with overseas oil and gas assets. The

Table 8: Countries where Chinese companies are operators of one or more concessions

Company	Countries
CNPC	Algeria, Azerbaijan, Chad, Ecuador, Equatorial Guinea, Indonesia, Iraq, Kazakhstan, Mauritania, Niger, Nigeria, Peru, Sudan, Syria, Thailand, Turkmenistan, Venezuela
CNOOC	Equatorial Guinea, Indonesia, Kenya, Myanmar, Philippines
Sinopec	Australia, Saudi Arabia, Ecuador
Sinochem	UAE

Sources: Company web sites and U.S. Energy Information Administration

largest deals to date are CNPC's 2005 acquisition of PetroKazakhstan and Sinopec's 2006 acquisition of Udmurtneft (Russia). Smaller deals (less than \$1bn.) include Sinopec's purchase (in a 50:50 deal with India's ONGC Videsh) of Omimex de Colombia; CNPC's purchase of shares in Rosneft; the CNPC and Sinopec takeover of Canadian company EnCana's oil and pipeline interests in Ecuador; CNOOC's purchase of a minority shareholding in unlisted Canadian oil sands operator MEF Energy Corporation, and Sinochem's acquisition of Atlantis Holdings Norway AS and CRS Resources (Ecuador).⁵³

There is also some cross-holding of shares between the Chinese and western oil companies. Thus, several of the oil super majors including ExxonMobil and BP acquired shares in Chinese oil companies at their initial listing, though these holdings have since been sold.

Integration into international supply chains

Oil exploration, and the development and operation of oilfields, involves a wide range of activities, many of which are typically contracted to specialist businesses. There is a two-way flow of business between overseas companies supplying Chinese oil companies, including for their operations outside China, and Chinese companies providing services to western oil companies. For example, CNOOC affiliate China Oilfield Services Ltd. provides services to Norway's oil industry; CNPC offshoot, BGP, has just won a seismic survey contract for Shell in Libya; in January 2009, California-based AMD won a tender to supply advanced chips to BGP;⁵⁴ and OECD-based finance and legal firms advise on overseas acquisitions.⁵⁵

MINING

Overview

Chinese mining companies made their first forays overseas in the 1990s, but outward investment accelerated from 2001. Investment takes a variety of forms, often combined. Investments are being made in specific mining leases, in major processing facilities such as smelters, in joint ventures with local companies, and in acquisition of some or all the shares in overseas mining companies with a range of assets. For example, CNMC has a joint venture with Ord River Resources, Inc. to explore for bauxite in southern Laos. As an example of a combined approach, a partnership between Australian Albidon and Jinchuan commits the Chinese company to buy all the output from Albidon's Munali Hills mine in Zambia and to

invest in the project; both companies to jointly look for other projects in Africa, and gives Jinchuan an 18% stake in the company and the right to nominate one director to the board.⁵⁶ Companies also make pre-investment framework agreements with governments, such as that concluded in 2008 between Wuhan Iron and Steel and the government of Madagascar.⁵⁷ Chinese companies also form joint ventures to develop overseas resources—such as the Henan International Mining Co. Ltd. formed by four state-owned enterprises from Henan Province, and currently waiting for a mining license for its first overseas project in the Republic of Guinea.⁵⁸ Both state-owned and private mining companies are involved in overseas enterprises. This is reflected in the membership of the Canadian chapter of the China Mining Association⁵⁹ (CMA) that includes both type of companies, and provides investment support services to all.

Chinese mining companies are investing in mining projects worldwide, the locations governed by access to concessions from governments or opportunities to buy into mines or mining houses. As in the oil industry, Chinese investments are in locations ranging from OECD countries, notably Australia, to states such as Burma, North Korea and Zimbabwe. Based on information available in December 2008, the main overseas operations of the principal Chinese mining companies (state-owned and private) are as shown in Table 9.

The Chinese mining industry is suffering setbacks on the path to globalization similar to that of the oil industry. In 2004 a bid by China Minmetals for Canada's then-largest mining company, Noranda, was rejected. As reported by the *International Herald Tribune*, "The notion that one of the country's leading corporations, let alone one in the critical resource sector, could come under indirect control by the Chinese government was loudly protested, and the talks bogged down."⁶¹ In February 2008, Chinalco purchased a 12% stake in Rio Tinto, the world's third-largest mining company, in what was then the largest overseas investment ever made by a Chinese enterprise (\$14.1bn.); early in 2009, Chinalco made an offer to inject a further \$20bn. into the "ailing giant."⁶² This deal, rejected in June 2009 after an initial welcome, would have given Chinalco its first stake (as a non-operator partner) in a U.S.-based mine, Kennecott Utah Copper, (as well as shares in some of the world's largest mines in Chile, Australia, etc.).⁶³ However, as with the oil sector, Chinese companies have succeeded in acquiring a number of smaller mining companies. Several of these involve OECD-based companies. Smaller scale deals include Sinosteel's 2008 acquisition of the iron ore miner, Australian Midwest Corporation (\$1.3bn.); Chinalco's 2007 purchase of Canada-

Table 9: Overseas mining operations in key regions

Company	Africa	Americas/ Caribbean	Asia Pacific	FSU	Middle East
Baosteel		Brazil	Australia Cambodia		
Bosai		Guyana			
CGM	Ivory Coast Eritrea DR Congo		Thailand		
China Minmetals		Chile Jamaica	North Korea		
Chinalco	Guinea	Peru Brazil Jamaica	Australia Vietnam Burma Indonesia India Malaysia Mongolia	Russia	Saudi Arabia
CMEC	Gabon				
CNMC	Zambia		Vietnam Myanmar Laos North Korea Iran Mongolia		
Jinchuan	Zambia Kenya		Australia		
Luanhe	South Africa		North Korea*		
MCC		Argentina	Pakistan Afghanistan Papua New Guinea Australia		
Shenhua Group			Australia Indonesia Mongolia		
Shougang Group		Peru	Australia Philippines Cambodia Mongolia		
Sinosteel	South Africa Zimbabwe Gabon		Australia Indonesia		
Tonghue Iron and Steel			North Korea*		
Wuhan Iron and Steel			Australia Cambodia		
Yanzhou Coal			Australia		

Sources: Company web sites and industry news releases except where mentioned.

*There is some uncertainty about the status of concessions in North Korea, with some reports suggesting they have been canceled.⁶⁰

based Peru Copper (\$0.8bn.); Zijin's \$55mn. purchase of the Commonwealth and British Mineral Ltd. subsidiary of London-listed Avocet Mining PLC. Not all proposed acquisitions go through, e.g. private mining company ZhongChuan's acquisition of a large shareholding in Canada's Spur Holdings, or Sinosteel's of Canadian-based uranium junior, Ditem, cancelled by Sinosteel in November 2008 "because of the current financial crisis."⁶⁴ As is characteristic of the industry, not all shareholdings are retained. In 2004 Minmetals purchased a majority shareholding in U.S.-based Sheridan Alumina, but sold it to Swiss-based Glencore Holdings in 2007.

PART TWO

RESOURCE WEALTH GOVERNANCE IN THE EXTRACTIVES SECTOR – BEFORE THE “NEW KIDS” ARRIVED

OVERVIEW

United States and Europe-based oil, gas and mining companies have faced a fast changing operational environment since the 1980s, which requires them to pay much greater attention to the environmental and social impacts of their operations. The change came first with respect to environmental impacts. A growth in public and political interest in environmental protection (fueled by accidents such as Bhopal⁶⁵ and the Exxon Valdez⁶⁶), and articulated by strong international non-governmental organizations led to the creation of stronger environmental agencies, a flood of new legislation, and exposure to financial liability for environmental damage created in the past under more lax regulatory regimes. Corporations with international operations across industry sectors have responded to these changes by professionalizing their environmental management and by voluntarily developing policies, standards and management systems that apply consistent standards worldwide. The ISO 14001 Environmental Management Systems standard was launched in 1996, and upgraded in 2004, as a certifiable standard.⁶⁷ It is used throughout industry internationally as a system to improve environmental performance, and to specify environmental requirements across supply chains.

There was a growing focus in the 1990s on the social impacts of corporations, especially in the oil and mining sectors.⁶⁸ After the end of the Cold War and of apartheid in South Africa, OECD-based oil and mining companies started investing more internationally, in a market-driven precursor of China’s “Going Global” policy a decade later. As discussed below, this internationalization presented companies with a range of new risks and challenges. As a response to problems, and initially in a patchy way dependent on the specific prior experiences of individual project managers, the major international oil and mining companies began applying new approaches to the management of investments in developing countries. Widely referred to under the umbrella term of “corporate social responsibility”

(CSR), the “voluntary standards” approach to environmental management was adapted to address social issues. Companies have started to pay greater attention to the social impacts of projects; to recruit sociologists, anthropologists and staff with backgrounds in humanitarian and other non-governmental organizations; to sponsor community development projects, and to recognize that stakeholders beyond shareholders and the governments of the host countries have the power to influence the success of projects. Further, in the face of NGO pressure over “conflict diamonds;” extensive poverty, and poor governance in many resource-rich countries, corporations have been considering what their responsibilities are with respect to the wider impacts of their projects on host countries, including issues associated with human rights and revenue management. Two important multi-stakeholder voluntary initiatives, the Voluntary Principles on Security and Human Rights (VPSHR)⁶⁹ and the Extractive Industries Transparency Initiative (EITI)⁷⁰ were launched in 2000 and 2002 respectively to address some of these concerns by setting standards for security management and disclosure of payments to governments by companies. More recently, companies, NGOs and governments have been involved in a process launched in 2005 by the Special Representative of the U.N. Secretary-General on Business and Human Rights. The mandate of the Special Representative is “to elaborate further on the scope and content of the corporate responsibility to respect all human rights and to provide concrete guidance to business and other stakeholders.”⁷¹

Almost as soon as the new “do no harm” approaches started to gain a firm foothold with the large western companies that dominated the international oil and mining industries, the structure of the extractive industries worldwide began to change. Whereas international business had been dominated by a small number of very large OECD-based companies, rising prices between 2003 and late 2008 brought more and more companies into the exploration and production business for oil and minerals. New entrants included a large number of small oil exploration and mining companies, and state oil companies, for example, from Malaysia, India, and Brazil. In particular, and as discussed in Part One, the new entrants included large Chinese oil and mining companies. These changes in the global structure of the industry potentially undermine the emerging consensus on corporate responsibilities for, and contributions to, resource-wealth governance. The role of Chinese companies, because of the scale of their global expansion, is particularly important.

These voluntary standards do provide a framework for risk reduction, and for limiting the potential negative impacts of oil and mining. However there are two important limitations to their effectiveness in addressing the structural problems associated with resource extraction in developing countries.

One problem is the limited extent to which standards are applied consistently by governments and by extractive industry companies. Evidence is beginning to emerge that suggests that partial implementation brings little long-term benefit to investors or citizens.⁷² Often, the governments of resource-rich countries focus only on securing investment and on the revenues they will receive; they pay little or no attention in contracts or supervision to how projects are being executed and are reluctant to sign up to voluntary standards on revenue transparency. While the major OECD-based oil and mining companies generally do seek to apply high standards to the way in which they execute projects, and to comply with these voluntary standards, doing so effectively requires a high level of expertise and the willingness to take the time and incur the associated costs. For example, if people are moved away from their homes or farmland in order to develop mines or oil facilities, companies must ensure that they are fully compensated in a way that allows them to maintain or improve their standard of living. This expertise is being built up, but is in short supply during boom periods when many projects are being developed. Moreover, few of the smaller companies that played a large role in the expansion of oil and mining over the past decade have been either aware of the need for, or are capable of implementing, the voluntary standards framework.

The second limitation to the effectiveness of the framework is that it does not yet include a comprehensive framework for using resource extraction as a basis for national or local social and economic development. Absent is a focus on the end-stage, the point thirty or forty years into the future when oil or minerals reserves are depleted. The impact assessment process that underpins environmental and social management under this new model focuses on avoiding predictable problems; it does not include a development planning component that considers where the people and the place will be at the end of the project lifetime, or the steps needed to achieve the desired long-term development outcomes.

In this context, where there is a fragile consensus on how to reduce the risks of resource curse, and as yet limited focus on getting beyond risk reduction, the role of China becomes very important. The extent to which Chinese companies and policymakers recognize or reject the existing framework as meeting their interests

and the extent to which China contributes to strengthening the framework, or avoids issues of revenue management, will have a significant impact on the degree to which the new framework for resource extraction maintains relevance.

This rest of this section outlines in greater detail why and how Western companies got involved in CSR and revenue transparency initiatives in response to the pressures they faced with internationalization. Part Four below addresses the questions of whether Chinese companies are facing similar or different pressures, and how they are responding.

DRIVERS FOR CSR

The major Western extractive industry companies are adopting CSR approaches for clear business reasons. Four interrelated factors have been particularly important: home country legal requirements with extra-territorial reach; the requirements of bankers and insurers; the need to manage operational risks, and efforts to protect corporate reputation and brand value.

In terms of legislative requirements, the 1977 U.S. Foreign Corrupt Practices Act (FCPA)⁷³ and the matching 1988 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions⁷⁴ force corporations to consider the legal risks of engaging in corrupt behavior even in countries where this is common practice. Both the FCPA and the OECD Convention make it unlawful to bribe foreign government officials to obtain or retain business. These instruments have increasingly sharp teeth and reach. In December 2008, German-based Siemens Corporation reached a \$1.6bn. settlement with the United States' authorities on top of earlier fines levied in Germany.⁷⁵ In February 2009 a settlement was made with KBR and Halliburton in relation to bribery in Nigeria related to contracts to build a liquefied natural gas plant.⁷⁶ The OECD Convention has been ratified by all thirty OECD members and by seven non-OECD countries, including resource-rich Brazil, Chile, and South Africa. The extractive industries present multiple opportunities for corrupt relationships with foreign government officials because the basis on which companies conduct exploration and production is through concession contracts with governments, and because of the high value of contracts to construct and supply operations. The FCPA and the OECD Convention legislation require companies to have internal control systems to avoid corrupt relationships across all their corporate activities, and to institute specific anti-bribery prohibitions.

A second law that influences how extractive industry corporations conduct their business, particularly in countries that have authoritarian governments and known patterns of human rights abuses, is the 1789 Alien Tort Claims Act (ATCA). This act, originally introduced to combat piracy and protect diplomats, was resurrected in the 1980s as a mechanism to seek redress under United States civil law for alleged human rights abuses anywhere in the world. It has been extended to file suit against corporations for complicity in human rights abuses. ATCA grants federal district courts “original jurisdiction of any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States.”⁷⁷ Since 1980, following the landmark *Filártiga* case,⁷⁸ ATCA has been held to apply to human rights violations by agents of foreign nations occurring outside the United States. It has also been held to apply to violations of certain core principles of human rights considered part of customary international law by corporations⁷⁹ where there is a substantial degree of cooperative action between the state and private actors in effecting the protection of rights.⁸⁰ Cases have been pursued under ATCA against several companies in the extractives sector, as well as against Yahoo with respect to their identification of individual users to the Chinese authorities. Though no cases have been proven, some have been settled out of court and others are proceeding through the U.S. legal system. Because overreaction by public security forces to protests against mining or oil projects is a key route through which corporations may be at risk of ATCA suits, many extractive companies and their financial backers now put considerable effort into controlling how their security forces operate.⁸¹

The second driver leading OECD-based oil and mining companies to pay greater attention to environmental and social impacts is the need to comply with standards imposed by the bankers and insurers that back investment projects. Starting in the late 1990s, the World Bank applied safeguards to its largely public sector projects in developing countries.⁸² This approach has subsequently been adopted by the regional development banks such as the African Development Bank, by the World Bank’s private sector agencies—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—as well as by national development banks, export credit guarantee agencies, and commercial banks that are signatories to the Equator Principles.⁸³ Despite subtle differences between the specific standards set by the various financing institutions, the core requirements are similar, requiring comprehensive impact assessment and monitoring for projects with the potential to have significant environmental or social impacts, even where this is not required by the authorities of the host country.

In terms of operational risks, oil and mining companies are presented with issues in many non-OECD countries that they generally do not experience in resource-rich countries such as the United States, Australia, or Canada. Problems may include, for example, the absence of systems through which populations potentially affected by mining and oilfield projects can consult about whether and how they are developed. The history of resource extraction may have damaged the environment and created few local benefits. They may face opposition by communities expressed in demonstrations, and sometimes sabotage or kidnappings. Sometimes concessions are granted on land irrespective of the claims of existing land users such as artisanal miners, corrupt or barely functioning local governments, and expectations of companies to fill the gaps by building roads, clinics and schools. Sometimes the conflict is sufficiently violent to ultimately prevent companies from carrying out their operations at all.⁸⁴ The extreme example of a risky operating environment is in the Niger Delta, where in 2008 production was down about one quarter because oil wells had to be closed because of unrest and large scale oil theft (bunkering),⁸⁵ but companies have confronted problems on a lesser scale in many other locations in Latin America, Africa and Central Asia.

Protecting corporate reputations from allegations of environmental or human rights damage has been important since the late 1990s when U.S. and European oil and mining companies faced a barrage of criticism from NGOs that appeared also to resonate with the public. Companies were accused, both rightly and wrongly, of causing environmental damage, impoverishment, conflicts, and human rights abuses. Widely reported in the media, this criticism spilled over in some cases into customer boycotts (notably boycotts of Shell gas stations in Europe) and shareholder activism, particularly through the emerging “socially responsible investment” funds. Anecdotal reports circulated around the turn of the century about bright graduates unwilling to work for oil companies on ethical grounds. Concerns about corporate reputation and brand values led companies not only to review what they were doing, but also to build up their philanthropic programs, communicate with their critics, publicize their corporate responsibility initiatives and collaborate to improve their performance and their image. Some NGOs that were highly critical of the extractive industries also became open to collaborate on finding solutions. The initiatives on revenue transparency, and on security and human rights, undertaken with NGOs and governments, developed initially as a response to pressure on oil and mining companies to address the impacts of oil and minerals exploitation on the behavior of governments and government security forces.

RESPONSES

Social and Environmental Performance Standards (SEPs)

A key response of oil and mining investors (companies and their bankers/insurers) to the problems faced on projects in developing countries has been to apply tougher environmental and social standards and to cease relying only on host country laws and institutions to establish the acceptability of their environmental and social performance. In particular, environmental impact assessments that were previously produced merely to satisfy weakly enforced local permitting requirements have evolved to become comprehensive studies, and to serve as project management tools. Assessments now include more extensive analysis of environmental and social impacts. There is more consultation with local experts and the people who will be impacted, which results in Social and Environmental Management Plans (SEMPs) designed to manage impacts through the lifetime of projects. This approach was codified in the 2006 Social and Environmental Performance Standards that are now applied by the World Bank,⁸⁶ the commercial banks that are signatories to the Equator Principles and the OECD-based development banks and export credit guarantee agencies, to all types of private-sector projects that they finance outside the OECD. In most of the non-OECD countries in which oil and mining investments are being made, the standards are more demanding than the requirements of national law. They require consultation with the people who will be impacted by the projects, livelihood restoration projects, compensation to the people who are forced to cede land, and attention to the health, safety and security impacts on neighboring communities. They include detailed technical environmental, health and safety provisions. As new projects are started to which these standards apply, corporate staff, bankers, consultants, and NGOs build up expertise in interpretation, implementation, and monitoring. However, the social and environmental standards can be complex to implement, especially when projects involve substantial land acquisition where alternative locations for farming or housing are scarce. Applying the standards requires the involvement of staff, consultants and advisors with strong social science skills.

VPSHR and EITI

Two important standards initiatives were launched at the turn of the century. Both involve collaboration between some multinational oil and mining companies, non-governmental organizations, and OECD governments, including the United States.

The Voluntary Principles on Security and Human Rights (VPSHR) were launched in December 2000 to establish standards for security for extractive industry projects.⁸⁷ The VPSHR are designed to ensure that safeguarding industrial operations does not jeopardize the security of the local community, as can happen, for example, if ill-trained, poorly equipped and ill-disciplined troops are brought to an area to safeguard an oil field or a mine. Companies seeking to operate consistently with the VPSHR must expand their risk assessment to include appreciation of the impacts of company operations on the security of the host community, require contracted security forces to employ operating procedures that are respectful of human rights, seek to ensure that public security forces deployed to the project adopt similar standards, and screen security providers to exclude people with records of human rights abuse. VPSHR has a secretariat based in the U.K. and the U.S.; the basic principles have been incorporated into the IFC Social and Environmental Performance Standards.⁸⁸

The Extractive Industries Transparency Initiative (EITI), launched in 2002, sets standards for oil and mining companies to publish what they pay to governments as taxes, royalties etc., and for governments to disclose what they receive.⁸⁹ The logic of EITI is that 3.5 billion people live in countries rich in oil, gas and minerals, and that with good governance the exploitation of these resources can generate large revenues to foster growth and reduce poverty. However, as widely recognized,⁹⁰ when governance is weak, oil and mining may result instead in poverty, corruption, and conflict. EITI aims to strengthen governance by promoting access to robust information on revenues, and thus trigger more effective collection and use of revenues in developing, resource-rich countries. EITI has a secretariat in Oslo, Norway, and is supported by a World Bank-administered fund (paid for by contributions from the European Union and several OECD governments) that helps implement the standard in the twenty-four resource-rich developing countries currently involved.⁹¹

Reports

In recognition of the influence of stakeholders other than shareholders and host governments, many companies publish regular reports on their corporate social responsibility activities. Under a number of titles, such as “sustainable development report,” or “corporate citizenship report,” corporations provide information on how they are addressing key issues. Most of the larger companies, such as ExxonMobil, reference one or more of a series of standards⁹² that have been devel-

oped for such reporting, and have the report content independently audited in a way similar to the auditing and certification of financial reports.

Community benefits

In addition to the approaches outlined above, for which there is a move towards the application of standardized approaches, many Western extractive industry companies have taken two further CSR initiatives that have not become formalized to the same extent. First, it has become usual for oil and mining companies to contribute to the communities in the areas where they operate. Approaches range from small ad hoc financial contributions to local institutions such as schools, to establishing quasi-independent foundations. They may include costly, extensive, multi-year development programs delivered by specialist staff or contracted out to non-governmental organizations, or one-off construction of community facilities alongside the mine sites. In a few cases, communities are given equity shares in projects. Some of the more sophisticated programs involve partnerships with other companies, NGOs, donors such as USAID, or multilateral organizations such as the USAID “Partners for Development” program.⁹³ Industry associations and organizations promoting corporate social responsibility provide advice on “good practice” in such social investment.⁹⁴

A second area where many companies have CSR initiatives is in building up the local workforce and supply chain, so that local economies benefit economically from more than just the taxes and revenues paid to the government. In some cases, a defined proportion of local content is required under the terms of concessions; the priority expressed by communities in early consultations about new oil or mining projects is almost always that local residents should secure employment and business opportunities from the project. Corporate training and supply chain measures range from short-term training for local workers for temporary employment on project construction sites, to sustained support for local suppliers through provision of training, and access to credit, bidding and joint venture opportunities. The efforts that investors make to increase local value-added through the supply chain vary among project, company and country. There are no standards or accepted industry good practices for this aspect of corporate responsibility.

Staff and systems

The major OECD-based oil and mining corporations have adapted organizationally in order to systematically address environmental and social risks. Corporations

now have specialist safety, environmental and social teams at the corporate level that provide internal consultancy, policymaking, knowledge transfer and monitoring services to operational units. Corporate policies set out how operating units should address the issues. Decisionmaking frameworks, for example, on major new business opportunities, include consideration of environmental and social risks and opportunities alongside assessment of technical, commercial and legal factors. When new projects start up, environmental, safety, and social specialists are part of the team. Contracts for engineering design and construction specify the environmental and social standards to be met, and the monitoring and reporting to be undertaken.

PART THREE

THE NEW KIDS ON THE BLOCK ARRIVE – CAPITALISM WITH A HEART?

This part explores the extent to which Chinese oil and mining companies are adopting the resource wealth management framework developed over the past decade by the major OECD-based companies, governments and NGOs, and examines the key drivers for the approaches taken by Chinese companies. The focus of the analysis is at the corporate level, at how these issues look from Beijing after several years of rapid expansion of Chinese oil and mining companies into overseas projects in a wide range of countries. (Various studies by other analysts are looking at similar questions from the host country perspective, especially at Chinese oil investments in Africa.)⁹⁵

There is a wide gap between the perceptions of most U.S. or European commentators and Chinese analysts about the impacts of the global expansion of Chinese oil and mining companies on host countries. Western assumptions are—crudely—that Chinese investors operate with little attention to ethics or the environment: they import the labor they need from China; contribute little to the local economy, and prop-up authoritarian or genocidal regimes through payments for resources. The actions of corporations, allied with Chinese bilateral aid policies, undermine efforts to improve resource wealth governance. Chinese perceptions—also crudely—are that their companies are struggling to get access to resources in a context where the companies and countries that are already embedded, see their efforts at best as illegitimate, and at worst, put up barriers to Chinese investment. Chinese companies view themselves as operating within a framework of mutual respect, seeking to comply with the laws and expectations of host countries, bringing development benefits, paying increasing attention to their social responsibilities, learning how to operate internationally, and adapting as they gain experience.

As the following discussion seeks to illustrate, there are some elements of truth in both stereotypes but the picture is more complex. In a book review, *Washington Post* journalist John Pomfret coined the phrase “geeks with guts” to describe his view of China’s approach to development, as driven by engineers (the geeks) and

a risk-taking culture at ease with undertaking huge projects and working out the finer details of execution on the way (the guts).⁹⁶ The analysis presented in this section leads to four high-level conclusions. One is that “geeks with guts” does describe how Chinese corporations have been implementing “going global” to date. Managers started up operations overseas employing the business approaches used in China, and are adapting as they go to make changes in response to local requirements and circumstances. Second, operational problems overseas, ranging from kidnaps to community and labor protests, are less of a priority for these corporations than other aspects of international business, such as overcoming barriers to investment, contract security, and wider aspects of cross cultural management. These factors militate against Chinese oil and mining companies engaging in resource governance issues at the local or national level.

On the other hand, the Chinese government, in response to domestic politics, has started to demand that corporations improve their environmental performance and social contributions and strive to become globally competitive international corporations. Under these pressures, the major extractive industry companies are beginning to adopt more structured and ambitious approaches to understanding and managing their environmental and social impacts, primarily in domestic, but also in new overseas operations. In addition, while Chinese oil and mining companies strongly prefer to use Chinese labor where possible, there is a growing recognition of the necessity to provide local employment. Further, Chinese oil and mining corporations are somewhat open to investing in forward linkage projects, such as refineries, that are important to host countries. Thus, CNPC has developed an integrated upstream and downstream project in Algeria that makes oil products available in southern Algeria, and has announced plans to build refineries in several countries including Chad, Niger, Sudan, Costa Rica, and Syria.

The major Chinese corporations are at a stage comparable to that of their western counterparts in the late 1990s in terms of steps to improve social and environmental performance. The difference is that for western companies the pressure came primarily from NGOs, and for Chinese companies it is from government. Like their western counterparts a decade ago, they are making commitments, spending money on environmental improvements and social projects, and celebrating their successes in published reports and on corporate web sites. However they have not yet developed detailed policies or procedures for impact mitigation so that projects can be evaluated in advance, nor have they undertaken detailed analyses of their impacts or of the complexities of operating in countries

with different cultures, where the support of officials is no guarantee of a “license to operate.” They are supporting philanthropic projects, but in most cases without a clear understanding of how to ensure the acceptability or sustainability of those projects, and have not yet built up the internal expertise to fill these gaps.

Finally, there is virtually no discussion in China of the political economy of resource extraction, including “resource curse” issues, nor is there familiarity with the logic of promoting transparency and how it might benefit corporations by helping to create a more stable environment for investors. This part of the resource wealth governance framework is absent from the current active Chinese debate on corporate responsibility. Any debate on the national-level impacts of Chinese overseas investment appears still to be lodged within an unproductive and confrontational framework about non-interference with sovereign governments, and justification of China’s right to invest abroad in the face of what is seen as generalized western opposition.

This section starts by describing the recent policy changes that now require Chinese companies, including those in the extractives sector, to pay greater attention to environmental impacts and social responsibility. Next, it considers the specific challenges that Chinese oil and mining corporations are experiencing in some of their overseas operations. It then reviews how extractive industry companies are responding to these domestic and international pressures, followed by a discussion of corporate engagement in revenue transparency initiatives.

THE CHANGING DOMESTIC POLICY CONTEXT

Expectations of corporations

Despite the drive to “go global,” the principal focus of Chinese oil and mining companies is on their domestic operations. Developments in Chinese policy, legislation and standards are the key drivers for how these corporations approach environmental, social and political issues. Since 2005 the expectations established in government policy of the environmental and social performance of corporations have been ratcheted up.

Over the past twenty years, Chinese state-owned companies have faced repeated changes in what politicians expect of them in terms of social responsibility. In the Maoist era and pre-reform, SOEs were responsible for housing, medical care, clinics, food, recreation and transport for their workers. State enterprises at one time employed one-third of the nation’s medical staff and 600,000 teachers and

administrators.⁹⁷ As part of the process of radical reform of state enterprises starting in the late 1970s, this “iron rice-bowl” system was dismantled. “Companies were relieved of the obligations to maintain social programs in which they acknowledged social responsibilities relating to the birth, aging, illness and death of staff and their family members.”⁹⁸ Companies were exhorted to focus on becoming profit-making enterprises. This decade, Chinese companies, state-owned and private, have started to experience new pressures from the government—first to upgrade corporate governance, and only then to improve their environmental and social performance.

Whereas once corporations were expected to focus on growth and profit maximization only, now they are required also to take account of people and the environment. These expectations have evolved in stages, emerging through speeches at the five-yearly Party Congresses, and in the Five Year Plans that set the agenda for state-controlled organizations. At the 15th Congress (1997), President Jiang Zemin defined economic development as “...the central task of the entire Party and the whole country” requiring that “...all other work is subordinated to and services this task...Development is the absolute principle.” The focus was on SOEs seeking growth, and being restructured into “highly competitive large enterprise groups with trans-regional, inter-trade, cross-ownership and trans-national operations.”⁹⁹ Five years later, corporate governance and environmental issues surfaced as matters that SOEs needed to take account of. In his 2002 report at the 16th Party Congress, whilst maintaining the focus on reform of SOEs, Jiang introduced the need for corporations to improve corporate governance. He also referred to problems “cropping up on our way forward through development,” and noted that, “...while propelling economic development, we should take into consideration population, resources and the environment.” Ecological protection and resource efficiency, “the capability of sustainable development,” was defined as one of four state objectives going forward.¹⁰⁰ Then, in 2005, the concept of the “harmonious society” was put forward by President Hu Jintao as a guiding principle for government policy, reflecting the goals of balance between economic growth, concern for the environment, and achieving a narrowing of China’s wealth gap. The 11th Five Year Plan (2006–10) summarized the change as the movement, “From Growth Rate to Sustainable Development,”¹⁰¹ and in October 2007, when President Hu Jintao spoke to the 17th Congress, he listed “economic growth ...realized at an excessively high cost of resources and the environment” as the first in a list of “outstanding difficulties and problems.”¹⁰²

CSR, CHINA-STYLE

The shifts in government policy outlined above are reflected in an emerging set of expectations of corporations. Broadly, these establish a fourfold set of corporate obligations: to run businesses that are successful over the long term; to pay taxes and behave ethically; to safeguard workers' rights and interests; to protect the environment, and to contribute to social welfare through philanthropic spending. (These expectations apply to all corporations, not just the extractives sector.)

Under the Company Law, as revised in 2005, a social responsibility obligation was introduced, placing on companies responsibilities to a wider set of stakeholders than shareholders alone. According to Article 5, "When undertaking business operations, a company shall comply with the laws and administrative regulations, social morality and business morality. It shall act in good faith, accept the supervision of the government and general public, and bear social responsibilities."¹⁰³ More specific rules have been introduced by Chinese stock exchanges. The Shenzhen Stock Exchange issued its "Social Responsibility Guidelines for Listed Companies"¹⁰⁴ in 2006; in 2008 the Shanghai Stock Exchange released the "Shanghai Corporate Social Responsibility (CSR) Notice" and the "Shanghai Environmental Disclosure Guidelines."¹⁰⁵ Also in 2008, SASAC published "CSR Guideline for State-Owned Enterprises."¹⁰⁶ The 2006 instructions of the Shenzhen Stock Exchange summarize companies' responsibilities as follows: "While pursuing economic results and protecting shareholders' interests, listed companies... should proactively protect the legitimate rights and interests of their creditors and employees, be honest and trustworthy towards their suppliers, customers and consumers, and commit themselves to social welfare services like environmental protection and community development in order to achieve social harmony."¹⁰⁷ The Shanghai Stock Exchange proposed in 2008 that companies could disclose the net social contribution value per share in their social responsibility reports. This would be calculated as earnings per share for shareholders, the added value created for the society from tax revenues created for the State, salaries paid to employees, loan interest paid to creditors including banks, donations and other value for stakeholders, then deducting social costs from environmental pollution or other factors.¹⁰⁸ As far as I can tell, no extractive company has yet published its "net social contribution" per share.

SASAC Guidelines

The 2008 SASAC Guidelines set out the purpose of corporate responsibility, its scope, and what corporations should be doing to implement these responsibilities. The guidelines define the need for corporate social responsibility on four grounds: Chinese policies; public expectations of enterprises; business efficiency, and international expectations. SASAC makes clear that corporate responsibility is a key aspect of the development of SOEs into internationally competitive corporations, “a key criterion worldwide when people assess the value of a company.” CSR is defined by SASAC to include legal compliance and integrity, profitability, product and service quality, energy efficiency; environmental protection, innovation and technology development, safety, protection of labor rights and workers’ interests, active participation in the community, employee volunteering, and philanthropic activities. The Guidelines require SOEs to organize to deliver CSR, report on performance, communicate and collaborate internationally, and “strengthen party organizations’ leadership when SOEs implement CSR.”¹⁰⁹ In January 2009, the SASAC Guidelines were complemented with draft guidelines along the same lines issued by the Ministry of Commerce. These apply to foreign firms investing in China.¹¹⁰

Environmental protection

Within the overall framework of corporate responsibility, the specification of what companies should do is most elaborated with respect to environmental protection, pollution control, and energy efficiency. Several different initiatives press corporations to assess and improve their environmental performance and become more efficient in energy use. For example, in 2006, the “Top-1,000 Enterprises Energy-Efficiency Program” was set up, drawing, in part, on advice from the Lawrence Berkeley National Laboratory. It aims to cut the energy use of the thousand most energy-intensive enterprises—mostly large, state-owned enterprises that consume a third of all China’s primary energy. One of the levers for reaching the goal is making energy efficiency improvements a criterion for job performance evaluations of local officials and heads of state-owned enterprises.¹¹¹ The World Bank’s private sector arm, the International Finance Corporation (IFC), is collaborating with the government of China and public banks to introduce environmental and social standards, resulting in the recent translation into Chinese of IFC’s detailed sector guidelines on environmental health and safety.¹¹² Reportedly, companies identified as violating environmental laws were barred from exhibiting at 2008 export fairs.¹¹³

China's new environmental legislation aims to encourage environmentally efficient investment. In January 1, 2009 the Law Promoting a Circular Economy came into force. It includes powers to restrict the use of resources such as water and energy, and to require recycling. It contains new controls and incentives for mining companies to increase recovery rates, and reduce water, energy and land use. The Circular Economy Law joins a series of laws and regulations passed in the last decade that seek to promote cleaner and more efficient economic development in China, including the Energy Conservation Law (passed in 1997 and revised in 2007), the Law Promoting Clean Production (2002), the Renewable Energy Law (2005), and the Administrative Measures for the Recovery of Renewable Resources (2007). The government is also currently considering an umbrella Energy Law.¹¹⁴ Plans for relating corporate taxes to the volumes of pollutants discharged are reportedly being discussed.¹¹⁵ According to a trade press report quoting a China-based U.S. commercial official, "China will spend big on going green.... Every official in the country is being judged on their ability—on their green work. So it isn't 'build the power plant anymore; it's build an energy-efficient power plant, it's build a clean power plant.'"¹¹⁶

Serious environmental requirements on Chinese companies are relatively new. It is too early to make any comprehensive assessment of how rigorously they are being implemented and enforced. However, one scholar working on environmental enforcement within China argued in a recent presentation that "in recent years legislation has gotten stricter and stronger, the number of cases brought by environment protection bureaus has grown, and average fines increased threefold."¹¹⁷ A few pointers indicate the intention to implement and enforce, and thus to change corporate behavior. The resources for enforcement within China of environmental legislation are being increased. The State Environment Ministry (SEM) was created in 2008 to replace the lower status State Environmental Protection Administration (SEPA), and the revised Water Pollution Prevention and Control Law (2008) establishes a system for ensuring that the law is enforced at the local level. The Water Law also creates openings for class action against polluters of water. The past ten years have also seen an explosion of local NGOs and grass roots campaigns against corporate pollution, and growing recognition by the government that such groups can benefit their communities and the nation.¹¹⁸ Nevertheless, there are also continuing reports of contradictory signals being given by provincial officials who stress that as long as companies continue to maintain employment, infractions of environmental or labor law will be disregarded.¹¹⁹

How might these evolving domestic requirements for environmental responsibility impact the environmental practices of Chinese companies overseas? The picture is not yet clear, but like all other aspects of China's "Going Global," it is evolving fast. One response of the major Chinese extractive industry companies to the domestic requirements for better environmental performance, allied with the pressure to be internationally competitive, is adoption of the ISO 14001 environmental management standard. This requires identification of the principal environmental impacts of a company, the implementation of a management system to systematically improve environmental performance, and certification by an independent third party. To the extent that new regulatory requirements in China are incorporated into corporations' own environmental policies and ISO 14001 systems, they should impact operations overseas. As Chinese oil and mining companies start to develop and report on "sustainability," corporate commitments are being made on resource efficiency and pollution control. As discussed below, some companies are gaining experience in operating to high environmental standards through involvement in projects in countries with demanding regulatory regimes such as Australia and Canada. There is little evidence to date, however, that regulatory and policy pressures within China—other than the overall goal of becoming leading international corporations—are important in determining how the environmental aspects of overseas projects are conducted, although over time they could contribute to acquiring the skills and experience for the application of higher standards.

Social responsibilities

Definition of the social responsibilities of corporations beyond environmental protection and energy conservation is less extensive. Labor law is being modernized, for example, with the 2004 legislation on collective contracts and the 2007 Labor Contract Law that requires all employees to have a contract. Both apply to companies operating within China. With respect to corporate philanthropy, the pattern to date is of corporations contributing principally to government-led programs such as Hope Schools, and humanitarian relief programs, such as after the Schezuan earthquake in 2008. A debate is just emerging about how much corporations should contribute and how much control they should have over how their donations are used.¹²⁰

The debate in China to date about corporate responsibility does not yet include questions regarding the indirect impacts of business on communities, the wider so-

ciety, or the global environment. Specifically, questions of the potential for extractive industry projects to exacerbate local conflict, contribute to poor governance, or impact human rights, are almost wholly absent.¹²¹

Financing standards

As discussed in Part Two, an important catalyst for improvement in the environmental and social standards of extractive industry projects worldwide is the requirements imposed by banks and insurers on projects they support. Chinese financing institutions are starting to adopt this approach, too. In November 2007, the China Banking Regulatory Commission issued guidelines for energy conservation and emissions reductions that apply to all financial institutions nationwide. The guidelines require tight control on lending to intensive energy and polluting sectors, while encouraging loans to “green” enterprises.¹²² Chinese banks are developing internal mechanisms to incorporate the environmental records of businesses into lending considerations, blacklisting companies with poor environmental records by including them in a nationwide corporate information system for the use of commercial banks when making lending decisions.¹²³

Of particular relevance to the overseas operations of oil and mining companies are the 2007 guidelines of China EXIM bank, which is involved in financing many, but not all, overseas projects. These require offshore projects to have environmental impact assessments for which, “The host country’s environmental policies and standards are the basis for evaluation.”¹²⁴ However, where host country regulations are unclear or inadequate, EXIM’s guidance requires higher standards to be applied: “When the host country does not have a complete environmental protection mechanism or lacks environmental and social assessment policy and standards, we should refer to our country’s standards or international practices.”¹²⁵ Going further still, in October 2008, Industrial Bank Co. Ltd. became the first Chinese bank to adopt the Equator Principles, which apply World Bank social and environmental standards to project finance.¹²⁶

NGO and shareholder pressures

In contrast to the experience of OECD-based companies, there is little evidence within China of media, NGO, or shareholder criticism of extractive companies’ overseas operations. However, safety and environmental problems in the domestic operations of corporations do receive coverage. One set of managers talked in a November 2008 meeting of pressure from NGOs about the environmental

impacts of projects “like our overseas counterparts.” As stocks of state-owned companies have become increasingly tradable, a Chinese socially responsible investment movement appears to be on the brink of emerging. In 2006, the Bank of China launched a Sustainable Growth Equity Fund,¹²⁷ and in March 2008, Industrial Fund Management was reported to have received government approval for a socially responsible investment fund, making use of the information provided in the corporate social responsibility reports published by Chinese companies to select investments. However the launch of the fund was postponed due to falling equity values.¹²⁸

International drivers

Although domestic developments are the key drivers of how Chinese extractive industry companies operate overseas, they are also subject to a set of specific pressures from overseas. International pressures include host country regulatory requirements, particularly for impact assessment and for disclosure of payments to governments under the EITI, as well as U.S. and OECD legislation that has extra-territorial reach such as on bribery, and on operational problems ranging from kidnap to community and labor disputes.

Host country environmental and social requirements

Where Chinese companies are the operators of mines or oilfields overseas, they, like other investors, are generally subject to local regulatory requirements.¹²⁹ Although in many developing countries these requirements are minimal or not effectively enforced, Chinese corporations also have projects underway in states with sophisticated permitting systems and demanding environmental and social standards. These include, for example, Australia, where Chinalco (Chalco Australia Pty Ltd.) is working through the early stages of a comprehensive approvals process for development of the Aurukan Bauxite Project in Queensland. This requires much more detailed analysis and much more extensive public consultation and government oversight than is the pattern currently in China, or in most other countries where the corporation operates. For example, as of January 2009, detailed draft terms of reference for the impact assessment study of the refinery part of the project had been posted by the State government for public comment before work on the full study starts, therefore enabling third parties to identify issues that should be included.¹³⁰ Other states where corporations are required to apply demanding standards include oil sands projects in Canada, and mining operations in South Africa. In some coun-

tries, such as Papua New Guinea, Chinese investors are learning how to work with unfamiliar legislation protecting indigenous rights and land tenure.

Anecdotal evidence suggests that whereas in their initial overseas excursions Chinese companies did not take account of local regulations, this is changing, at least on the part of major companies with extensive overseas operations.¹³¹ Assessment of the advantages and disadvantages of Chinese investment in Canada's mining sector by one Canadian government official concluded that, "Chinese companies invested abroad are learning to comply with local laws and practices and are not behaving much differently from companies from industrialized countries."¹³² Further, the feasibility studies required by bankers and insurers now require, for example, identification of statutory environmental requirements, permits and approvals.¹³³ Promoting the February 2009 bid to inject capital into Rio Tinto, the chairman of Chinalco included the commitment that "we will embrace Rio Tinto's expertise in sustainable development..."¹³⁴ However, there are also reports of Chinese companies, particularly smaller, private companies ignoring local environmental requirements or paying off officials, and there is sustained criticism by community groups and NGOs about non-compliance with local regulations with respect to a number of specific projects.

EITI

No Chinese companies belong to the set of forty that have committed to support the EITI on an international level, and, as supporters, are required to submit a regular self-assessment form to the EITI secretariat.¹³⁵ However, Chinese companies, like the rest of the industry, have to comply with the revenue disclosure requirements of those governments that are implementing EITI. For example, CNPC (Petro China) has disclosed its payments to the government of Mongolia alongside all the other oil and mining companies operating there. The Mongolian EITI spreadsheet shows that in 2006, Petro China made payments of over 14mn. Mongolian Tugriks (approximately U.S. \$10,000), and provides a breakdown of the bases for these payments.¹³⁶ Sinopec and Sinosteel are listed in Gabon's 2006 EITI report as among those companies that did comply with the requirement to declare their payments in Gabon, though Sinopec's local subsidiary, SinoGabon, is listed as non-compliant.¹³⁷ Some researchers are finding that Chinese companies see compliance with national EITI reporting requirements as a way of signaling intentions to be fully compliant with local expectations.¹³⁸

Despite this experience at the operational level overseas, there is little evidence

at present of either awareness, or strong interest, among Chinese corporations or policy advisors in supporting EITI at the international level. Efforts to trigger high level dialogue have, to date, stumbled.¹³⁹ There is limited awareness of “resource curse” issues, though there are signs that this is changing. I have identified no substantive discussion within China about transparency as a tool for improving the development benefits to overseas countries of large resource endowments. Researchers in economics are starting to evaluate the economic aspects of the “resource curse,” though, and Chinese analysts of government finance are exploring the relationship between fiscal transparency and government accountability in China. For example, two recent papers investigate economic “resource curse” effects within China. Scholars working on development in the western region of China recently concluded that “Abundant energy exploitation is not a favorable factor for economic growth in the long term, and it tends to impede economic growth through some indirect channels.”¹⁴⁰ A different team of researchers looked at the wider question of resource abundance and regional development in China, focusing on oil, gas and hydropower. They too found classic economic “resource curse” effects: “Chinese provinces with abundant resources perform worse than their resource-poor counterparts in terms of per capita consumption growth,” “most gains from the resource boom have been captured either by the government or state-owned enterprises,” and that “greater revenues accrued from natural resources bid up the price of non-tradable goods and hurt the competitiveness of the local economy.”¹⁴¹ The authors of this latter paper also extended the argument to note the importance of understanding and resolving “resource curse” issues, and the potential relevance of any success achieved in China to other poor, but resource-rich, countries.¹⁴² Ling Lan, of Tianjin University of Finance and Economics, argues the benefits of fiscal transparency in China as a catalyst for open government, in the context of responses to the 2003 decision to publish audits of government budgets.¹⁴³

Anti-corruption

Corruption is known to be a major problem in China, although anti-corruption rules and enforcement have been tightening. Chinese companies are also potentially exposed to the extra-territorial reach of U.S. anti-bribery law, but they do not yet appear to be well aware of the risk.

All companies listed on the New York Stock Exchange are subject to the provisions of the Foreign Corrupt Practices Act (FCPA), including its requirements

for record-keeping and internal controls. Enforcement of the act is ratcheting up, and drawing in non-U.S. companies, including, for example, Statoil (the former Norwegian state oil company), for making improper payments to Iranian government officials in connection with oil and gas field projects in Iran.¹⁴⁴ One legal commentator argues that “Although no Chinese issuer has yet been prosecuted in the U.S. for FCPA violations, it is only likely a matter of time before a Chinese issuer (company listed on the New York exchange) becomes entangled by the broad reach of the FCPA given...an increase in overall enforcement activity, an increase in FCPA enforcement activity against foreign companies...and an increase in FCPA activity concerning business activity in China.”¹⁴⁵

Beyond FCPA, CNPC has already been subject to a 2007 lawsuit in Canada alleging infringement of insider trading rules with respect to the 2005 takeover of Petro-Kazakhstan.¹⁴⁶ Also Chinese organizations participate in international bodies and must take on the obligations of membership, which are beginning to include environmental and governance standards. For example, Sinosure, the state export credit guarantee organization, is a member of the Berne Union of insurance organizations, therefore is expected to comply with its “Guiding Principles” as well as with the standards of Sinosure’s re-insurers.

Operational risks overseas

An important initial trigger for western companies adopting CSR approaches has been exposure to unexpected risks in some developing and post-Soviet countries. In the short period in which they have been “going global,” the new kids on the block have confronted many problems similar to those of the longer established western companies. However, to date this has not been a significant trigger for CSR.

In terms of overseas problems, Chinese workers have faced actual and threatened kidnappings and murder, strikes and community protests, and NGO campaigns protesting their activities. In 2007 and 2008, oil exploration crews working in remote areas of Ethiopia and Sudan were kidnapped and murdered. Workers have been abducted in Nigeria, and, according to *China Daily*, “Similar incidents occur frequently in Africa and West and Central Asia, where either religious or border dispute is at the core the problem.”¹⁴⁷ As reported in *China Daily*, during the week in 2007 that Hu Jintao visited Nigeria, the Movement for the Emancipation of the Niger Delta (MEND) “warned the Chinese government and its oil companies to steer well clear of the Niger Delta. The militants said on Saturday they had detonated a car bomb near an oil refinery in the city of Warri in the southern oil-

producing Niger Delta...MEND, whose attacks have cut Nigerian oil exports by a quarter, said the bombing was a warning to all people working in the oil industry and particularly to China."¹⁴⁸

In addition, several large projects undertaken by Chinese companies are facing local protests and problems that appear comparable to the challenges that companies such as Chevron, Shell, BHP Billiton or Rio Tinto have faced in the past. These problems prompted these companies and their competitors to develop corporate standards for environmental, social and security management, participate in EITI and the VPSHR, and to try to build more constructive relationships with NGOs. Examples of Chinese-led operations facing local challenges include the Ramu Nickel project in Papua New Guinea (MCC); Shougang Corporation's Hierro Peru mine operations in Peru, and the Berlinga iron ore mine in Gabon, operated by China Machinery and Electric Equipment Export & Import Company (CMEC). For example, China Metallurgical Construction Corporation (MCC) acquired majority control of the Ramu nickel and cobalt mine in 2004 from the previous Australia-based investor. Since the project was first mooted in 1997, many concerns have been expressed about its potential social and environmental impacts, particularly on local indigenous communities as a result of land take and sea disposal of mine waste. These concerns have been compounded since MCC took over, despite the company's philanthropic efforts. Concerns raised locally include labor issues—who gets employment, at what rate, and with what health and safety protections. Questions remain about how far MCC has complied with local regulations, and about the basis on which land for the mine was acquired.¹⁴⁹ Somewhat similarly, the long-standing and troubled Hierro Peru mine was acquired by Shougang Corporation in 1992. From the outset there have been strikes, health and safety problems, and local complaints about damaging environmental impacts.¹⁵⁰ In Gabon, the proposed location and the financial terms of the Belinga iron ore mine were challenged by environmentalists from the signing of the initial agreement between the government of Gabon and CMEC in 2006. In late 2008, the mining convention was revised, with new terms that address these issues, though how comprehensively the problems have been addressed is contested.¹⁵¹ Since iron ore prices have fallen as a result of the financial crisis, a new issue has arisen. The government of Gabon pressing CMEC to move ahead with the project and not allow new environmental studies to provide an excuse for delays.¹⁵²

These sorts of problems associated with overseas operations have not, to date, provoked Chinese oil and mining companies to systematically reconsider how

they operate overseas, as similar problems did for the major western companies. There appear to be two reasons for this. One is that other aspects of business have higher priority. Thus, issues related to domestic business take priority over overseas business, and addressing the commercial challenges of operating overseas takes precedence over overseas environmental or community problems. The international departments of the large oil and mining companies do not have large numbers of staff, and working in an overseas operation does not carry high status. This reflects the relatively unimportant role that overseas investment, particularly in developing countries, plays in the overall business of oil and mining companies. There are a relatively small number of investments in countries that present these risks, and the urgency of other issues having to do with overseas investments—specifically the task of mastering core commercial aspects of operating in new environments, takes precedence. Although problems with communities, and the kidnappings and murders in Sudan and Ethiopia are known, the priority concerns of extractive industry investors overseas are securing business opportunities abroad in the face of opposition to Chinese investment, and then achieving commercial success and managing issues such as currency exchange, inflation, contract stability and taxation. Reporting in 2008 on barriers to investment by Chinese SOEs in Australia, a Chinese financial journalist writes of “the distrust mounting on Chinese enterprises, especially those seeking investments in natural resources and the energy sector abroad. An effective solution to allay such suspicions has yet to be found.”¹⁵³

A second factor determining the ways in which Chinese corporations address the problems faced overseas, particularly in developing countries, is the conceptual framework applied. Analysis by Chinese company managers and others of the causes of community problems focuses on pre-existing cultural, religious, ethnic, and development problems, rather than “resource curse” models that posit the risk of damaging interaction between resource extraction, development and conflict. The underlying concept is that problems of governance and conflict arise from poverty; hence the solution lies in economic development. As expressed by a senior researcher in a leading Chinese think tank in the context of a broad comparison of Chinese and European development models for Africa, “Regarding the lack of superstructural institutions and concepts as the root cause underlying Africa’s underdevelopment, Europe concentrated on enhancing political governance capacity in African countries and the promotion of democratization and human rights in its development cooperation with Africa....China pays special attention to strengthening Africa’s capacity of “hardware” construction (such as

infrastructure, agriculture, health and education) in terms of fortifying Africa's economic basis while adhering to the principle of non-interference ..."¹⁵⁴ The role of companies is to facilitate economic development; their responsibilities include understanding the locations where they operate.

In recent years, the major Chinese companies and financing institutions have become more active in trying to understand the different environments they are working in. For example, academics with regional knowledge are being asked to provide briefings and country risk assessments.¹⁵⁵ Earlier patterns of failing to understand and behave appropriately have caused frustration on the part of diplomats, who are a first port of call for companies facing local problems. A reported complaint raised at a 2006 meeting between diplomats and businesses was "Chinese businesses are going out into the world and they lack knowledge about the world. They have demonstrated bad behavior. They ignore the local conditions. People have criticized their behavior as representative of the Chinese government's behavior."¹⁵⁶

THE EMERGING CORPORATE RESPONSIBILITY CULTURE

Overview

Over the last few years, provoked primarily by government policy shifts, there has been active discussion in China about the social responsibilities of corporations, reflected, for example, in many conferences, seminars and publications. Rankings are published of "Top Employers," "Environment Friendly Enterprises," and awards such as the "People's Social Responsibility Award."

In some ways the debate, and the steps that Chinese oil and mining companies are taking, mirrors that among major OECD companies. Thus, the large "Fortune 500" oil and mining companies have started to publish information on their approach to social responsibility and provide regular "Social Responsibility" reports, donate money to community and humanitarian causes and publicize their donations, join CSR organizations, particularly the U.N.'s Global Compact, apply the ISO 14001 environmental management standard to their operations, and investigate in greater detail the social and environmental impacts of their projects before starting.

There are also important areas of difference. No Chinese company is involved in either the Extractive Industries Transparency Initiative (EITI), or the Voluntary Principles on Security and Human Rights (VPSHR), that seek to set standards to

address the governance problems associated with extractive industry investments in developing countries, nor is there any visible attention paid by Chinese companies or policymakers to the issues of “resource curse,” or how they might be addressed. On the other hand, Chinese companies are investing in several “forward linkage” projects, particularly oil refineries, desired by governments of oil-rich states but widely rejected as uneconomic by western investors and bankers. Also Chinese companies (and diplomats) have acquired a reputation in many countries, particularly in Africa, for behaving in a way that is preferred to that of Europeans or Americans—“not colonial,” living humbly—even, as reported by one consultant working in Gabon, for demonstrating “capitalism with a heart.”

CSR policies and reports

Six of the eight Chinese Fortune 500-listed oil and mining companies with international operations have explicit social responsibility policies that are presented on corporate web sites, and have started to publish regular reports on their social responsibility performance, as have many other smaller SOEs.¹⁵⁷ The terminology used in describing company policies varies between the corporations, but in each case reporting revolves around five themes: business performance; environmental protection; operational health and safety; workforce development, and social philanthropy, with an emphasis on business performance. Most policies express high level, non-specific goals—for example, “To serve the country, provide a return to shareholders, and benefit staff and all society,” or “economic growth, social progress and environmental protection.”¹⁵⁸ Some policies include specific, trackable, components. Thus CNPC aims for “zero injuries, zero accidents and zero pollution,” Sinopec for “strict compliance” with environmental, health and safety laws, standards and regulations; Baosteel aims for “safety first, zero violation and zero accident,” and all aim for all production units to have ISO14001 environmental management systems certification (a goal achieved in 2006.)¹⁵⁹ Some also relate their performance to measurable government policies for energy and water use efficiency, for example, the 2010 and 2020 numeric targets for per ton consumption by the iron and steel industry.¹⁶⁰

Typically, the reports of the major companies include financial, environmental, energy and safety data—including summary information on taxes and duties paid to the state and a description of the social projects financed by the company. Reports provide considerable detail about the environmental challenges that companies are addressing, and on employment policies. Most reports identify the sets of

stakeholders to whom the report is addressed—including shareholders, employees, customers, suppliers, and the wider society/community. In some cases, a reader feedback form is included, inviting readers to state what other information they would like to see reported. Some reports make reference to the Global Reporting Initiative (GRI) voluntary international standards for reporting, or show where the report addresses principles of the Global Compact. Chinalco's 2007 Social Responsibility Report includes a "Third Party evaluation" by the Chairman of the China Nonferrous Metals Association. Sinopec's 2007 report includes a section on human rights.

However, while reflecting the dominant role of domestic audiences and operations, international references are scarce in many of these corporate reports. An exception is Sinosteel. Aspiring to significant overseas expansion though not yet a Fortune 500 company, it has produced a stand-alone report on its activities in Africa as well as a corporate social responsibility report.¹⁶¹ As well as containing the usual environmental, health and safety information, it includes a discussion of local economic development, local staff development, community engagement, and explicitly identifies the specific challenges of achieving sustainable development.

Membership of CSR organizations

In the past fifteen years many international membership organizations have been established to work with companies on CSR in general, or on specific CSR issues. The organization with the largest membership worldwide is the U.N. Global Compact, with almost 5,000 business members. Specialist CSR organizations for the extractive industries are IPIECA¹⁶² (oil and gas) and ICMM (mining), while the World Business Council for Sustainable Development and the International Business Leaders Forum are invitation-based "clubs" that target chief executives and senior corporate managers. Each of the latter has associated organizations in individual countries, including in China. Membership in these organizations requires a commitment to CSR objectives, or to ten specific principles—human rights, labor, environment and anti-corruption—in the case of the Global Compact. Increasingly, participation demands evidence of corporate behavior consistent with the organization's goals.

Two further organizations focus exclusively on the extractive industries, and address particularly difficult problems associated with extractive industries in developing countries. The Voluntary Principles on Security and Human Rights

(VPSHR) has a small set of participants comprising all the largest western oil and mining companies, as well as the large international NGOs and the governments of the U.S., U.K., Netherlands and Norway. It sets standards for security to ensure that the security provided for industry operations does not become abusive of the security of the local population. The Extractive Industries Transparency Initiative (EITI) is open to membership by the governments of resource-rich countries, but is open to formal “support” from others including extractive industry companies and financial institutions.

Paralleling the integration of Chinese corporations into the global economy, almost 200 Chinese companies have joined the U.N. Global Compact, including the majority of the large state-owned oil and mining companies.¹⁶³ As of December 2008, all the Chinese members from the extractive industry sector are recorded as “active” members—meaning that they have submitted all required reports to the secretariat. (However for those companies that joined in 2008, this is an undemanding test since no reports are required for two years.) Sinopec and Baosteel also belong to the World Business Council for Sustainable Development. SASAC serves on the interim steering committee of the International Business Leaders Forum’s China affiliate that focuses its work on prevention of corruption.¹⁶⁴ CNPC and CNOOC belong to the oil industry environmental and CSR organization, IPIECA.

However, Chinese companies are notably absent from both EITI and the VPSHR. This is in marked contrast to the leading U.S. and European-based extractive industry companies,¹⁶⁵ almost all of which participate in both organizations.

Philanthropy

Corporate philanthropy is a major component of Chinese approaches to CSR. According to one Chinese consultant with wide international experience, “CSR is mostly thought of here as philanthropy.”¹⁶⁶ Companies are widely viewed as having responsibilities for contributing to public welfare. How effectively corporations deliver on these obligations (and publicize their contributions) contributes to their reputation within China.¹⁶⁷ Corporations highlight their contributions to social welfare and poverty alleviation on web sites and in social responsibility reports. The activities supported by companies include donations, for example to disaster relief funds and school construction, as well as through encouragement of employee volunteering. Philanthropic contributions are generally channelled

through governmental, or government-supported, organizations. Some corporations, especially those with a large presence in particular areas, discuss their contributions to “poverty alleviation” or “local economic development.” For example, “In 2007, Chinalco donated 10mn. yuan (approx. \$1.5mn.) to support the new countryside construction work of Qinghai province. As partners of surrounding poverty-stricken villages, the member enterprises actively supported local economic development and helped build roads, set up irrigation projects, plant economic crops and build Hope primary schools.”

Most of the charitable contributions made by Chinese oil and mining companies are devoted to causes within China, but the same model of philanthropy appears generally to be applied overseas. However at least one company is involved in more ambitious community economic development projects, in response to the requirements of operating in South Africa. Sinosteel’s ASA Metals Pty. joint venture has a well-established local procurement program. In 2006, it decided to build a slag recycling facility in the neighboring community that would initially generate revenues for the community, and after a five year period will become 60% owned by the Maroga community foundation. According to the South African engineering company that built the plant, this is an innovative way of processing slag and of meeting South Africa’s Black Economic Empowerment objectives.¹⁶⁸

Gaps

Chinese companies and their advisors are aware of, and open about the fact that the current requirements for corporate responsibility are new to them, and that there is much to learn, especially in relation to business overseas. Most of the large oil and mining companies have now established specialist environmental departments that can advise and monitor the performance of operational units. As far as I am able to tell, none has yet brought in sociologists or anthropologists with parallel social performance expertise. Further, the organizational and systems changes that allow social and environmental factors to be systematically addressed in investment decisions and project planning are missing. The feasibility studies that are a key planning tool often now include some environmental and social information, but not at the level of detail necessary to ensure, for example, full compliance with local laws, observation of protected areas, labor standards, understanding of land tenure and ownership, or appraisal of security risks.

CONTEXT

China has in place a structured and consistent approach to foreign relations, particularly evident with respect to developing countries. The structure includes continental level partnerships with Africa and ASEAN, with a partnership under negotiation in Latin America. There are some twelve strategic partnerships with specific countries¹⁶⁹ (more are in negotiation), and a larger set of bilateral agreements with individual countries. All of these agreements cover broadly similar areas, i.e. economic, development, international, and cultural cooperation; some also include military components. Cooperation on environmental matters is included in recent agreements.¹⁷⁰ This structure is most developed between China and Africa, somewhat less developed in relationships with the ASEAN states, and still at a relatively early stage with Latin American nations. There has been discussion for several years about a possible strategic partnership between China and the European Union. Agreements are backed up by subordinate agreements, action plans, and monitoring frameworks, and cemented at a practical level by establishing direct flights, scholarships for training in China, and the setting up of Confucius Institutes, although these also exist in non-partnership states.¹⁷¹

Thus, in relation to Africa, the 2001 “Beijing Declaration of the China-Africa Cooperation Forum” sets out ten high-level principles governing relations and dispute resolution between countries and groups of countries, including human rights, HIV, terrorism, debt, and China-Africa economic and social cooperation.¹⁷² The main parameters of economic and social cooperation are spelled out in the “Programme for China-Africa Cooperation in Economic and Social Development” agreed at the same time. The program defines the objectives of cooperation as “equality and mutual benefit,” “diversity in form and content,” “emphasis on practical results,” and “amicable settlement of differences.” It sets out specific actions in relation to intergovernmental cooperation, trade and investment, cooperation

in engineering and other infrastructure projects, financial cooperation, debt relief, tourism, migration, agriculture, medical care, education, environment, arms control, multilateral cooperation, and exploration and utilization of natural resources and energy. In 2006, the content of the partnership was refined through the first heads-of-state meeting of the Forum of China–Africa Cooperation (FOCAC) to include quantitative targets for trade, concessional loans and debt relief. Parallel to the heads-of-state meeting was a conference of Chinese and African entrepreneurs that concluded with fourteen agreements signed between Chinese companies and African businesses and governments on projects including infrastructure, energy, and resources development. The estimated value of these commercial agreements was \$1.9bn., compared to \$5bn. for preferential loans and credit over three years. Formal strategic partnerships with South Africa, Algeria and Nigeria provide greater specification at the national level, as do the bilateral cooperation agreements with many countries on the continent.

Outside Africa, agreements address similar issues. For example, November 2008 meetings between the President of Kazakhstan and the Chinese premier resulted in agreements on cooperation on security matters and customs services, on railway construction, uranium exploration, and on coal-based and nuclear power. Agreements were also made between China’s Export and Import Bank (EXIM) with the Kazakhstan Development Bank and the commercial bank BTA.¹⁷³

It is worth noting that China has not yet established the highest level of relationship—a strategic partnership—with several of the countries that are important sources of imported raw materials, such as Saudi Arabia, Angola or Chile, or with many of the countries important to Chinese companies operating overseas such as Australia or Sudan, although such relationships are in place with Kazakhstan and, very recently, with Peru, which is an increasingly important locus for mining investment.

China is also emerging as a significant development aid donor. The approach to development aid is based on principles established in the 1960s, modified by learning from China’s experience as a recipient of development aid. The key phrase, repeated in every discussion of development aid, is the objective of “win-win cooperation.”¹⁷⁴ This means, *inter alia*, that securing benefits to China from its development cooperation projects is an explicitly recognized factor. The concessional lending that is an important component of development aid has evidently at least as much to do with export markets as with economic development.¹⁷⁵

THE ROLE OF RESOURCE EXTRACTION

The development of trade and investment relationships for resource extraction has been an explicit component (though one of several components that also include collaboration on non-resource trade) of China's foreign policy since at least the turn of the century. The scope of such resources policies includes oil, gas, minerals, agriculture and timber. For example, the twelfth article of the October 2000 Economic and Social Development Cooperation Program with African Countries, states:

“Cognizant of the importance of their respective natural resources, the two sides agree to co-operate in the use of such resources. China agrees that Africa needs to benefitiate its agricultural, mineral and metallurgical resources, in order to generate industrial economic activities. In this regard, China agrees to promote investment in, and exploration and beneficiation of metallurgical resources and that such beneficiation should be done in Africa. The ministers agree to facilitate the exploration and beneficiation of such resources on a reciprocal basis with due consideration to sound environmental practices.”¹⁷⁶

China is also establishing energy agreements with a range of countries, as well as free trade agreements that remove or reduce tariffs, including on metals and fuels imported to China. In many cases, the texts of specific agreements between China and individual countries are not publicly released, though press statements highlight key elements in general terms. A suite of new bilateral agreements announced in late 2008 with resource-rich countries includes energy and mining provisions. For example, in October 2008, Chinese Premier Wen Jiabao held talks in Kazakhstan at which one of three components of a bilateral trade and economic cooperation agreement proposed by China was to “intensify energy cooperation and ensure the completion of the China Kazakhstan gas pipeline and the second phase of the oil pipeline by the end of 2009.”¹⁷⁷ At the launch in November 2008 of the strategic partnership between China and Peru, and the free trade area between the two countries, one of the five key aspects for future cooperation was identified as mining. According to the press release, “Cooperation in the mining sector is important to raising the level of bilateral trade cooperation and promoting common development...Hu hoped the Peruvian side will offer necessary conditions to facilitate Chinese businesses to invest in Peru.”¹⁷⁸ The China-Angola bilateral cooperation pledge of December 2008 covers four topics, one of which is to “expand cooperation in the fields of economy and trade, the construction of infrastructure, energy and mineral resources, and telecommunications and agriculture.”¹⁷⁹

China's resource-related agreements are not only with developing countries. A Memorandum of Understanding (MOU) on energy cooperation was signed between China and Canada in 2001, followed up by a 2005 "Statement of Energy Cooperation in the 21st Century." In January 2009, China and Norway signed an MOU on "enhanced cooperation in the petroleum sector," building on what the Norwegian government describes as "close cooperation in the petroleum sector for more than 25 years," and on existing agreements on climate change, energy conservation and renewable energy. The MOU covers "consultation and exchange of information on petroleum activities, strategies, technologies, projects and personnel training." It also includes provision for "creating opportunities and accommodating cooperation between petroleum enterprises of the two countries."¹⁸⁰

The specifics of resource cooperation differ country to country, but appear to include some or all of the following: arrangements for access to exploration and production concessions; supply agreements; pipeline and refinery construction; technical cooperation, and training. Relationships are deepened with trade missions and fairs. Thus, a few months after the China-Canada Strategic partnership was agreed upon in 2005, a Canadian trade mission visited China.

INFRASTRUCTURE LOANS

Chinese banks, state-owned and private, finance a wide range of infrastructure projects carried out in developing countries by the Chinese construction companies that now compete with longer established international construction firms. (Four Chinese companies are in the Top 50 list of contractors ranked according to the value of work done outside their home country—compared to seven from the U.S.)¹⁸¹

Concessional loans for the construction of infrastructure—especially transport and power—are an important component of Chinese policy towards developing countries. Long-term concessional loans are one of the banking services offered by China Export and Import Bank (China EXIM) through a program that funds projects overseas with a value over RMB 20mn. (approximately \$2.9mn.) in infrastructure, manufacturing, mining, and social welfare. Interest rates on this program are below market, established in framework agreements between borrower states and the government of China, with the Chinese government subsidizing the interest rate difference. The projects funded are agreed by the government of the host country and by China EXIM Bank, and required to be executed in large part

by Chinese companies, with at least 50% of materials and services supplied from China.¹⁸² EXIM concessional credits to resource-rich countries are, in some cases at least, backed by and repaid in resources, under what is widely referred to as The Angola model: “The low interest loans are secured with commodities as collateral. A typical example is a \$4.5bn. concessional loan for infrastructure allocated by the China EXIM bank to Angola for over 17 years, secured by the delivery of 10,000 barrels of oil a day.”¹⁸³

Where does this financing go? EXIM does not publish comprehensive and systematic information on its concessional loan program, although scattered information is available in press release and on the web sites of related government ministries. An analysis published in 2007, based on review of a range of Chinese and host country sources, found that at least forty-eight states had framework agreements in place for concessional loans, or had already received such loans. While over half of these countries are in Africa (28/48), the set includes several in Asia, Latin America and the Caribbean, Central Asia and the Middle East (Yemen and Syria).¹⁸⁴ Concessional loan programs are in place in many, but not all, the developing countries from which China imports oil and minerals, or where Chinese extractive industry companies are operating. Omissions include, for example, Ecuador, Kazakhstan, and Myanmar. A review of almost thirty concessional agreements for which detailed information was available indicates their application to a wide range of uses of which the largest numbers were for telecommunications, roads and railways, and cement plants.¹⁸⁵

In August 2008, the World Bank published a detailed analysis of China’s financing of infrastructure programs in Africa. It concludes that Chinese funding is broadly comparable in volume with official assistance from OECD countries to Africa for infrastructure, is material in relation to needs, is predominantly spent on projects worth less than U.S. \$50 mn. in value, that the main beneficiary sectors are power and transport—mainly hydropower and railroads, and that funding is provided at rates that “compare favorably with private sector lending to Africa but are not as attractive as ODA (Overseas Development Assistance), from OECD countries.” Funding in Africa has been concentrated on four countries—Nigeria, Angola, Sudan and Ethiopia—that have received about 70% of the total. The study argues that China has developed one of the world’s largest and most competitive construction industries, with particular expertise in the civil works critical for infrastructure development, and that this is illustrated by the success of Chinese firms in winning internationally tendered projects executed through the World

Bank.¹⁸⁶ That said, in January 2009, the World Bank announced that seven firms, four of which are Chinese, had been disbarred from future World Bank contracts for fraudulent tendering.¹⁸⁷ This includes one company, China Road and Bridge Corporation, listed as undertaking several EXIM projects in Africa.¹⁸⁸

Once entirely separate, China EXIM is becoming increasingly linked with global development banking architecture. In 2007, a MOU was signed between the World Bank's International Finance Corporation to collaborate in supporting environmentally and socially sustainable Chinese investment in emerging markets, including China itself, thus advancing private sector development and alleviating poverty.¹⁸⁹ As well as focusing on specific projects, this also includes staff exchanges between the two institutions and a project to translate IFC technical standards for environmental health and safety management into Chinese. There is an MOU between EXIM and the African Development Bank, and emerging collaboration with the European Union and with bilateral donors such as the United Kingdom's DFID.¹⁹⁰

In addition to concessional loans, finance for infrastructure projects is provided through other channels such as the "policy" banks (specifically China Development Bank and the Agricultural Development Bank of China), as others (including Bank of China), move beyond their core remit of financing projects within China. These can provide long-term finance to meet the costs of major projects overseas. For example, China Development Bank (CDB) focuses in Africa on commercially viable lending to, and investing in, projects in infrastructure, agriculture, health, education, and energy. CDB operates the Africa Development Fund (ADF), launched in 2007 with initial capital of \$1bn. to support Chinese companies' operations in Africa.¹⁹¹ Press releases in early 2008 signalled that the initial projects invested in through ADF include a glass plant in Ethiopia, a gas-fired power plant in Ghana, a chromite project in Zimbabwe.¹⁹²

Angola

The impacts of Chinese concessional finance for infrastructure projects have been better examined with respect to Africa than anywhere else. Much criticism focuses on Angola, where the \$2bn. Chinese credit agreed in 2004 undercut prolonged negotiations between the government, the Bretton Woods institutions and OECD donors about conditions for, and the potential value of, post-conflict support to the country.¹⁹³ As a condition for holding a post-war donor's conference, the

OECD institutions had sought transparency about the value and use of Angola's oil and diamond revenues.

Though not well publicized, the first of the recent set of Chinese loans to Angola were made in 2002 at the end of Angola's civil war, when the China Construction Bank and EXIM funded Chinese companies to undertake infrastructure projects in the country.¹⁹⁴ In late 2003, a Framework Agreement for economic and commercial cooperation was signed by the Angolan Ministry of Finance and the Chinese Ministry of Trade. This was followed by the first \$2bn. financing package for public investment projects, which was extended in 2007 by an additional \$500mn. Later in 2007, a further credit line of \$2bn. was agreed. These loans are at concessional rates, and are backed by oil¹⁹⁵ in a pattern described by the World Bank as "by no means novel or unique, but [that] follows a long history of resource-backed transactions in the oil industry."¹⁹⁶ EXIM terms require that the major execution contracts are let to Chinese companies, although reportedly the scope for local content is greater in the 2007 loan.¹⁹⁷ (While there are complaints reported from Angola about use of Chinese rather than local workers, Campos and Vines also report that there are difficulties for Chinese contractors in finding competent Angolan companies to undertake the local shares of projects.) Projects funded through the EXIM loans are proposed by Angolan ministries to a joint Angolan-Chinese panel; if agreed, three or four Chinese contractors from a longer list of preferred contractors are invited to bid. Bids are independently reviewed, and projects are overseen by a technical group whose reports trigger payments from the EXIM Bank to the contractor, with Angola commencing repayments on loans as projects are completed.¹⁹⁸ According to the World Bank, EXIM commitments to specific projects in Angola over 2001-7 totaled \$1.3bn. of which 44% was spent on water and electricity projects, 37% on road and rail, and 19% on telecommunications, all except for one road, completed as of the end of 2007.¹⁹⁹ For comparison, World Bank involvement in Angola over 2007-8 totals less than \$500mn., including grants, loans, and support to private sector investments through IFC and MIGA.²⁰⁰ Angola has also received very substantial credits from China International Fund Limited (CIF), a private company linked to the Hong Kong-based Beiya construction company; little is known about its links with the mainland. A credit facility of \$2.9bn. is managed by Angola's Gabinete de Reconstrução Nacional, accountable to the Angolan president. Reportedly, this line of credit has been insufficient to execute the planned projects including new

airport construction and major rail and road projects, and will be supplemented with some of the EXIM funds as well as Angolan domestic funds raised through the issue of treasury bonds.²⁰¹

Since these infrastructure loans have been in place, Angola has become an increasingly important supplier of oil to China, and Chinese companies have acquired their first production concessions in the country, though a relatively small proportion of the country's output. Thus, Sonangol Sinopec International (SSI), a joint venture between Sinopec and the Angolan state oil company, holds a 50%, non-operator, share of Block 18, and China Sonangol International Holding (CSIH) 25% of two exploration blocks. SSI also won three further concessions in 2006, but subsequently surrendered them after the breakdown of talks about collaboration on construction of a refinery, which Sonangol is now taking forward alone through a contract with U.S.-based KBR.²⁰²

China's infrastructure loan programs in other resource-rich countries are less well documented than in Angola. The EXIM concessional loan program in Nigeria was substantially larger than that in Angola over 2001-7, with commitments of \$5.4bn. It appears to be less successful—two major projects are classified by the World Bank as “distressed.”²⁰³ The Sudan program is smaller than that of Angola or Nigeria, and includes co-financing (with Arab donors) and construction of the controversial Merowe hydroelectric dam as well as other power, transport and telecommunications projects.²⁰⁴ Importantly in the context of issues of resource revenue management, Chinese oil deals in Sudan are reported not to have yielded major revenues to government, but rather the direct financing and construction by Chinese companies of pipelines, export facilities, and refinery capacity.²⁰⁵

THE CHINESE OIL AND MINING INDUSTRY

In the past fifteen years, China has switched from being largely self sufficient in oil and minerals to becoming a net importer. Securing overseas supplies and becoming more efficient in resource use are each important goals of government policy.

In common with other parts of the Chinese economy, the Chinese oil and mining industry is changing fast, as state-owned companies consolidate and modernize to become major international corporations in which majority state shareholding is tempered by stock exchange listings—usually in Shanghai and Hong Kong, but increasingly in New York and London as well. The modernization process is being driven by explicit state policy, and implemented by a young, well-educated, economic elite appointed to head the nation's largest corporations.²⁰⁶ Companies such as CNPC, Sinopec, Baosteel, and Minmetals are already significant international players; around a further fifteen are vying for expansion and similar status. While the early steps of modernization focused on technology transfer, the current focus is on management systems, such as are needed for compliance with stock exchange codes. Under direction from the state, and in response to the burgeoning environmental and social protest context within China, corporations are also now paying increasing attention to risk management, environmental protection and corporate social responsibility, but are generally at an early stage of implementing appropriate management systems.

In the past decade, China's top oil and mining companies have started to invest overseas. Global expansion has been, like corporate modernization, demanded by explicit state policy, but executed through the business mechanisms common to the extractive sector. Chinese companies have acquired concessions from governments of resource-rich countries, bought shares in existing concessions, and purchased companies or shares in companies. Although much of the focus of international attention has been on China's increasing presence in Africa, the ex-

pansion of Chinese oil and mining companies has, in fact, been truly global, with investments ranging from OECD members Canada and Australia, to pariah states including Syria, Myanmar and Zimbabwe. Chinese companies have a significant profile in Peru and Venezuela, Papua New Guinea, Laos and Vietnam, as well as in many African states, and have gained the first significant contracts let in the extractives sector in post-war Iraq and Afghanistan. In the scramble for assets during the commodities boom of 2003–8, Chinese companies were actively seeking resources wherever they could, though company managers noted that they preferred to invest in countries with stable policy environments. Importantly for the subject of this paper, despite this global spread, the focus of companies' business and management attention remains primarily on their domestic operations, with attention to overseas operations spread across the range of investment locations, not just those where resource wealth governance issues are significant. This international expansion of Chinese SOEs, along with the smaller scale, but not insignificant, overseas expansion of Russian, Brazilian, and other Asian state-owned companies, is part of a trend towards greater scale domination of the resources sector.

Chinese oil and mining companies are integrated into the global extractives industry. Chinese companies have international partners on projects both in China and overseas; they also buy and sell geological, engineering, and construction services internationally. When initially listed, some shares in the Chinese oil companies were acquired by leading international oil companies, but currently the direction is reversed and Chinese companies are buying shares in western companies, most notably the shares in Rio Tinto held by Chinalco. At the state level, China's cooperation agreements with many countries, developed and developing, often include an energy and resources component, such as the January 2009 MOU between The Norwegian Ministry of Petroleum and the Chinese National Energy Administration.

The signs are that the pace of expansion by Chinese companies is expanding under the current conditions of global recession and reduced access to credit. It is also likely that Chinese companies will seek high quality investments in resources and resource companies in OECD countries, including potentially the United States. How governments and regulators in OECD countries respond to such efforts will have impacts beyond the extractive sectors, and could influence the overall tenor of the global response to the economic crisis, in particular, attitudes to protectionism.

RESOURCE WEALTH GOVERNANCE

Chinese oil and mining companies are at the early stages of adopting approaches to environmental and social issues comparable to those of major OECD-based companies. As illustrated in the sustainability reports companies are publishing, attention is being paid mostly to energy and water efficiency, and to community philanthropy. Most are applying the ISO 14001 Environmental Management standard to some of their operations. The major companies are starting to join the U.N. Global Compact, which requires signatory companies to demonstrate after a few years the progress made in complying with the compact's principles on environmental protection, labor standards, human rights protection and ethical behavior. China EXIM Bank, which finances many major projects in China and overseas, introduced rules in 2007 requiring impact assessments before projects start (and that these be done to Chinese or international standards where absent in host country requirements), and the first Chinese bank signed up to the Equator Principles in late 2008. Key pressures for these changes are provisions introduced in the 11th Five Year Plan (2006–11), by Chinese stock exchange listing rules, and in 2008 guidance from the State-Owned Assets Supervision Administration Commission (SASAC) that companies should focus not only on profit but also on environmental protection and social responsibility. Emulation of the corporate responsibility approaches of leading international companies also plays a part in this. However the organizational and skills base for effective environmental and social management at the operational level is still weak. This is recognized by the companies, although it remains unclear if they are prepared to spend resources on hiring appropriately skilled staff and consultants. It is also unclear to what extent new requirements from SASAC and EXIM will be enforced.

Some Chinese extractive industry projects overseas are in countries with a history of environmentally and socially damaging resource projects, where communities or NGOs are alert to poor management practices and concerned about securing sustainable local benefits from resource extraction. Chinese companies are facing criticism and hostility from parts of the community in relation to some projects in Peru, Gabon, Papua New Guinea and Myanmar. Chinese workers have been kidnapped and murdered in Sudan and Ethiopia. However, although these risks and problems are known within the industry, they are, at present, low on the list of priorities as the Chinese oil and mining companies hurtle through major organizational changes, a fast changing domestic economic environment,

and international expansion. More important issues on the international front are the conventional commercial risks associated with rapid internationalization, such as contract stability, currency conversion, taxation, and overcoming opposition to Chinese acquisitions—particularly in OECD countries. Efforts to mitigate project community-related risks focus on improved security, insurance, and better information on countries considered for investment projects. Thus, unlike OECD-based companies, risks associated with operations in developing countries have not been a key driver for higher environmental and social standards, and Chinese domestic politics are much more important in promoting awareness of environmental and social performance issues.

China is not involved at a corporate or government level in the efforts to promote transparency about resource revenues, other than where Chinese companies operate in countries that require disclosure, such as Mongolia. There is little or no awareness within Chinese companies, or among policy analysts or academics of the concepts of “resource curse,” or of the potential of resource transparency as a tool to improve the development benefits of resource extraction and the environment for international investors. When the idea of transparency and the EITI approach are presented, the responses are negative—challenging the underlying concepts, or the idea that this is of any relevance to foreign investors, or the timing—“once we are sure of getting supplies, then we can think about political considerations.” Furthermore, whereas in the corporate sector China is in many ways trying to emulate the west, as a state, China explicitly seeks to distinguish its policy approach to developing countries from that of the OECD, though it is more open to U.N. initiatives. China is developing substantial programs of bilateral aid and export promotion. These apply both to resource-rich and non resource-rich developing countries. A key component is financing (concessional and commercial) of infrastructure designed and constructed by Chinese companies. Where OECD-based development aid, including to resource-rich countries, focuses on “soft” areas such as governance and institution building, China specializes in “hard” projects. Paradoxically, this makes China an unlikely participant in promoting transparency (a “soft” development concept) but an active influencer of how resource-rich developing countries actually deploy their revenues because in countries such as Angola, very large flows of infrastructure finance are secured against future supplies of oil or minerals. Initial assessments such as that undertaken by the World Bank in 2008 suggest that Chinese projects in Africa which provide roads, railways, power stations, and water systems are a hopeful trend for recipient countries.

Since Chinese oil and mining companies started “going global” on a large scale since 2000, their impact on resource wealth governance, in terms of the social and environmental management of specific projects, and on revenue transparency, appears to have been negative. Until recently, Chinese companies, domestically and overseas, focused principally on bottom line results and not on avoiding environmental and social damage. When China EXIM first advanced a large line of credit to the government of Angola, this put paid to efforts by OECD donors to attach transparency conditions to post-war aid. However, the landscape is changing, and the extractive industry, as represented by the large SOEs, does appear to be at the beginning of the path that a “responsible stakeholder” should follow. Chinese companies are under pressure to improve their environmental and social standards, and are taking the initial steps to do so. Chinese infrastructure financing, though not intended to combat mismanagement of resource revenues, has the effect of turning at least a proportion of revenues into development goods. The entrance of China onto the global extractives stage has opened the door to a shift in focus, to think about resource wealth governance that adds a needed long-term development dimension to the current framework that focuses primarily on avoiding negative impacts.

Because China is a part of the global economy, there are some steps that could be taken by other participants in the system to try and influence this changing landscape.

Companies, governments, analysts and donors should be careful of the language they use and assumptions they make—or are heard to make, when discussing China’s search for oil and minerals. Chinese commentators perceive underlying assumptions that China has no right to secure resources overseas, which prejudices the discussion of the manner in which Chinese companies operate overseas. The rejection of China’s bid for an expanded stake in Rio Tinto will exacerbate the Chinese sense of discriminatory exclusion.

There are few current initiatives targeted specifically at the extractives sector, where companies collaborate to exchange experience on the “non-conventional risks,” i.e., the environmental, social and political issues that they all face, especially overseas. The major European and U.S. oil and mining companies developed an understanding of the environmental and social risks and risk management in the late 1990s and early 2000s through the interaction of environmental and social managers with each other, with NGOs, and with consultants. This was achieved through conferences, industry associations, CSR organizations, and via joint proj-

ects such as the World Bank–sponsored “Partners for Development.” International extractive industry companies, industry associations, and donors could explore ways of collaborating with Chinese colleagues to help create enabling environments to achieve this.

Discussion of revenue management needs to be widened to recognize the contribution made by China’s finance and delivery of infrastructure projects, to consider what role it has in resource wealth management, and how China and other donors could make this approach even more effective.

Despite the inevitable pushback resulting from the Rio Tinto debacle, several actions should be considered to introduce the rationale for revenue transparency by stimulating debate on “resource curse” issues, and to make EITI look less like an OECD-only initiative. For example:

- Sponsor academic seminars in China at universities and think tanks involving OECD-based scholars with outstanding international reputations alongside Chinese counterparts to consider issues of resource wealth governance, investment security and host-country development.
- Seek to establish a joint project involving influential Chinese organizations such as the Chinese Academy of Social Science, and U.S.-based think tanks to evaluate the strengths and weaknesses of EITI, and explore the business case for Chinese involvement and what China could add to the framework.
- The EITI Board and secretariat could seek ways of linking transparency with the Global Compact, since this is becoming an important forum for Chinese extractive companies, and brings the weight of United Nations affiliation to what is otherwise a voluntary initiative.
- The United States government is a signed-up “supporter” of EITI, but was largely a passive participant under the Bush administration. If the U.S. government considers EITI an important initiative, then it needs to be included in government-to-government energy and economic dialogue with China. Action by the U.S. is potentially more influential than from Norway, the Netherlands or the U.K., other government “supporters.”

Because Chinese companies are now a strong part of the global extractives sector, there are also steps that Chinese institutions could take to help create a more secure environment for this investment and the “win-win” results that are sought.

- Invest in building capacity within corporations and with Chinese consultants

on environmental and social management for extractive industry projects. For example, use external advisors to help build environmental and social management systems at the corporate and project levels, work with universities to provide post-graduate training on the practical implementation of impact assessments, stakeholder consultations, resettlement and livelihoods restoration, and other tools of modern management.

- Ensure systems are in place to comply with the U.S. Foreign Corrupt Practices Act and the OECD for corporations with companies listed, or planning listing, on the New York or London exchanges.
- Consider undertaking research on revenue transparency and management that analyzes the impact of China's policies on institutions in developing countries where there is significant investment by Chinese oil and mining companies.
- Review the potential relevance and value of EITI to Chinese companies and China's economic development and foreign policy goals.

Both the entry of China, and the major problems that oil and mining economies are starting to face as a result of the plunge in commodity prices, with the consequent drops in government revenues and investment, could create a political environment in resource-rich developing countries, and among investors and bankers, that places more weight on the long-term, and on how exploitation of non-renewable resources could serve as a basis for development. For example, the economic and social impact assessments that are now an integral part of every oil or mining project could be matched by economic and social development plans jointly developed by investors, local governments and community representatives that work back from the end point thirty or forty years ahead and identify the implications for the way the project is to develop from the start. Resource development plans should envision the final legacy of each local and national oilfield or mine, and include steps to assure it in terms of financing, implementation, and monitoring.

Over the months when this paper has been researched and written, the global economy has moved into recession. What are the likely impacts on China's role in oil and mining internationally and on resource wealth governance? In my view, the following seem likely:

- Chinese corporations will continue to invest internationally—and focus on higher quality assets in more stable countries such as Australia, Chile and Brazil

unless blocked by regulators from these countries.

- The oil industry will focus on investments that secure access to resources that do not necessarily involve operating production fields, with further deals along the lines of the “loans for supply” deals recently negotiated with Russia and Brazil.
- Oil and mining investments in poor, unstable, developing countries will decline as a share of overall investment by Chinese companies, and attention will be focused to an even greater extent on domestic Chinese concerns.

However, Chinese oil and mining corporations will in practice be forced to pay much greater attention to resource wealth governance issues in some countries because labor, community, and security problems are likely to be exacerbated in a downturn when costs are squeezed and social tensions are higher.

The global downturn in extractive industry prices and investment may provide opportunities for global collaboration at a practical and technical level between corporations, host country governments, and donors to develop tools, standards and protocols that add a stronger development perspective on resource wealth governance. The work done by the World Bank on environmental and social standards, on collaboration with banks to establish the Equator Principles, and with Chinese banks and ministries on environmental health and safety standards illustrates that transparent, inclusive, but focused processes can lay the ground for improved performance.

NOTES

- 1 See <http://www.pfcenergy.com/pfc50.aspx>. Rankings in this survey are by market capitalization.
- 2 Jill Shinkleman, *Oil, Profits and Peace: Does Business Have a Role in Peacemaking?* (Washington, D.C.: USIP Press, 2007).
- 3 Juan Pablo Pérez Alfonso, *Hundédonos en el excremento del Diablo* (Caracas: Editorial Lisbona, 1976).
- 4 Dramatically below the average on measures of the efficiency of the insolvency process, time to enforce a contract; time to register property and costs and time to start a business. “Doing Business Survey,” World Bank, 2006, as quoted in IMF, August 2007.
- 5 See http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_ago.html.
- 6 For a fascinating account of the response to the absence (until recently) of oil, see Tim C. McCashie, “The United States, Ghana and Oil: Global and Local Perspectives,” *African Affairs* 107, no. 428 (July 2008): 313–332.
- 7 Oil companies clearly profit too, as evidenced by record-breaking profits during 2008 for companies including ExxonMobil, Shell, Chevron and BP.
- 8 See http://www.shell.com/home/content/nigeria/news_and_library/publications/2007/economic_performance/report2006_economic_performance_pg_1.html.
- 9 Gould, John A. and Winters, Matthew S., “An Obsolescing Bargain in Chad: Shifts in Leverage between the Government and the World Bank,” *Business and Politics* 9, no. 2 (2007).
- 10 Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: Free Press, 2003).
- 11 Amartya Sen, *Identity and Violence: The Illusion of Destiny* (New York: W. W. Norton & Company, 2006).
- 12 Elena Paltseva, “Autocracy, Devolution and Growth,” Stockholm School of Economics and Institute for International Economic Studies, January 2007, available at <http://www.econ.ku.dk/epru/Paltseva.autocracy.pdf>.
- 13 See the World Bank’s annual “Doing Business” survey at <http://www.doingbusiness.org> and Transparency International’s annual survey of perceptions of corruption at <http://www.transparency.org>.
- 14 See, for example, “Nigeria oil cut by rebel attack,” BBC, July 28, 2008, available at <http://news.bbc.co.uk/1/hi/world/africa/7528550.stm>.
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 - offer assistance within China’s capacity;
 - be based on mutual respect; and
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“Guidelines to the State-owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities”

[This appendix shows the English version of the SASAC Guidelines as published on the English-language version of SASAC’s web site, available at <http://www.sasac.gov.cn/n2963340/n2964712/4891623.html>. The Guidelines are copied in full to enable readers to get a sense of precisely how Chinese CSR policy is framed.]

These Guidelines are proposed to comprehensively implement the spirit of the 17th CPC National Congress and the Scientific Outlook on Development, and give the impetus to state-owned enterprises (SOEs) directly under the central government (referred to as CSOEs hereafter) to earnestly fulfill corporate social responsibilities (CSR), so as to realize coordinated and sustainable development of enterprises, society and environment in all respects.

1. FULLY UNDERSTAND THE IMPORTANCE OF FULFILLING CSR BY THE CSOES

1) Fulfilling CSR is a practical action taken by the CSOEs to apply the Scientific Outlook on Development. Fulfilling CSR requires the CSOEs, insisting on the principle of human-oriented and the Scientific Outlook on Development, to be responsible to stakeholders and environment, so as to achieve well-balance among the growth of enterprises, social benefit and environment protection. This is not only an important measure for promoting the socialist harmonious society and also

an embodiment of the CSOEs to thoroughly implement the China's new ideas about economic development, social progress and environment protection.

2) Fulfilling CSR is an overall social requirement to the CSOEs. The CSOEs, big enterprises in China's key industries, are the backbone of the country's economy and have a vital bearing on national security. Their production and operation involve all aspects of entire economy, society and people's livelihood. Therefore, fulfilling CSR is not only their mission and responsibilities, but also an ardent expectation and requirement from the public.

3) Fulfilling CSR is the necessary condition for realizing sustainable development of the CSOEs. Performing CSR and embedding the concepts and requirements of CSR into their business strategies, operation and corporate culture will help update their idea innovation and transformation of the pattern of growth, inject vitality and creativity to the enterprises, add value to their brand and image, improve their staff qualification and enhance cohesion of the CSOEs. All of these will definitely bring about a dramatic progress to CSOEs in development quality and level.

4) Fulfilling CSR is the need for the CSOEs to participate in international economic cooperation. As the progress of economic globalization, the international community concerns more and more on the performance of an enterprise in social responsibilities. By fulfilling CSR, it is either helpful in establishing a "responsible" public image by Chinese enterprises and more internationally influential, or significant for China to spread an image as a responsible nation.

2. GUIDELINES, REQUIREMENTS AND PRINCIPLES

5) Guidelines: CSOEs should take Deng Xiaoping Theory and the Important Thought of Three Represents as the guiding principles, thoroughly apply the Scientific Outlook on Development, adhere to the demands of human-oriented policy and sustainable development strategy from the Central Government of China, enhance their awareness of social responsibility and sustainable development, make overall planning with due consideration of every aspect. They should actively embody their responsibilities and set up good examples for other enter-

prises in fulfilling CSR so as to promote the construction of a harmonious and well-off society.

6) Requirements: CSOEs should enhance the awareness of CSR; actively implement CSR, setting example in legal and honest business operation, resource-saving and environment protection. CSOEs should also the model in building human-oriented and harmonious enterprise, and become the backbone of China not only in economy but also in CSR.

7) Principles: CSOEs should integrate CSR with their own reform and development, and regard the implementation of CSR as an important content of setting up modern enterprise system and enhancing their competitiveness. By transforming the pattern of growth and achieving sound and rapid development, they should implement CSR according to the practical situation of the country and the circumstances of themselves, highlight key issues and make out concrete plan, so as to strive for a substantial effect in implementing their CSE. In addition, CSOEs ought to give top priority to ensuring work safety, safeguarding the legal interests of employees, promoting career development of employees. These, as measures to build a harmonious relation between the enterprise and its employees, will also contribute to the China's undergoing program of building a harmonious society.

3. MAIN CONTENT OF FULFILLING CSR BY CSOES

8) Insisting on a legal and honest way in business operation. The CSOEs are asked to comply with regulations and laws, public ethnics and commercial conventions, and trade rules. They should also fulfill their tax obligations, undertake the interests of investors and creditors, protect intellectual property rights, keep business creditability, oppose improper competition and eradicate corruption in commercial activities.

9) Constantly improving ability of making sustainable profits. They should improve corporate governance, and advocate scientific and democratic decisionmaking. They should optimize their development strategy, focus on and strengthen their core businesses, reduce management layers and distribute resources in a reasonable way. Business administration and capability of control and supervision are enforced,

such as minimizing operational costs, strengthening risk precaution, increasing investment profit ratio, and enforcing market competitiveness as well.

10) Improve product quality and service. CSOEs should try to ensure the safety of products and quality of services, update product performance and service system aiming at providing well-qualified products and service to consumers. They should protect consumer interests, properly handle consumer complaints and suggestions and try their best to meet the demand of consumers. Only by this way can CSOEs establish a good image in consumers.

11) Strengthening resource conservation and environment protection. The large State-own enterprises should take their responsibilities and lead in energy saving and emission reduction. So the enterprises have to upgrade their technology and equipment, and engage in the recycling economy, so as to develop energy-conserving products and improve resource utilization efficiency. What is more, they should invest more to environment protection, rationalize production procedures, try to decrease the pollutant emission with a target lower energy consumption and less pollution but higher production efficiency and output.

12) Promoting independent innovation and technological advancement. CSOEs are required to complete mechanisms of technological innovation, increase investment in research and development so as to enforce independent innovation capability. They should accelerate the development of high and new technologies, especially making new breakthroughs in key technologies of the industry and fundamental research, and the readjustment of traditional industries. They also need to attach more attention to intellectual property rights, and by implementing IP strategy to promote technical innovation, to achieve some core technologies and brands, and foster industry upgrading and restructure.

13) Ensuring production safety. Responsibility System for Safe Production should be established and more investment in production safety. Serious safety accidents ought be strictly prevented and forbidden. CSOEs should also complete their emergency management system; continuously improve the emergency management and emergency handling capacity. Safe and healthy working conditions and living environment are necessary to ensure the health of employees, prevent any harm of occupational and other diseases to employees.

14) Protecting legal rights of employees. Employment contract with employees should be signed and respected, adhere to the principle equal pay for equal work, build up the mechanism of salary increasing, and buy social insurance regulated by the government. All employees ought to be respected and treated equally. Any discrimination of gender, nationality, religion and age is prohibited. In addition, enterprises should provide on-duty education and training, as well as equal opportunities of personal development. CSOEs should further their efforts to implement the employee representatives' convention system, to publicize corporate affairs, and to advance democratic management. Employees' livelihood should be fully considered, especially to those having difficulties and anxieties.

15) Participating in social public welfare programs. CSOEs ought to encourage their employees to volunteer for social services, and actively participate in community and social welfare program, such as charity, donations, and giving support to schools, cultural or hygiene activities. Upon the occurrence of major natural disasters and emergency accidents, CSOEs also need to provide financial, material and manpower support.

4. MAIN MEASURES TO FULFILL CSR

16) Establishing awareness of CSR. The CSOEs should well understand the significance of CSR, attach great importance to CSR in their working plan and daily business activities. Enterprise leaders ought to arrange CSR promotion within their enterprise, adopt new ideas and methods in management, striving to establish the corporate culture with CSR as the center.

17) Completing system and mechanism for fulfilling CSR. CSR should be integrated into corporate governance and business strategy, and implemented on all levels of their daily operations. CSOEs should also identify a department to cope with CSR affairs; gradually build a statistical index and assessment system for CSR. For those enterprises that are at leading position in CSR, a formal CSR performance evaluation system can be set up.

18) Building the CSR information releasing system. Enterprises having experienced in CSR work, should establish an information releasing mechanism, providing update and regular information about CSR performance and sustainable

development, plans and measures in carrying out CSR. Meanwhile, a regular communication and dialogue mechanism concerning CSR should be established, so that the enterprise can have feedback from its stakeholders and give its response quickly. All the information and feedback should be publicized to receive supervision from stakeholders and society.

19) Enforcing inter-enterprise communication and international cooperation. CSOEs are encouraged to exchange concepts and experience in fulfilling CSR with other enterprises at home and abroad, benchmark with the best CSR practices and summarize their own experience, so as to constantly improve their work. They should conduct more dialogues and communications with relevant international organizations and take part in international CSR standard formulation.

20) Strengthening CPC organizations' role in leading the CSR work of enterprises. The CSOEs should give full play to the political core role of the Communist Party of China (CPC) branches in the enterprise; encourage CPC members to take the lead in performing CSR. Trade union, the Communist Youth League and the women's federation are also required to contribute their efforts in fulfilling CSR, and strive to create a good environment for the enterprise to fulfill CSR."

Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank's (China EXIM Bank) Loan Projects

[This appendix provides an unofficial translation, as published by the U.S.-based NGO, International Rivers, of the guidelines issued by China EXIM bank concerning environmental and social impacts of projects financed by the bank, available at <http://www.internationalrivers.org/en/node/3139>. The importance of these guidelines in relation to this paper is the provision made for impact assessment where there are bank-financed investments in countries with weak national environmental legislation.]

UNOFFICIAL TRANSLATION by International Rivers

China Export and Import Bank (China EXIM Bank)

Issuance Notice of the “Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank's (China EXIM Bank) Loan Projects”

GENERAL PRINCIPLES

Article 1. In order to implement the national strategies for sustainable development, promote economic, social and environmental development, and effectively control credit risks, the Guidelines were developed according to the “People’s Republic of China’s Environmental Impact Assessment (EIA) Act,” “People’s Republic of China’s Environmental Protection Law,” “Environmental Management for Construction Project Ordinance” and other relevant state laws and regulations,

and with reference to the relevant regulations and procedures for the environmental and social assessments of international financial organizations.

Article 2. These Guidelines apply to the loan procedure of China EXIM Bank.

Article 3. The China EXIM Bank's loan projects are classified as domestic or offshore projects, according to the area in which the projects are implemented. Domestic projects mean that the projects are implemented inside China with China EXIM Bank's loan support. Offshore projects refer to the projects that are implemented outside China with China EXIM Bank's loan support.

Article 4. When China EXIM Bank reviews its loan projects, not only economic benefits, but also social benefits and environmental demands are considered.

Article 5. Environmental assessment refers to the systematic analysis and evaluation of the environmental impacts and its related impacts on human health and safety due to the implementation of the projects. It then proposes policies and measures to reduce the impact. The scope of the impact assessment includes air, water, soil, waste, natural environment and other factors.

Article 6. Social impact refers to the systematic analysis and assessment of the impact on socio-economic, natural resources and social environment caused by project implementation, and proposes policies and measures to reduce that impact. The scope of evaluation includes labor and terms of employment, social security and health, land acquisition and migrants' protection, etc.

CHAPTER ONE: DOMESTIC PROJECT EVALUATION

Article 7. The conditions for domestic projects should follow the government policy of Energy Conservation, Pollution Reduction and adjustment of industrial structure, control and restrain the loan commitment for industries with high-level pollution, high-level energy consumption and surplus production capacity, and eliminate financial support for inefficient production and technological projects.

Article 8. China EXIM Bank encourages clean production, especially for the creation of a circular economy, environmental protection and energy-saving pollution-preventing technological projects.

In accordance with the National Development and Reform Commission (NDRC)'s "Catalogue of Guidelines for the Adjustment of the Industrial Structure," China EXIM Bank will increase the commitment for investment projects encouraged by the Government. The investment projects that are classified as "restricted by the government" will face differential treatment. "Incremental stock projects" in the restricted list will not be provided with credit support, while "stock projects" in the restricted list, if the state allows enterprises to adjust in a certain period of time, will be given the necessary credit support. If projects are not included in both lists of restriction or elimination, factors of resource conservation and environmental protection should be fully considered when providing credit support in accordance with the principle of credit.

Article 9. When domestic non-building projects undergo the loan review mainly the borrower's environmental compliance and status of resource and energy conservation should be reviewed. The borrowers who exceed emissions and energy consumption standards and do not meet the requirements of environmental protection and energy conservation in principle will not experience the addition of new credit lines, and its existing credit will be gradually withdrawn. The energy consumption and pollutant emissions standards refer to the industry standards and norms set by relevant state departments.

Article 10. Domestic construction projects shall undergo not only environmental protection and energy consumption reviews, but also an environmental impact review, according to the approval advice from the EIA that are conducted by the departments in charge of environmental protection. China EXIM Bank has the right to request that borrowers hand in the EIA report, EIA form and EIA registration form under the regulation of environmental protection departments. The projects that do not gain the approval from the environmental protection department will not get credit support from China EXIM Bank.

The specific approval procedures of the environmental protection departments can refer to the “construction project EIA document classification and approval regulation” (the State Environmental Protection Administration (SEPA) Order Year 2004 No. 15) and “construction project EIA approval procedure regulation” (the SEPA Order Year 2005 No. 29).

Article 11. China EXIM Bank, if necessary, shall take environmental and social responsibilities into account in the loan contract to monitor and restrain the behavior of borrowers.

CHAPTER TWO: OFFSHORE PROJECT EVALUATION

Article 12. Offshore project assessments should abide by the following principles:

An EIA should be done during the pre-loan and loan-period review, in order to monitor the environmental impacts during post-loan management.

The host country’s environmental policies and standards are the basis for evaluation. Offshore projects of the host country should abide by the requirements of their laws and regulations and obtain corresponding environmental permits. When the host country does not have a complete environmental protection mechanism or lacks environmental and social impact assessment policy and standards, we should refer to our country’s standards or international practices.

Respect the local people’s rights to land and resources, and properly handle the resettlement problems.

For the projects that have serious negative impacts on the local environment, we should openly consult the public in accordance with the host country’s requirements.

Article 13. China EXIM Bank follows these procedures of environmental and social assessment for offshore projects:

The borrowers or project owners hand in the approval document and environmental and social impact assessment report issued by the authorities of the host country.

China EXIM Bank reviews the loan application documents submitted by the borrower and hires independent experts when necessary.

China EXIM Bank negotiates with the project owners or the borrowers to amend the construction project proposal, based on the environmental and social assessments.

Article 14. China EXIM Bank, if necessary, can require the inclusion of environmental and social responsibilities in the loan contract, in order to monitor and restrain the behavior of borrowers.

CHAPTER THREE: LOAN MANAGEMENT AND SUPERVISION

Article 15. China EXIM Bank shall inspect and monitor the project's construction and operation, based on the results of environmental and social impact assessments.

Article 16. For projects under construction, the borrowers or project owners should regularly report to the China EXIM Bank the actual impacts on the environment and society brought by project construction, and the status of implementation measures in eliminating and controlling these impacts.

China EXIM Bank shall inspect the post-loan management of the projects including environmental and social impacts.

Article 17. On the completion of projects, the borrowers or project owners of the construction projects should hand in the environmental acceptance documents for the completion of projects, which should follow "the environmental acceptance on the completion of the construction project management measures" (the SEPA Order Year 2001 No. 13); the borrowers or project owners of the offshore construction projects should hand in the environmental acceptance documents for completion of projects to the China EXIM Bank. The documents should meet the requirements of the host country's regulations.

Article 18. For construction projects during the operation phase, China EXIM Bank should conduct tracking management and post-evaluation work. The monitoring of project's environmental and social impact should combine with the post-

loan management of the loan projects, and the post-loan inspection report should include environmental and social impact content.

Article 19. For projects under construction or are operating that cause serious environmental and social problems, China EXIM Bank has the right to require the borrowers or project owners to take timely measures to eliminate these impacts. If they fail to eliminate the impacts of the projects, the China EXIM Bank has the right to stop disbursing the loans and demand an early payback of the loan, in accordance with contract.

SUPPLEMENTARY PROVISIONS

Article 20. These Guidelines were developed, interpreted and revised by the China EXIM Bank.

Article 21. These Guidelines shall come into force upon its issuance.

2007-08-28

APPENDIX II

Key Legal and Voluntary Instruments

Laws and conventions	Summary scope and content	
Alien Torts Claims Act (ATCA)	Human Rights – historic U.S. law now used to litigate against companies for alleged serious human rights abuses worldwide.	For links to multiple references see www.law.suffolk.edu/library/research/a-z/resguides/atca/cfm
Foreign Corrupt Practices Act (FCPA)	Bribery – U.S. law that makes it unlawful to bribe foreign government officials to obtain or retain business. Applies to all companies listed in the U.S., and to any bribery using U.S. mail or interstate commerce. FCPA requires U.S. listed companies to implement effective systems of internal accounting and control.	www.usdoj.gov
OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.	Bribery – parallels FCPA for all OECD member countries plus other country signatories	www.oecd.org
Voluntary standards		
Extractive Industries Transparency Initiative (EITI)	Extractive industry revenue transparency – standards for reporting by oil and mining companies of tax, royalty and other payments made to governments; by governments on taxes etc. received; for civil society involvement in setting detailed country rules, and for reconciling reported payments and receipts.	www.eitransparency.org

Laws and conventions	Summary scope and content	
Equator Principles	Social and environmental standards for banks to apply to project finance – based on IFC PS.	www.equator-principles.com
Global Compact	Ten principles on environment, labor, human rights and ethics - for business and other organizations	www.unglobalcompact.org
IFC Social and Environmental Performance Standards (PS) Social and Environmental Guidance Notes Environmental Health and Safety Guidelines (EHSg)	Social and environmental standards (and associated implementation guidelines) applied by the World Bank's private sector financing organizations (IFC and MIGA) to project they support. Eight standards cover: Impact Assessment and Management Labor Pollution Control Community Health, Safety and Security Land acquisition and Resettlement Biodiversity Indigenous Peoples Cultural heritage EHSg – 50+ sets of detailed technical standards for environmental, health and safety management and performance of industrial activities	www.ifc.org
ISO 14001 Environmental Management System Standard	Certifiable standard for business and other organizations similar to the longer established ISO 9000 Quality Management standards. Part of a suite of environmental management standards that also cover product design, life cycle assessment, environmental auditing, performance evaluation, environmental communications.	www.iso.org
Voluntary Principles on Security and Human Rights (VPSHR)	Principles for extractive industry companies to limit risks of human rights abuses associated with resource extraction projects	www.voluntaryprinciples.org

ABBREVIATIONS

ATCA	Alien Tort Claims Act
CASS	Chinese Academy of Social Science
CDB	China Development Bank
CHALCO	Aluminum Corporation of China Ltd.
CHINA EXIM	China Export and Import Bank
CHINALCO	Umbrella group of Chinese mining companies
CMA	China Mining Association
CMEC	China Machinery and Electric Equipment Export and Import Company
CNM	China Non-ferrous Metals Mining Corporation
CNMIN	China Non-ferrous Metals International Mining Corporation, Ltd.
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CSR	Corporate social responsibility
EITI	Extractive Industries Transparency Initiative
FCPA	Foreign Corrupt Practices Act
FOCAC	Forum of China-Africa Cooperation
ICMM	International Council on Mining and Metals
IFC	International Finance Corporation, World Bank Group
IPIECA	The International Petroleum Industry Environmental Conservation Association
ISO	International Organization for Standardization
MCC	China Metallurgical Construction Corporation
MIGA	Multilateral Investment Guarantee Agency, World Bank Group
NRDC	National Reform and Development Commission
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development

OPIC	U.S. Overseas Private Investment Corporation
RMB	Renminbi, the currency of the People's Republic of China
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
SEM	State Environment Ministry
SEP	Social and Environmental Management Plan
SEPA	State Environmental Protection Administration
SINOCHEM	widely diversified company, successor to the first state-owned enterprise specializing in foreign trade
SINOPEC	China Petroleum and Chemical Corporation
SINOSURE	State Export Credit Guarantee Organization
SOE	State-owned company
SSI	Sonangol Sinopec International Joint Venture

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