

# The Green Evolution

*Environmental Policies and Practice in China's Banking Sector*



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## Executive Summary

In May 2007, BankTrack and FOE released *Time to Go Green*, the first international report on the state of environmental responsibility in the Chinese banking sector. This report provides an update of key developments within the field of Chinese sustainable banking during the past 18 months.

Throughout 2007 and 2008, Chinese banks reported record growth and profits, but this growth, along with China's economic growth in general, was unfortunately accompanied by serious environmental costs, both domestically and abroad. The sustainable finance regulations released by the Chinese government are, in part, an attempt to address these problematic environmental consequences.

In the last year and a half, China's Ministry of Environmental Protection (MEP) has launched a series of green finance policies that mark an entirely new way of addressing environmental degradation in China, and are proving to be the most powerful factor spurring and influencing sustainable finance in China today. The first of China's green finance policies was the "Green Credit" policy (July 2007) regulating bank lending. Currently, the Green Credit Policy is limited in scope, with banks only prohibited from lending to 38 companies on a nationwide 'credit blacklist.' In addition, there is no way of applying the policy to banks' growing international transactions. However, the policy has been strengthened by additional policies and tools from financial regulators, green initiatives promoted by international banks, and advocacy from Chinese NGOs. This combination of forces have dissuaded some banks from lending to *liang gao* (highly polluting and energy intensive) industries and promoted financing for environmentally-friendlier alternatives.

Chinese banks have generally sought to comply with the government's green finance regulations by creating internal programs and procedures. Several banks now promote energy-efficiency lending and are cutting lending to *liang gao* industries. A handful of Chinese banks became, or are thinking about becoming, signatories to international standards and norms. Although these efforts to come into line with domestic and international norms are important, few banks have gone beyond and developed their own publicly-disclosed environmental guidelines. In addition, few banks have provided detailed information on if or how they incorporate environmental standards into their own risk assessment and lending procedures. As is the case with their international peers, Chinese banks provide minimal and vague reporting about their actual financing activities, particularly with respect to individual transactions. What is evident from public reports, however, is that Chinese banks continue to finance environmentally-sensitive projects and activities. Ultimately, the real indicator of a bank's sustainability is the on-the-ground impacts of its transactions at home and abroad.

This report finds that there has been significant progress in the development of sustainable finance in China, including the creation of influential regulations, internal bank compliance mechanisms, and some public reporting. In the best cases, banks have established deeper credit risk management systems that may enhance the strength of bank lending portfolios, or adopted international best practices. But overall, Chinese banks still lag behind their

international peers, especially when it comes to developing comprehensive environmental and social management systems and engaging stakeholders.

To further the growth of sustainable finance at Chinese banks, the central government should encourage Chinese banks to develop their own risk-oriented environmental management systems so as not to unintentionally limit banks' understanding of the role and potential of environmental financing practices (i.e. a "tick the box" procedure). Additionally, as Chinese banks expand their investments overseas, the central government should develop recommendations on how to apply the Green Credit Policy in an international context. Finally, Chinese NGOs can add an important perspective and valuable on-the-ground knowledge for banks about the environmental and social risks associated with corporate borrowers.

## Green Banking: Progress and Pitfalls

In May 2007, BankTrack and FOE released *Time to Go Green*, the first international report on the state of environmental responsibility in the Chinese banking sector. The report found that at the time, only two banks -- China Development Bank and the Export-Import Bank of China (both policy banks) -- had publicly disclosed environmental financing standards. Only one bank, Shanghai Pudong Development Bank, had issued a corporate social responsibility (CSR) report. Today, at least four Chinese banks have issued public reports that describe their environmental financing policies, procedures and activities.

Last year's report identified governmental leadership as one of the most "promising opportunities" for advancing sustainable banking in China. Indeed, during the past 18 months, the most influential driver of sustainable finance has been the rollout of the Green Credit Policy, which was formally introduced in July 2007. The policy established a Ministry of Environmental Protection (MEP) 'credit blacklist' of companies that did not meet environmental standards, and prohibited banks from lending to those companies. Although the China Banking Regulatory Commission had, as early as 2004, instructed banks to cease lending to projects that were out of compliance with relevant laws (including those laws related to environmental protection), there was no publicly available evidence to suggest that Chinese banks had, on a widespread basis, established procedures to implement that notice. The Green Credit Policy, with its elevated political status, MEP blacklist, and central bank-created environmental credit database, provides a much stronger governmental imperative, as well as practical capacity, for bringing bank lending in line with environmental policy objectives.

Another promising opportunity identified in the 2007 report was the role of international banks and NGOs in promoting international best practices in sustainable finance. Since then, several international institutions, particularly the International Finance Corporation, have engaged with their Chinese peers on this issue, and Chinese banks seem to be eager to receive training and capacity building from international counterparts. In particular, the Equator Principles, the most well-known industry-level norms relating to sustainable banking, have emerged as a widely-discussed sustainability framework among Chinese banking circles. Even though the Principles apply to project finance, a form of financing that is relatively rare in China, government officials and bankers debate how the Equator Principles can be "localized" to the Chinese context. China's Industrial Bank became the first to put the Equator Principles into action when it adopted the Principles at the end of October 2008.<sup>1</sup>

The 2007 study also found that, especially among the commercial institutions, Chinese banks viewed environmental issues as a matter of charity rather than a core business issue -- similar to how international banks viewed their environmental responsibility ten years ago. Today, with the emergence of the Green Credit Policy, Chinese banks may be more apt to view environmental issues as a matter of policy compliance. As a matter of corporate social responsibility (environmental initiatives taken beyond what is legally required), many Chinese banks still portray environmental issues in their corporate communications as charity work. The exception is ICBC, whose CSR report refers to environmental risk management.

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<sup>1</sup> Zhu Wenqin, "IFC Supports Major Breakthrough in China's Green Banking," SynTao, 31 October 2008, [http://www.syntao.com/E\\_Page\\_Show.asp?Page\\_ID=10434](http://www.syntao.com/E_Page_Show.asp?Page_ID=10434)

Like their international peers, there are still questions about how well environmental policies are being implemented at Chinese banks. Chinese banks continue to finance environmentally-dubious transactions at home, and their continued expansion abroad poses increasing risks for the banks, overseas communities and the environment. And similar to international banks, even the best CSR reports from Chinese banks lack the level of transparency needed (particularly on a transactions-basis) to make those reports instruments of accountability. That said, although Chinese banks face similar challenges with respect to environmental policy implementation, they are still generally behind their international peers, especially regarding environmental governance issues such as internal staffing and expertise, oversight systems, and stakeholder engagement.

This report will provide more details on the government's new environmental finance regulations, how they are being implemented at major Chinese banks, highlight some specific examples of controversial transactions made by Chinese banks, and identify projected trends for the Chinese banking sector going forward.



## General Trends in the Chinese Banking Sector

In the last year, Chinese banks have continued to raise their profile and influence, as the value of their assets and investments increase. At the beginning of 2008, three banks, ICBC, Bank of China and China Construction Bank entered into the ranks of the top five banks in the world by market capitalization, with ICBC overtaking Citigroup and Bank of America for the top slot.<sup>2</sup> These are impressive moves, particularly considering that five years ago, no Chinese banks were competing as publicly traded commercial banks. Indeed, Chinese banks showed record-high profits and assets in 2008, in some cases up to a 140% increase year-on-year.<sup>3</sup> Outstanding loans were through the roof, despite the fact that the People's Bank of China (the Central Bank) introduced two mandatory increases in the capital adequacy ratio in 2007 and 2008.<sup>4</sup>

As Chinese banks sought to increase their profitability and growth, they expanded their business operations. Four major Chinese banks floated shares on the Shanghai or Hong Kong Stock Exchanges in 2007 and three more hoped to do so before 2010.<sup>5</sup> Most major banks opened more branch offices throughout China and internationally, and some even began to buy stakes in international banks. Notably, China Development Bank bought a 3% stake in UK-based Barclays and ICBC purchased a 20% stake in South Africa's Standard Bank.<sup>6</sup>

Chinese banks expanded their investments as well, helping more than 5,000 domestic Chinese enterprises establish direct investments in 172 countries and regions around the world by the end of 2007.<sup>7</sup> International attention was especially focused on China's investments in Africa, where China Export-Import (Exim) Bank pledged to commit USD 20 billion in loans through 2010, dwarfing the USD 4.8 billion in project loans the World Bank committed in 2006.<sup>8</sup> A few countries in particular capitalized on China Exim's financing,

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<sup>2</sup> Tschang, Chi-Chu, Dawn Kopecki and Mark Scott, "Chinese Banks Head for the US: American banks are a bargain these days--and Chinese financial firms with big plans are buying," *Business Week*, New York: 5 Nov 2007. Iss. 4057, p. 28

<sup>3</sup> Zhou, Ina, "Stock Alert - Shanghai Pudong Devt Bank sharply higher on H1 earnings forecast," *AFX Asia*, 4 July 2008

<sup>4</sup> Associated Press, "China: Banks ordered to keep more deposits," *CNN.com*, 7 June 2008, [http://www.cnn.com/2008/BUSINESS/06/07/china.inflation.ap/index.html?eref=rss\\_latest](http://www.cnn.com/2008/BUSINESS/06/07/china.inflation.ap/index.html?eref=rss_latest)

<sup>5</sup> China Development Bank, one of China's three policy banks, reportedly listed on the Hong Kong Stock Exchange in 2007; China Construction Bank, Bank of Communications, and CITIC Bank, all in China's top ten commercial banks, listed between April and September 2007. China Development Bank, the Agricultural Development Bank of China and Agricultural Bank of China were taking steps to offer public stock before 2010.

<sup>6</sup> "China Development Bank to buy 5 percent stake in Barclays," *Radio 86*, 24 July 2007, <http://www.radio86.co.uk/china-insight/news-today/3281/china-development-bank-to-buy-5-percent-stake-in-barclays> and Industrial and Commercial Bank's 2007 annual report: <http://www.icbcltd.com/icbcltd/investor%20relations/financial%20information/financial%20report/s/annual%20report%202007.htm>

<sup>7</sup> CIA Factbook, China page, accessed on 21 July 2008, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html#Econ>

<sup>8</sup> Bosshard, Peter, "China's Environmental Footprint in Africa," *China in Africa Policy Briefing*, china in Africa Project of the SA Institute of International Affairs: South Africa, No.3 April 2008, p.2

including Nigeria, Angola, Ethiopia and the Democratic Republic of Congo, all of which primarily exported natural resources to China.<sup>9</sup> China Development Bank increased its overseas lending, for example providing USD 1 billion for the Chinese government's China-Africa Development Fund, which aims to finance the entry of Chinese firms into African economies. The bank reportedly plans to invest up to USD 5 billion over the next few years.<sup>10</sup> Remarking on China's financial cooperation with African countries, Nigeria's Finance Minister, Shamsuddeen Usman, noted "the possibilities are endless...Which other country has made that kind of money available? Has the UK or America or any one of them? For me this is a sign of real commitment by China."<sup>11</sup>

However, the rapid economic development and brisk trade that came out of these investments were accompanied by serious environmental costs to China and the countries it invests in. In 2007, China's environmental problems attracted worldwide attention, as the country became the world's largest carbon dioxide emitter, and as air pollution became a major concern in the run-up to the 2008 Olympic Games in Beijing. Indeed, the World Bank believes air pollution in China may cause as many as 750,000 premature deaths a year.<sup>12</sup> Economically, pollution is hurting China's GDP growth, with at least USD 64 billion each year in clean-up and other expenses.<sup>13</sup> One study found that in 2005, around one-third of Chinese emissions was due to production of goods for export, and that this proportion had risen from 12% in 1987 and 21% as recently as 2002.<sup>14</sup> Abroad, China continued to attract international scrutiny for its investment in 'bottom-of-the-barrel' extractive industries projects, the dregs left behind by Western companies that have already pillaged the most lucrative and accessible natural resource concessions. These controversial investments included some of the world's most socially and environmentally risky hydropower, mining, oil and gas projects in countries with underdeveloped environmental standards and poor governance.

Unable to deny the environmental and social costs of the country's explosive growth, and seeking to put the brakes on an overheating economy, the Chinese government announced new stricter environmental policies that sought to curb pollution and energy use. Under the National Climate Change Program, unveiled in June 2007, China pledged to restructure its economy, promoting clean technologies and improving energy efficiency. To achieve this, China set goals of reducing energy consumption per unit of gross domestic product (GDP) by

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<sup>9</sup> Battersby, John, "China signals a new day for Africa," SouthAfrica.info, 9 Nov 2007, <http://www.southafrica.info/africa/newday.htm>

<sup>10</sup> Davies, Martyn, "Beijing's friendship puts SA in Key commercial spot," Business Report, 7 May 2008, <http://www.busrep.co.za/index.php?fSectionId=553&fArticleId=4389202> and Xinhua, "China approves China-Africa Development Fund", China Daily, 14 May 2007, [http://www.chinadaily.com.cn/china/2007-05/14/content\\_871632.htm](http://www.chinadaily.com.cn/china/2007-05/14/content_871632.htm)

<sup>11</sup> Green, Matthew and Richard McGregor, "China offers \$50bn in export credit guarantees to Nigeria," Financial Times, 2 April 2008

<sup>12</sup> McGregor, Richard, "Beijing clouds the pollution picture," Financial Times, 2 July 2007, [http://www.ft.com/cms/s/0/69333ff8-28bb-11dc-af78-000b5df10621.html?nclick\\_check=1](http://www.ft.com/cms/s/0/69333ff8-28bb-11dc-af78-000b5df10621.html?nclick_check=1)

<sup>13</sup> "Green GDP Accounting Study Report 2004 issued," State Environmental Protection Administration (SEPA) of China and the National Bureau of Statistics (NBS) of China, Sept. 11, 2006, [http://www.gov.cn/english/2006-09/11/content\\_384596.htm](http://www.gov.cn/english/2006-09/11/content_384596.htm)

<sup>14</sup> Peters, Glen P., Christopher L. Weber, Dabo Guan and Klaus Hubacek, "The Contribution of Chinese exports to climate change," Center for International Climate and Environmental Research - Oslo (CICERO), 21 July 2008

20%, and cutting total emissions of major pollutants by 10% by 2010.<sup>15</sup> In 2007, the Chinese government also began harnessing the financial sector as a way to achieve the country's environmental goals, and introduced a series of 'green regulations' for the financial sector.

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<sup>15</sup> "China's National Climate Change Programme," National Development and Reform Commission (NDRC), June 2007, <http://www.ccchina.gov.cn/WebSite/CCChina/UpFile/File188.pdf>

## Green Regulations and Initiatives

### Green Regulations

In July 2007, China officially launched the first of its green finance policies. These policies mark an entirely new way of addressing environmental degradation in China and are proving to be the most powerful factor spurring and influencing sustainable finance in China today. Through a series of environmental financial regulations enforced by the Ministry of Environmental Protection (MEP) in partnership with various financial regulatory departments, the Chinese government enlisted the power of the financial sector to provide incentives and disincentives for their clients' (companies') pollution and energy usage. 'Green regulations' that came into force by mid-2008 include the "Green Credit" policy (July 2007) regulating bank lending, the "Green Securities" policy (February 2008) regulating China's capital markets, and "Green Insurance" (February 2008) regulating insurance companies. Additionally, the government is considering incorporating environmental standards into tax regulations through the "Green Tax" policy, and into trade regulations through the "Green Trade" policy.<sup>16</sup>

These regulations advanced some high-level environmental principles developed by the Chinese government and embodied in the National People's Congress's Eleventh Five-Year Plan (issued in 2006). These principles include incorporating environmental considerations in financial and business decisions, controlling pollution and energy consumption from specific industries flagged by MEP, and supporting and promoting environmentally-friendly enterprises and technology. In publicizing these principles, MEP coined some phrases to express key concepts. For example:

- "Three Simultaneities" policy (三同时) addresses the need to have pollution control and prevention incorporated into a project from the very beginning, instead of dealing with costly environmental clean-up efforts after an environmental accident. In recent years, such mistakes proved to be both environmentally and financially costly to China's GDP growth.<sup>17</sup> The policy states that facilities to prevent and control pollution and other hazards should be designed, built and implemented at the same time as the main project.<sup>18</sup>
- 'Liang Gao' (两高) framework refers to a group of 14 industries MEP identified as particularly energy-intensive, polluting and excessive in production capacity. These industries include thermal power; steel and iron; cement; aluminum; coal; metallurgy; building materials; mining; chemicals; oil; pharmaceuticals; light industry; textiles; and leather.<sup>19</sup> MEP broke each category further down into specific types of manufacturing or

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<sup>16</sup> "Green credit: To fight pollution, China takes the capitalist route," Reuters, 30 July 2007, <http://www.iht.com/articles/2007/07/30/business/pollute.php>

<sup>17</sup> "Green GDP Accounting Study Report 2004 issued," State Environmental Protection Administration (SEPA) of China and the National Bureau of Statistics (NBS) of China, Sept. 11, 2006, [http://www.gov.cn/english/2006-09/11/content\\_384596.htm](http://www.gov.cn/english/2006-09/11/content_384596.htm)

<sup>18</sup> Tam, Man-kei, "China's Banks Should Open Up to the World About Green Issues," *Green Investments*, Vol. II, Greenpeace: Beijing, July 2008, p.7

<sup>19</sup> "环境保护部办公厅函," Ministry of Environmental Protection Correspondence No. 373 (2008), Ministry of Environmental Protection, 24 June 2008, [http://www.mep.gov.cn/info/bgw/bbgth/200807/t20080707\\_125138.htm](http://www.mep.gov.cn/info/bgw/bbgth/200807/t20080707_125138.htm)

processing. For instance, the chemical industry was divided into synthetic chemicals, pesticides, daily-use chemicals, rubber processing, etc.

- 'Supporting the Larger and Restricting the Smaller' is a guideline set forth by the National Development and Reform Commission (NDRC) for energy conservation and emission reduction in thermal power production. It favors large-scale energy generation projects in China's electric power industry by requiring small thermal power generation units be shut down when larger generation units are installed.<sup>20</sup> The government stated in the 11<sup>th</sup> Five-Year Plan that it aimed to cut 50 million kW of capacity generated by small thermal power units between 2006 and 2010. By August 2008 China had cut slightly more than half of that amount, mostly in coal combustion generating units and oil-driven generating units.<sup>21</sup>

In order to stress the importance of these environmental protection measures, in March 2008 the State Environmental Protection Agency (SEPA) was upgraded to a full Cabinet ministry under the new name of the Ministry of Environmental Protection (MEP).<sup>22</sup> The upgrade reflected the government's desire to be more forceful in its management of the country's serious environmental issues. The promotion resulted in some administrative changes, such as a bigger budget and more employees. It was intended to create meaningful political changes as well; for example, any law that is to be presented to the State Council by any other government department now requires MEP review and sign-off. MEP officials noted that this was symbolically significant in showing the department's increased political clout; however, would be some time before MEP would flex this political muscle by rejecting another Ministry's legislation.<sup>23</sup>

### **Application to the Banking Sector: The Green Credit Policy**

China's banks were the first part of the financial sector to be governed by the new 'green regulations.' MEP (at that time still SEPA), in partnership with the People's Bank of China (the Central Bank), and the China Banking Regulatory Commission (CBRC) introduced the 'Green Credit' policy in July 2007.<sup>24</sup> The policy established a 'credit blacklist' of companies that did not meet environmental standards as determined by MEP due to their high energy-consumption, pollution and environmental risks. Under the regulation, banks are prohibited from lending to companies that make it onto the list until the companies remedy their environmental violations and are cleared from the blacklist.<sup>25</sup>

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<sup>20</sup>"2007 Corporate Social Responsibility Report," ICBC, p.28, [http://www.icbc.com.cn/icbc/html/download/nianbao/2008/shehuizerenbaogao\\_2007e.pdf](http://www.icbc.com.cn/icbc/html/download/nianbao/2008/shehuizerenbaogao_2007e.pdf)

<sup>21</sup>"China closes down 8.36 mln kW of small thermal power units," Xinhua, 4 August 2008

<sup>22</sup>"China announces 'super-ministries', including one for environment," AFP, 11 Mar, 2008, <http://afp.google.com/article/ALeqM5giPUHFkPnbJWleDQdRstP-tEg-0w>

<sup>23</sup> Matisoff, Adina, unpublished interview with MEP representative in Washington, DC, April 2008

<sup>24</sup>"Green credit: To fight pollution, China takes the capitalist route," Reuters, 30 July 2007, <http://www.iht.com/articles/2007/07/30/business/pollute.php>

<sup>25</sup> Pan Yue, "SEPA Released a Report on the 1<sup>st</sup> Phase Implementation of China's Green Credit Policy: Yue Pan Addressed the Barriers for the Green Credit Policy," unofficial translation from original Chinese press release, Ministry of Foreign Affairs, 13 Feb 2008, p.1

MEP is responsible for drafting the lists of companies and then passing it to the Central Bank to include in its credit database, and to the CBRC to incorporate into its banking policies and compliance monitoring activities.

The CBRC released two sets of instructions on assessing environmental risks in loan applications, and integrating environmental considerations into bank investment choices: The "Announcement on Prevention and Control of Credit Risks for High Polluting Industries" was released in July 2007, followed by the "Instructing Opinion on Saving Energy and Reducing Emissions" in November 2007. Combined, these documents prompt financial institutions to not only implement the Green Credit policy, but also to promote the government's broader environmental policies, including: supporting enterprises working in environmental protection; controlling lending to the '*liang gao*' industries (including limiting the total number of loans to these industries, suspending or declining some loans and retracting loans that were previously disbursed to polluting corporations); and categorizing all projects based on their environmental impacts.<sup>26</sup>

## Implementation

MEP's credit blacklist is based on companies' compliance with over 30,000 corporate environmental laws; although it has not disclosed what methodology it follows to determine the blacklist.<sup>27</sup> The first blacklist was not comprehensive, as only 38 companies were included during its first six months of implementation, far short of the more than 8,000 companies that were penalized for environmental violations in the first eight months of 2007.<sup>28</sup> According to MEP, companies were included on the first lending blacklist for insufficient environmental impact assessments, poor emission standards, mismanagement of watershed areas and handling of waste, and neglecting to implement the 'three simultaneities' policy.<sup>29</sup>

After six months of applying the Green Credit policy, MEP reported that the policy was being implemented at commercial banks in 20 provinces and municipalities, as well as all three national policy banks.<sup>30</sup> Of the 38 companies put on the blacklist during the first six months, only 12 submitted loan applications that were either restricted or denied by banks. They included chemical companies, pharmaceutical companies, food processing and alcohol brewing companies, among others.<sup>31</sup> Their efforts amounted to more than RMB 2 billion in loans that were either denied or recalled from polluting companies.<sup>32</sup>

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<sup>26</sup> Pan Yue, p.1

<sup>27</sup> "Green Credit to be a Trend as Success Achieved at First Stage," Beijing Review, 27 Feb 2008, [http://www.beijingreview.com.cn/txt/2008-02/27/content\\_100991.htm](http://www.beijingreview.com.cn/txt/2008-02/27/content_100991.htm)

<sup>28</sup> Schaefer, Paul, "China Clamping Down On Polluters" Environmental News Network, 11 Sept 2007, [http://www.enn.com/top\\_stories/article/22960](http://www.enn.com/top_stories/article/22960)

<sup>29</sup> Pan Yue, p. 1

<sup>30</sup> Pan Yue, p.1 and "Green Credit to be a Trend as Success Achieved at First Stage," Beijing Review, 27 Feb 2008, [http://www.beijingreview.com.cn/txt/2008-02/27/content\\_100991.htm](http://www.beijingreview.com.cn/txt/2008-02/27/content_100991.htm)

<sup>31</sup> Pan Yue, p. 1

<sup>32</sup> Pan Yue, p.2

Indeed, progress in protecting the environment through the Green Credit policy was reportedly far below expectations.<sup>33</sup> MEP's Vice-Minister, Pan Yue, stated that although this is the most forceful measure MEP could impose, it "cannot fundamentally contain the trend of worsening pollution, and we need the force of even more combined economic levers."<sup>34</sup> The Vice-Minister pointed to several reasons why the policy had not been fully realized. These include technical issues such as a high number of outstanding loans to energy-intensive and polluting sectors; poor information dissemination about the policy flowing between the central policymakers and local implementing divisions; and the availability of loans for small polluters from China's informal banking sector.

One major issue with implementing the policy is that local environmental protection departments, which are responsible for collecting data about polluting companies and enforcing sanctions against them, are accountable to local governments instead of MEP. This dynamic, wherein local environmental agencies are responsible for enforcing national laws, is commonly cited as a barrier to effective enforcement of environmental regulations generally. Theoretically, using the banking industry, which has been newly restructured to prevent conflicts of interest (for example, organizing banks by front, middle, and back offices, rather than by local branches -- an arrangement which allowed loan officers to be the same ones to enforce credit policy), should be an effective conduit for enforcing national environmental laws.

However, MEP has encountered opposition from some local governments that are unwilling to sanction or reduce loans for heavy polluters or high-energy consuming businesses because they are reliant on those companies for their tax base and short-term profits. According to Pan Yue, implementation at the local level relied on "personal feelings of the regulation enforcers" and MEP officials say that collecting information about companies and deciding which ones would go on the first blacklist was often a negotiation with these local officials.<sup>35</sup> A second major issue with the policy is that MEP has no ability to apply the policies to Chinese overseas investments since enforcement relies on local environmental departments.

On the macro level, MEP has to grapple with the country's heavy reliance on energy sources that are inherently environmentally harmful, another obstacle to meaningful reform. In 2008, 78% of China's energy output came from coal, a figure that is expected to continue with no significant change until at least 2020. Additionally, the country's commercial energy suppliers are investing most heavily in thermal power, hydropower, thermoelectricity, gas exploitation and coal mining, all of which are main contributors to China's air and water pollution.<sup>36</sup> MEP blacklisted a small handful of these projects in 2007, including those

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<sup>33</sup> Schaefer, Paul, "China Clamping Down On Polluters" Environmental News Network, 11 Sept 2007, [http://www.enn.com/top\\_stories/article/22960](http://www.enn.com/top_stories/article/22960)

<sup>34</sup> "Green credit: To fight pollution, China takes the capitalist route," Reuters, 30 July 2007, <http://www.iht.com/articles/2007/07/30/business/pollute.php>

<sup>35</sup> Pan Yue, p. 3 and Matisoff, Adina, unpublished personal interview with MEP official in Washington, DC, April 2008

<sup>36</sup> "An Essential Investment Report of China's Electric Power Industry, 2000-2008: Focusing on the 56 Listed Companies in China's Power Industry," Research and Markets, 5 August 2008, M2 Communications

operated by branches of Guodian Corporation, China Datang Group, and Huadian Corporation, three of China's largest power companies.<sup>37</sup>

The Green Credit policy will be revised as these problems are addressed, and Pan Yue suggested that MEP is working to improve certain aspects of the policy. These include, first and foremost, improving local implementation through capacity building and information-sharing at local levels; clarifying environmental protection guidelines for banks to incorporate into their policies; and creating a robust 'network of environmental economic policies' that will compliment the green credit policy.<sup>38</sup>

## Complimentary Green Regulations

As MEP strives to make its environmental protection policies as strong as possible, it is trying to address energy-intensive and polluting companies through a range of other green finance policies. As mentioned above, these include the 'Green Securities,' 'Green Insurance,' 'Green Tax,' and 'Green Trade' policies. In February 2008 MEP announced the start of two of these policies:

- The 'Green Securities' policy was launched by MEP in February 2008 in partnership with the China Securities Regulatory Commission (CSRC). The policy aims to make it harder for polluters to raise capital by requiring companies listed on the stock exchange to disclose more information about their environmental record.<sup>39</sup> The 'green securities' policy is enhanced by the issuance of the 'Green IPO' in June 2008. The policy document, titled "The Management Roster of Listed Companies Environmental Verification Industry Categories" (上市公司环保核查行业分类管理名录), requires enterprises in '*liang gao*' industries to undergo an environmental assessment by MEP before initiating an IPO or obtaining refinancing from banks. During a 10-day pre-IPO evaluation period, MEP conducts its own assessment and calls for the public's opinion through a national hotline. If MEP approves the company, it then issues a permit to let the IPO proceed. As of September 2008, this process was responsible for the rejection or further review of IPOs from 20 out of 38 companies reviewed since the policy was implemented.<sup>40</sup> In August 2008, Golden East Paper Co., a subsidiary of Asia Pulp & Paper, submitted an IPO application to MEP for environmental evaluation and public comments. Several NGOs, led by Greenpeace-China, provided comments on the company's environmental record, using information gathered from more than five years of research on the company. The groups highlighted the company's poor environmental track record and recommended that MEP reject the IPO application until serious water pollution and deforestation issues are remedied.<sup>41</sup> The Ministry of Environmental Protection's verdict on this application, which may be released within six months of the application, is an important test of the

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<sup>37</sup> "Guangxi, Shandong on green blacklist," China Daily, 8 July 2008

<sup>38</sup> Pan Yue, p. 4

<sup>39</sup> Reuters, "China orders listed firms to be greener," Environmental News Network, 25 Feb 2008, [http://www.enn.com/top\\_stories/article/31711](http://www.enn.com/top_stories/article/31711)

<sup>40</sup> "绿色中国第十四届论坛深圳举办 潘岳：期待珠三角地区率先推行环境经济政策," Ministry of Environmental Protection, 16 Sept 2008, [http://www.mep.gov.cn/hjyw08/200809/t20080916\\_128720.htm](http://www.mep.gov.cn/hjyw08/200809/t20080916_128720.htm)

<sup>41</sup> Tam, Man-kei and Liu, Bing, "Paper Tigers: APP's polluting China arm seeks IPO," Greenpeace-China, 14 August 2008, [http://www.banktrack.org/show/news/paper\\_tigers\\_app\\_s\\_polluting\\_china\\_arm\\_seeks\\_ipo](http://www.banktrack.org/show/news/paper_tigers_app_s_polluting_china_arm_seeks_ipo)



effectiveness of the 'Green IPO' measure, particularly as it relates to the Ministry's responsiveness to public comments.

- The 'Green Insurance' policy was announced jointly by MEP and the China Insurance Regulatory Commission (CIRC) in February 2008. It aims to better monitor polluting industries and help victims of pollution accidents obtain immediate compensation by mandating that all industries with pollution risks have insurance. A pilot program was initiated in 2008 for companies that are prone to serious pollution accidents, especially those that produce, sell, store, transport or use high-risk chemicals, petrochemicals or provide dangerous waste disposal services. This is a timely and important measure, as MEP found that 81% of the country's 7,555 large-scale heavy chemical projects are located in environmentally-sensitive areas that are densely populated or adjacent to neighboring rivers. The policy is scheduled to be implemented nationwide by 2015.<sup>42</sup>

Additionally, the CBRC issued corporate social responsibility guidelines on 5 December 2007 aimed at complimenting the 'green regulations' within the banking sector. The 'Opinion on Strengthening Banking Financial Institutions Corporate Social Responsibility' recommended that corporate social responsibility (CSR) at financial institutions should include, at minimum: "safeguarding the legitimate rights and interests of shareholders, equitable treatment of all shareholders; people-oriented, value and protect the legitimate rights and interests of employees; operating integrity, and safeguarding legitimate rights and interests of financial consumers; unfair competition, anti-commercial bribery, money-laundering, create a good market competition order to save resources, protect and improve the natural ecological environment and improving the financial services community promote community development; development and support of social welfare undertakings in order to show care for community development."<sup>43</sup> As bank lending restrictions may have particularly hard impacts on small- and medium-sized enterprises (SMEs), the CBRC also released instructions for the top five banks to prioritize lending to SMEs. The CBRC is reportedly working on creating more flexible and SME-friendly regulations to help banks implement this policy.<sup>44</sup>

## Green Initiatives

One important shortcoming of the recent green financial regulations is its application overseas. The design of the Green Credit Policy relies on the MEP blacklist, which tracks borrower compliance with domestic regulations. As mentioned above, there is no mechanism for MEP to monitor the environmental performance of Chinese companies abroad.

Still, there is movement behind the scenes to bring overseas investment policies in-line with domestic environmental standards. In September 2008 the China Daily reported that the Chinese Academy for Environmental Planning, in cooperation with other organizations, was

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<sup>42</sup> "Chinese Divided over New Environmental Policy," Xinhua, 21 March 2008, [http://english.sepa.gov.cn/News\\_service/media\\_news/200803/t20080321\\_119513.htm](http://english.sepa.gov.cn/News_service/media_news/200803/t20080321_119513.htm)

<sup>43</sup> 睦芳韞 (Sui-Fang Yun), "三家银行发布企业社会责任报告, (Three banks issue CSR reports)" 财经网 (Caijing Magazine), 2 June 2008, <http://www.caijing.com.cn/20080602/67151.shtml>

<sup>44</sup> Mao Lijun, "New Hope for SMEs," *China Daily*, 2 Jun 2008, [http://www.chinadaily.com.cn/bizchina/2008-06/02/content\\_6728689.htm](http://www.chinadaily.com.cn/bizchina/2008-06/02/content_6728689.htm)

drafting environmental guidelines for Chinese companies investing in or providing economic aid to overseas countries. The draft guidelines were being discussed within think-tank and government circles, with no final release date announced. The report did not comment on how these regulations could compliment the Green Credit Policy.<sup>45</sup>

The China Export-Import Bank, one of the most important banks providing overseas financing for Chinese companies, has undertaken its own initiatives to bolster its environmental standards for overseas projects. The export credit agency recently revised its guidelines for environmental and social impact assessments for loan projects.<sup>46</sup> Additionally, China Exim Bank signed a memorandum of understanding (MOU) with the International Finance Corporation (IFC) in May 2007 to jointly support environmentally and socially sustainable Chinese investment in emerging markets. The MOU is particularly relevant to projects in Africa and Southeast Asia, where the banks have substantial investments and mutual interests.<sup>47</sup> Since signing the MOU, China Exim/IFC cooperation has been focused on capacity building and knowledge sharing activities, with the first IFC-sponsored workshop in December 2007 introducing IFC Environment and Social investment standards and a series of case studies on how IFC deployed the standards and procedures in its investment projects.

## **Collaborations with International Financial Institutions**

The IFC-China Exim MOU is one of a handful of cooperative relationships between IFIs and Chinese banks on environmental issues. The IFC has been instrumental in facilitating green initiatives in China. They have worked with regulatory departments to draft environmental policies; led or participated in trainings for Chinese banks on international standards and norms; and provided opportunities for Chinese banks to finance environmentally-friendly projects. IFC is particularly interested in helping Chinese financiers adopt "international environmental and social good practices."<sup>48</sup> Some examples of IFC initiatives include:

- IFC signed a cooperation agreement with China's Ministry of Environmental Protection to introduce the Equator Principles, IFC's environmental and social performance standards, and its expertise in sustainable finance to China. As a first step, this entails translating 51 of the World Bank Group's Environment, Health and Safety guidelines and developing localized industrial guidelines for the Green Credit Policy implementation.<sup>49</sup>

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<sup>45</sup> Li Jing, "Environmental guidelines for firms investing abroad," China Daily, 12 Sept 2008, [http://www.chinadaily.com.cn/bizchina/2008-09/12/content\\_7022679.htm](http://www.chinadaily.com.cn/bizchina/2008-09/12/content_7022679.htm)

<sup>46</sup> For more information about this guideline please see 'Trends Among Chinese Banks' (p. 18), and the China Exim Bank profile in the appendix

<sup>47</sup> IFC press release, IFC Partners with China EXIM Bank to Support Sustainable Investment by Chinese Companies in Emerging Markets  
<http://www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=26D347ED8E0F9810852572ED0050A090>

<sup>48</sup> IFC press release, "China EPA, IFC to Develop Guidelines for Groundbreaking National Green Credit Policy," 26 Jan, 2008,  
[http://www.ifc.org/ifcext/enviro.nsf/Content/Highlights\\_January2008\\_ChinaGreenCredit](http://www.ifc.org/ifcext/enviro.nsf/Content/Highlights_January2008_ChinaGreenCredit)

<sup>49</sup> Ibid

- Hosting an International Symposium on Sustainable Finance with the PBOC to introduce international expertise and experience in this area.
- Hosting a training workshop for the CBRC on the market potential of energy efficiency projects in China's cement industry.<sup>50</sup>
- Hosting a seminar on the Green Credit policy for representatives from government agencies, Chinese commercial banks and international environmental NGOs in Washington, DC in June 2008. Chinese banks and government representatives also visited US banks to learn about environmental risk policies at those institutions.<sup>51</sup>

Other multilateral organizations that cooperate with Chinese banks and regulatory departments to raise the environmental standards at Chinese banks include the United Nations Environment Programme-Finance Initiative (UNEP-FI), OECD and World Bank Group.

- UNEP-FI hosted a roundtable on sustainable finance in the Asian region in Melbourne, Australia on 24-25 October 2007.<sup>52</sup> The Industrial Bank, which became a signatory to the UNEP-FI at that meeting, gave a keynote presentation. China Merchants Bank also became a signatory to UNEP-FI in 2007.<sup>53</sup>
- OECD held the "OECD-China Multi-Stakeholder Symposium on Government Approaches to Encouraging Responsible Business Conduct" on 26-27 June 2008 in Paris, France. Representatives from the government, business, finance, labor and civil society were in attendance, including China's Ministry of Environmental Protection (MEP) and Ministry of Commerce (MoC), Bank of China and NGO stakeholders such as Greenpeace China and International Rivers. One of the primary incentives for the meeting was to discuss China's export credit operations, in particular how to bring China Exim Bank's policies for funding Chinese overseas investments more in-line with the OECD Guidelines for Multinational Enterprises. This is a priority for the OECD as its member country export credit agencies have adopted the OECD Common Approaches to the Environment, a set of common environmental norms designed to minimize competition based on lowering environmental standards. In March 2008 OECD Secretary General Angel Gurría said that the OECD hoped China would become a member of the organization, "We do not see the OECD as important, pertinent for the world's development without having China very, very close to us, as a full member perhaps."<sup>54</sup> According to NGO stakeholders who

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<sup>50</sup> Ibid

<sup>51</sup> Chan, Michelle, attendee at "Chinese Green Credit Policy—Dialogue with Stakeholders," China Green Credit Policy Delegation Seminar Series, International Finance Corporation, Washington, DC, 23 June 2008

<sup>52</sup> UNEP website, "2007 Roundtables,"  
<http://www.unepfi.org/events/2007/roundtable/programme/index.html>

<sup>53</sup> UNEP FI website, "Our Signatories," accessed on 4/17/08:  
[http://www.unepfi.org/signatories/index.html?&no\\_cache=1&tx\\_unepfisig\\_pi1\[pointer\]=0&tx\\_unepfisig\\_pi1\[mode\]=1&tx\\_unepfisig\\_pi1\[showUid\]=6645](http://www.unepfi.org/signatories/index.html?&no_cache=1&tx_unepfisig_pi1[pointer]=0&tx_unepfisig_pi1[mode]=1&tx_unepfisig_pi1[showUid]=6645)

<sup>54</sup>"OECD head says favours strong ties with China," Thomson Financial, 25 March 2008,  
<http://www.forbes.com/markets/feeds/afx/2008/03/25/afx4810832.html>

attended the Paris meeting, the gathering would have been more productive had higher-level representatives from the Chinese government or China Exim Bank attended the meeting.

- The World Bank Group is providing three major energy sector loans in China that amount to one-third of all World Bank loans to China in 2008. This includes supporting some Chinese banks, including China Exim Bank and Huaxia Bank, to develop energy efficiency loan programs for larger projects and companies. This is crucial in convincing the banks to lend to energy efficient enterprises because the enterprises are not seen as very profitable by banks.<sup>55</sup> Other project areas the World Bank finances in China include pollution clean-up and infrastructure for clean energy technology.

Efforts to promote green finance in China have also come from peer banking institutions.

- The Equator Principle banks, led by Mizuho, have formed an outreach team to Chinese banks to persuade leading Chinese banks to adopt the norms.
- Citigroup also conducted Equator Principles training for two of its clients, the China Export-Import Bank and China Development Bank.<sup>56</sup>
- HSBC has made three half-day presentations to China Bank of Communications on environmental management systems, as part of that bank's ongoing "strategic leadership seminars."
- A delegation from China Development Bank (which recently bought shares in Barclays) requested a presentation from the Barclays Head of Environmental Risk Policy Management – suggesting that environmental policies can be not only "downloaded" from an international bank to a Chinese peer in which it owns shares, but also "uploaded" from a non-Chinese bank to Chinese bank that holds its shares.

Green initiatives are also increasingly coming from Chinese environmental NGOs. For example, Chinese groups, in cooperation with *Economic Observer* (a financial newspaper in China which ranks Chinese banks) awarded the first annual Green Banking Innovation award to Industrial Bank on 26 July 2008. The jury consisted of eight prominent Chinese NGOs, including: Green Watershed, Friends of Nature, Institute of Public & Environmental Affairs, Green Earth Volunteer, Global Environmental Institute, Civil Society Watch, China Development Brief and Green Volunteers League of Chongqing. Additionally, SynTao Co. Ltd., a leading consulting firm in China on corporate social responsibility, acted as an advisor. The judging was based on criteria for Green Banking that put emphasis on minimizing banks' indirect environmental impacts through its financing activities, and exploring new

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<sup>55</sup> "World Bank Grants US\$441 million loan to China's Energy Sector," China CSR, 2 June 2008, <http://www.chinacsr.com/2008/06/02/2398-world-bank-grants-us441-million-loan-to-chinas-energy-sector/>

<sup>56</sup> Citigroup 2006 Corporate Citizenship Report, [http://www.citigroup.com/citigroup/citizen/data/citizen06\\_en.pdf](http://www.citigroup.com/citigroup/citizen/data/citizen06_en.pdf)

opportunities for environment-related business. This award is an important step for Chinese NGOs to establish themselves as stakeholders in the country's dialogue on sustainable finance. On awarding Industrial Bank the first annual award, organizer Yu Xiaogang of Green Watershed said, "This is a first but important try. To the winner, this award means both honors and responsibilities. We expect China Industrial Bank can continue its innovation and build up a model green bank in China."<sup>57</sup>

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<sup>57</sup> Yu Xiaogang, "Eight Chinese NGOs Announce the First Green Banking Innovation Award," Green Watershed, Syn Tao and Economic Observer press release, 26 July 2008, available at: [http://www.banktrack.org/show/news/eight\\_chinese\\_ngos\\_announce\\_green\\_banking\\_innovation\\_award/0/mg/127](http://www.banktrack.org/show/news/eight_chinese_ngos_announce_green_banking_innovation_award/0/mg/127)

## Trends Among Chinese Banks<sup>58</sup>

With the advent of the Green Credit Policy, Chinese banks have been tasked with the challenge of incorporating green regulations and initiatives into their lending portfolios. From an environmental perspective, this task is perhaps most important at the Big Four commercial banks, which hold the greatest share of the Chinese lending market. The three policy banks, China Development Bank and China Agricultural Development Bank, and China Export-Import Bank, along with Sinosure, the official export guarantee agency, influence larger, mostly state-controlled projects and the majority of China's overseas investments. Bank of Communications and CITIC Bank are also counted among China's ten most important banks.<sup>59</sup> Finally, initiatives at small and medium-sized banks, such as the Industrial Bank and Shanghai Pudong Development Bank, have smaller portfolios and hence more capacity to be flexible and innovative, and have taken the lead on sustainability in China's banking sector.

Chinese banks reported many encouraging developments in their implementation of sustainable initiatives since the new green regulations were released, including increased lending to 'green projects,' cutting lending to energy-intensive and polluting industries, and signing on to international standards and agreements. (For specific information on these twelve banks, see the Profiles section, below.)

## Environmental Standards at Chinese Banks

The launch of the Green Credit Policy has fundamentally changed the green banking landscape in China, making comparisons between 2007 and 2008 difficult.

When the 2007 *Time to Go Green* report was released, the only two banks which had publicly released environmental policies, or summaries of such policies, were China Development Bank and China Exim bank. Both policies focused on compliance with environmental laws as a condition for financing. Today, these policies, which were adopted in 2004, can only be considered as meeting the legal minimum. Although China Exim bank clarified and refined its policy in the last 28 months, the scope has not expanded significantly on the environmental front. However, the 2007 Exim policy has newly referenced social issues, including land rights and resettlement, issues which most Chinese banks have not integrated on a financing level.

Most Chinese banks which have adopted environmental financing standards have focused on implementation of the Green Credit Policy, and the '*liang gao*' framework. While there are still relatively few banks which provide public disclosure on their Green Credit Policy implementation, early reports show that banks have instituted various processes to implement these directives. Implementation strategies include the "one-ballot-veto" system used by China Construction Bank, CDB and ICBC; instituting a "daily communications

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<sup>58</sup> For more information about compliance with green regulations and sustainability initiatives at each of 12 influential banks, please see Appendix

<sup>59</sup> Please see Chan, Michelle, "Time to Go Green," Friends of the Earth-US, May 2007, [http://www.foe.org/pdf/Chinese\\_Bank\\_Report\\_5-9-07.pdf](http://www.foe.org/pdf/Chinese_Bank_Report_5-9-07.pdf)

mechanism" for energy- and environment-related due diligence, as is the case for Bank of China; or by simply cutting lending to key industries, such as Bank of Communications did.

But so far there has been little evidence to suggest that Chinese banks are successfully using these governmental directives as a springboard to develop broader and deeper environmental standards. One exception may be ICBC, which has developed a nine-category Environmental Information Labeling System which categorizes borrowers on the basis of their environmental profile. (This is somewhat reminiscent of ABN Amro's Client Diagnostic Tool, which similarly rates clients on whether they have policies, governance systems and processes to manage environmental and social risks.) The bank has applied this labeling system to 47,000 of its 60,000 clients, suggesting that it is applying some level of environmental due diligence to industries and clients beyond those identified by the government.

## Promoting Green Projects

According to the CBRC, China's top five banks (the Big Four plus Bank of Communications), offered a total of RMB 106.3 billion (USD 15.18 billion) in loans to help enterprises cut emissions and save energy in 2007.<sup>60</sup>

The IFC helped catalyze environmentally-friendly projects in China through its risk-sharing facilities with three Chinese banks. It signed agreements to finance energy-efficiency projects throughout the country with the Industrial Bank, Bank of Beijing and Shanghai Pudong Development Bank for USD 125 million, RMB 500 million and RMB 14.5 million, respectively.<sup>61</sup> Other Chinese banks started similar programs. China Minsheng Bank, Bank of Shanghai and Industrial and Commercial Bank of China jointly provided a loan of RMB 100 million for 100 Energy Performance Contract projects in Shanghai in September 2007.<sup>62</sup> China Development Bank started its own green projects initiative in 2007 that includes loans amounting to RMB 89 billion for environmental protection projects and RMB 29.6 billion for emission reduction projects such as sulfur dioxide washing at coal plants.<sup>63</sup> All of these projects were touted as substantially reducing greenhouse gas emissions, with impacts equated to cutting the car emissions of whole cities for some projects.

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<sup>60</sup> "China takes responsible attitude to climate change, environmental protection," Xinhua, 13 Apr 2008, [http://english.sepa.gov.cn/News\\_service/media\\_news/200804/t20080416\\_121232.htm](http://english.sepa.gov.cn/News_service/media_news/200804/t20080416_121232.htm)

<sup>61</sup> "Industrial Bank and IFC Collaborate to Expand Energy Efficiency Loans and Cut Greenhouse Emission," PR-USA.net, [http://www.pr-usa.net/index.php?option=com\\_content&task=view&id=82056&Itemid=9](http://www.pr-usa.net/index.php?option=com_content&task=view&id=82056&Itemid=9); "IFC, Bank of Beijing Support Cleaner Production and Help Small and Midsize Businesses Reduce Greenhouse Gas Emissions," IFC, 26 Mar 2008, <http://www.ifc.org/ifcext/chuee.nsf/Content/Pressrelease4>; and Zhang Fengming, "Bank links to provide green credit," Shanghai Daily, 17 June 2008, [http://www.syntao.com/E\\_Page\\_Show.asp?Page\\_ID=8463](http://www.syntao.com/E_Page_Show.asp?Page_ID=8463)

<sup>62</sup> Li Jing, "Energy deal signed to boost performance," China Daily, 24 Mar, 2008, [http://www.chinadaily.com.cn/bizchina/2008-03/24/content\\_6560693.htm](http://www.chinadaily.com.cn/bizchina/2008-03/24/content_6560693.htm)

<sup>63</sup> Pan Yue, p. 3 and Tam, Man-kei, "China's Banks Should Open Up to the World About Green Issues," *Green Investments*, Greenpeace China, 24 June 2008, p.8

However, sometimes banks' boasting about the environmental benefits of their projects are misleading. In many cases, banks include environmentally-sensitive projects in their green portfolios, with financing for hydropower, nuclear and even large-scale coal power plants. For example, Bank of China stated that it provided at least RMB 50 billion for 'green' projects in the first half of 2007. However these included nuclear power plants, relocating a polluting factory to the outskirts of Beijing but not actually cutting its emissions, and other false solutions.<sup>64</sup>

## Controlling Lending to Energy-Intensive and Polluting Industries

Another area where some environmental progress can be observed is in controlling lending to polluting and energy-intensive industries. Among the *liang gao* industries, banks publicly reported how they limited financing to steel, iron, copper refining, calcium carbide and coke, cement, chemicals, electrolytic aluminium and construction, in particular. For example, Bank of Communications stated that it cut lending to the iron and steel industries by RMB 7.8 billion in 2007.<sup>65</sup> ICBC went beyond MEP's expectations when it decreased loans to polluting industries by 24% in 2007. The reductions may be attributed to ICBC's development of a 'one-ballot veto' system (一票否决制) in which a borrower's environmental performance is the decisive factor when considering a loan application.<sup>66</sup>

However, the impact of these reductions relative to a bank's overall lending is still an issue. As of May 2007, just before the Green Credit program began, major Chinese banks had RMB 1.5 trillion in medium- and long-term loans outstanding to energy-intensive and polluting sectors, up 21.8% from the previous year.<sup>67</sup> Large banks with large sums of money invested in manufacturing and other polluting and energy-intensive sectors are particularly struggling with limiting financing for *liang gao* industries. For instance, although MEP applauded ICBC's 24% reduction in lending to polluting industries in 2007, Innovest, an independent financial research company, rated 40% of ICBC's half-trillion USD credit portfolio as "environmentally sensitive."<sup>68</sup> Other banks admit that they have a long way to go to improve their environmental record. For example, Agricultural Bank of China stated that it finds it difficult to make a dent in its lending to energy-intensive or polluting industries, as about 12.5% of its loan portfolio went to those industries in the first half of 2007.<sup>69</sup> It is clear that large banks will have to be diligent in their reduction efforts to make a real difference.

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<sup>64</sup> Bank of China, "CSR 2007: Corporate Social Responsibility Report of Bank of China Limited," May 2008, [http://www.boc.cn/minisite/boc\\_csr\\_2007/en/Enshehuizeren\\_hj.htm](http://www.boc.cn/minisite/boc_csr_2007/en/Enshehuizeren_hj.htm)

<sup>65</sup> Bank of Communications 2007 annual report; can be accessed at: [www.bocomm.com](http://www.bocomm.com)

<sup>66</sup> Industrial and Commercial Bank of China, 2007 CSR report: [http://www.icbc.com.cn/icbc/html/download/nianbao/2008/shehuizerenbaogao\\_2007e.pdf](http://www.icbc.com.cn/icbc/html/download/nianbao/2008/shehuizerenbaogao_2007e.pdf)

<sup>67</sup> "Green credit: To fight pollution, China takes the capitalist route," Reuters, 30 July 2007, <http://www.iht.com/articles/2007/07/30/business/pollute.php>

<sup>68</sup> Tam, Man-kei, "China's banks should open up to the world about green issues," *Green Investments*, vol. II, Greenpeace-China, July 2008, p. 7

<sup>69</sup> "AgBank frets on loans to polluters – source," Reuters, 7 Aug 2007, [http://www.chinadaily.com.cn/china/2007-08/07/content\\_5449030.htm](http://www.chinadaily.com.cn/china/2007-08/07/content_5449030.htm)



## Adopting International Standards and Norms

Although Chinese banks have historically avoided committing to international standards, some banks are beginning to warm to the idea, as more and more banks establish a global presence. China Development Bank was one of the first Chinese banks to endorse an international norm when it became a signatory to the Global Compact in 2006. The Industrial Bank signed on to the UNEP Statement by Financial Institutions on the Environment and Sustainable Development and the Carbon Disclosure Project in late 2006 and 2007, and then became the first Chinese bank to sign on to the Equator Principles in October 2008. China Merchants Bank also signed on to the UNEP-FI Statement in 2007, becoming the third Chinese bank ever to do so. Some of the larger Chinese banks are considering signing on to the Equator Principles as well; for example, ICBC's 2007 CSR report mentioned that it is keeping an open mind about adopting. One Chinese bank hinted that signing on would perhaps be easier to do if many Chinese banks all became signatories at the same time. This would provide some cover for the individual banks from being singled out for scrutiny, and keep a balanced playing field as the banks grow and expand their businesses.

## Transparency and Accountability

Chinese banks historically have not publicly reported on their sustainability efforts and impacts; for example, CSR reports and published social and environmental policies are still relatively rare. As banks list on publicly-traded stock markets and expand their financing domestically and globally, there is increased expectation for this information. In 2006, Shanghai Pudong Development Bank became the first Chinese financial institution to release a CSR report, which covered the bank's policies and initiatives towards community development, charity and volunteering, employees, and the environment.<sup>70</sup> Since then four other major Chinese banks have followed suit, with China Construction Bank releasing its first CSR report in 2007 and Bank of China, China Development Bank and ICBC releasing theirs in 2008. Other banks, such as Bank of Communications, included some environmental information in its annual report. China Development Bank and China Exim Bank have publicly released environmental policies. These two banks are China's leading international financiers, and so the disclosure of this information may reflect the banks' need to be responsive to stakeholders abroad.

With the exception of ICBC, the information disclosed in these reports and principles is often minimal and vague, and reflect the level of sustainability reporting that many international banks produced ten years ago. CSR reports still tend to focus on the banks' philanthropic activities and community development initiatives. For example, most banks state how much money they contribute to charities and outline the banks' employee volunteer programs. With respect to social and environmental sustainability, most state compliance with government environmental regulations. A few may offer specifics about how they incorporate government regulations into the banks' industry policies, but these are usually descriptions of how new procedures are supposed to theoretically work. Actual performance-related data on policy implementation is rare. For example, China Construction Bank states that it rejected loan applications to energy-intensive and polluting companies, but does not say how much money it withheld or how many loans it denied.

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<sup>70</sup> “积极践行责任，浦发银行发布 06 年度《企业社会责任报告》，” Shanghai Pudong Development Bank, 28 June 2007, [http://www.spdb.com.cn/docpage/C419/200706/0628\\_419\\_14914.aspx](http://www.spdb.com.cn/docpage/C419/200706/0628_419_14914.aspx)

Like most international banks, information about individual transactions and investments are also sparsely disclosed. Some banks, such as Shanghai Pudong Development Bank, provide examples of projects in their reports, but are not comprehensive. No banks publish a complete list of major investments with basic information about the status of loans, amount of loans, and what financing is for. Without deal transparency, it is difficult to discern which of the banks' loans are truly 'environmentally-friendly.'

For the banks, there are some consequences for their non-disclosure. An article in *The Banker*, a UK-based financial magazine that rates the world's top banks, notes that incomplete and inaccessible information from Chinese banks makes it difficult to evaluate environmental, social and governance performance. This particularly affects banks such as ICBC, Bank of China and China Construction Bank, which are among the top international banks in terms of market capitalization.<sup>71</sup>

Banks would benefit not only from being more transparent themselves, but also from requiring increased levels of transparency from their clients. For example, in the late 1990s, Indonesia-based Asia Pulp & Paper raised over USD 10 billion in bonds from international investors who were eager to finance the company's debt-driven expansion. However, few investors realized that the company was relying on a fundamentally unsustainable business model, one which relied on clear cutting and illegal logging. By 2001, APP had to default on most of these bonds, a move which damped investor confidence throughout East Asia. By requiring borrowers to be more transparent, banks would discourage clients from understating their environmental or social risks. Greater transparency on transactions would also allow banks to benefit from information provided by communities and NGOs, information that could be valuable in the due diligence process.

With more affected communities and stakeholders inquiring about Chinese bank financing of sensitive projects, perhaps more Chinese banks will welcome the opportunity to improve their transparency and accountability.

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<sup>71</sup> Tam, Man-kei, "China's Banks Should Open Up to the World About Green Issues," *Green Investments*, Vol. II, Greenpeace: Beijing, July 2008, p.8

## Controversial Cases

Ultimately, the real measure of a bank's sustainability is the environmental and social quality of its lending portfolio. Although having proper policies, procedures and standards are necessary, they are not sufficient: in the end, the on-the-ground impacts of a bank's transactions are critical.

Below are examples of environmentally-sensitive projects financed by Chinese banks. MEP considered some of these projects in its regulatory review; others are projects which have been noted by civil society groups, but which MEP appears to have overlooked.

### Domestic Investments on the Blacklist

Twelve companies, including chemical factories, pharmaceutical companies, breweries and food processors, had their financing suspended as a result of being put on MEP's credit blacklist. Among them was the Jiucailuo Chemical Plant in Anhui Province.

#### Jiucailuo Chemical Plant, Anhui Province

Jiucailuo is a chemical factory in Bengbu, Anhui Province, located 135 km north of Nanjing on the Huai River.<sup>72</sup> According to local residents, Jiucailuo is the worst of three severely polluting chemical factories in the city. In recent years 53 people have died in the area, displaying cancer and respiratory illnesses that residents believe are a result of water and air pollution. However, there is no evidence linking the deaths to a particular factory.

MEP took note of the factory in 2007, placing it on the environmental blacklist and calling for the plant to be shut down immediately. The local Longzihu District government, in which the factory is located, pushed for the plant to be moved instead. The local environmental protection agency took a more conciliatory stance, allowing the factory to continue operating on probation, with the understanding that it would be closed or moved. Local residents are reportedly skeptical that anything more will be done about the factory.<sup>73</sup>

In February 2008 MEP noted that financial institutions in Anhui Province suspended loans to the company, cutting it off from financing and making it difficult to maintain operations.<sup>74</sup>

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<sup>72</sup> "Bengbu," Wikipedia, <http://en.wikipedia.org/wiki/Bengbu>

<sup>73</sup> Unpublished email from Pacific Environment, 31 May 2008

<sup>74</sup> "SEPA Makes Public the Stage-based Progress in Green Credit Policy," Ministry of Environmental Protection, 13 Feb 2008, [http://english.sepa.gov.cn/News\\_service/news\\_release/200803/t20080310\\_119113.htm](http://english.sepa.gov.cn/News_service/news_release/200803/t20080310_119113.htm)

## Un-sanctioned Projects in China

There are many cases in which companies drew criticism for serious environmental harm and health risks, but escaped condemnation by MEP.

### Asia Pulp & Paper (APP) – China

APP-China is a pulp production and processing company operating in southern China since the 1990s. As a partially-owned subsidiary of the Indonesia-based Sinar Mas Group, APP-China is part of one of the largest pulp and paper companies in Asia. Its total pulp production capacity in Indonesia and China amounts to 3.3 million tons annually, with plans to increase that to 10 million tons annually by 2010. Most of the increased capacity is to come from China.<sup>75</sup>

Chinese environmental groups and local communities are chastising APP because of the company's irresponsible business practices that have led to deforestation and severe water pollution in southern China throughout the 1990s and 2000s. Despite complaints from these groups and official findings of wrong-doing, the company has thus far escaped sanctions. There have been reports from Greenpeace-China that the company and its subsidiaries are illegally logging natural forests in order to grow monoculture tree plantations in Yunnan, Hainan, Guangxi and Guangdong. China's State Forestry Administration later confirmed these reports. Local communities have spoken out against the company's activities, which threaten their livelihoods. Media reports have also raised issue with APP-China, noting that the company and its subsidiaries were responsible for ten cases of serious water pollution in China between 2005 and 2008.<sup>76</sup>

In 2007, the State Forestry Administration blocked a deal between APP and the Yunnan Provincial government that would have expanded APP's operations further into the province, but the company was not placed on MEP's blacklist or fined.

In August 2008, Golden East Paper Company, a subsidiary of APP registered in Jiangsu Province, applied to MEP for approval to list shares on the Chinese stock market (as required by the 'Green IPO' policy). During a 10-day public evaluation period, six well-known Chinese NGOs raised objections to the company's IPO, citing its "shocking environmental record," in which it violated numerous pollution laws and illegally destroyed forests.<sup>77</sup> MEP subsequently replied that it will examine the pollution incidents they reported during Golden East's IPO environmental review.

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<sup>75</sup> Ulrike Lohr, "APP," BankTrack, updated on 4 March 2008, [http://www.banktrack.org/show/dodgydeals/asia\\_pulp\\_and\\_paper](http://www.banktrack.org/show/dodgydeals/asia_pulp_and_paper)

<sup>76</sup> "金光集团 APP：中国六子公司 十次污染记录" (Sinar Mas Group APP: China's 6 subsidiaries' 10 Instances of Pollution Recorded), Sohu.com News Center, 9 July 2008, <http://www.freedominfo.org/features/20070509.htm>

<sup>77</sup> Liu Bing and Tam, Man-kei, "Paper Tigers: APP's Polluting China Arm Seeks IPO," BankTrack, 14 August 2008, [http://www.banktrack.org/show/news/paper\\_tigers\\_app\\_s\\_polluting\\_china\\_arm\\_seeks\\_ipo](http://www.banktrack.org/show/news/paper_tigers_app_s_polluting_china_arm_seeks_ipo)

APP-China receives financing from numerous Chinese banks. **Bank of China, China Construction Bank** and **ICBC** and other Chinese banks were involved in the debt restructuring of APP China in November 2003 that gave the banks collectively a majority shareholding in the company. **Bank of China** provided a loan to Golden East Paper Company in April 2004 and **ICBC** provided loans to APP-China's pulp plant in Hainan in 2004 as well. Other banks that have financed the company include **Agricultural Development Bank of China, Bank of Communications, CITIC Bank, Guangdong Development Bank, Hua Xia Bank** and **Shenzhen Development Bank**.<sup>78</sup>

For more information about APP's activities, please visit Greenpeace-China at <http://www.greenpeace.org/china/en/campaigns/forests> (China) or BankTrack at [http://www.banktrack.org/show/dodgydeals/asia\\_pulp\\_and\\_paper](http://www.banktrack.org/show/dodgydeals/asia_pulp_and_paper)

## Controversial Industries

Some environmentally-sensitive industries avoided sanction by environmental authorities and were in fact promoted as 'green projects' in which banks were encouraged to invest. Notably, this included hydropower and nuclear power, which were China's second and third largest methods of energy output (albeit well behind coal) in 2008.

International environmental groups, such as International Rivers, faulted hydropower dams for damage to whole ecosystems, polluting water resources which local people depend on, and uprooting thousands of people in mass resettlements. After the Sichuan earthquake in May 2008 there were concerns that several dams throughout the region, including the Three Gorges Dam, were damaged. This called into question reliance on large-scale hydropower because of its potential catastrophic human impacts. A 2007 benchmarking report from BankTrack recommended that large-scale hydropower projects should only be financed under strict conditions.<sup>79</sup>

As an industry promoted by the Chinese government, many Chinese banks financed large-scale hydropower projects. For example, **ICBC** financed the Sichuan Guodian Daduhe Hydropower Co. Ltd's Shenxigou hydropower station in 2007; and **Shanghai Pudong Development Bank** extended a RMB 400 million line of credit to the Ertan Hydropower project in western Sichuan that provided one-third of the total power for Sichuan Electricity Network in 2006.<sup>80</sup>

Nuclear power provided about 2% of China's total energy output in 2008, but the National Development and Reform Commission (NDRC) said it was actively planning to increase nuclear power usage in the future to eventually constitute 4% of the country's energy supply. Several nuclear power projects were in the works in 2008, including projects in development

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<sup>78</sup> "Asia Pulp & Paper: Dodgy Deal," BankTrack, updated on 4 March 2008, [http://www.banktrack.org/show/dodgydeals/asia\\_pulp\\_and\\_paper](http://www.banktrack.org/show/dodgydeals/asia_pulp_and_paper)

<sup>79</sup> "Mind the Gap: Benchmarking credit policies of international banks," BankTrack, December 2007, p.79, [http://www.banktrack.org/download/mind\\_the\\_gap/0\\_071221\\_mind\\_the\\_gap\\_final.pdf](http://www.banktrack.org/download/mind_the_gap/0_071221_mind_the_gap_final.pdf)

<sup>80</sup> SPDB 2006 CSR report ([http://www.spdb.com.cn/counttool/shzr/qyzt\\_2006.pdf](http://www.spdb.com.cn/counttool/shzr/qyzt_2006.pdf))

from China National Nuclear Corporation (China's largest nuclear power company, which in April 2007 signed a strategic cooperation agreement with **Bank of China** for a RMB 60 billion line of credit<sup>81</sup>), China Guodian Corporation and China Datang. All these companies planned nuclear power projects in Fujian Province.<sup>82</sup> In all, NDRC said the 4% increase was going to require 32 more nuclear power plants comparable to plants being constructed in 2008.<sup>83</sup> A spokesperson for the NDRC said, "China has seen a transition in its nuclear power industry from appropriate development to accelerated development."<sup>84</sup>

## Hongyanhe Nuclear Power Plant, Liaoning Province

One of the nuclear power plants being constructed in 2008 is the Hongyanhe Nuclear Power Project in Dalian City, Liaoning Province. It is the first nuclear power project to be built in northeast China. The Hongyanhe power plant is owned by China Guangdong Nuclear Power Holding Co., Ltd (CGNPC), China Power Investment Corporation (CPIC) and Liaoning Construction Investment Group. CGNPC is to be responsible for construction and the first five years of the plant's operation. The plant will include six generating units, of which the first two are scheduled for completion in 2012.<sup>85</sup>

**Bank of China** is financing the initial phase of the project during which the first two reactors are to be built.<sup>86</sup>

## Overseas Investments

Abroad, Chinese multinational companies (MNCs) are engaged in projects to procure natural resources such as oil, gas, timber, minerals and metals. Activities of Chinese MNCs abroad were spread over 172 countries and amounted to more than USD 90 billion in foreign direct investment (FDI).<sup>87</sup> Top destinations were Latin America, Asia, and North America. Investments in Africa have received much attention, despite comprising just 3% of China's FDI outflows in 2007, because of how rapidly they are increasing. In particular, Chinese FDI has a great impact on the four resource-rich countries of Sudan, Angola, Nigeria, and

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"Bank of China Grants US\$300 mln Loans go Sanmen Nuclear Power," AsiaPulse via COMTEX, 24 December, 2007, <http://www.tradingmarkets.com/.site/news/Stock%20News/939569/>

<sup>82</sup> Hu Meidong and Wan Zhihong, "Work starts on nuclear power plant," China Daily, 19 February 2008, [http://www.chinadaily.com.cn/china/2008-02/19/content\\_6465565.htm](http://www.chinadaily.com.cn/china/2008-02/19/content_6465565.htm)

<sup>83</sup> "Flowserve Wins Major Pump Contract for Hongyanhe and Ningde Nuclear Power Plants in China," Reuters, 28 January 2008, <http://www.reuters.com/article/pressRelease/idUS97603+28-Jan-2008+BW20080128>

<sup>84</sup> Hu Meidong and Wan Zhihong, "Work starts on nuclear power plant," China Daily, 19 February 2008, [http://www.chinadaily.com.cn/china/2008-02/19/content\\_6465565.htm](http://www.chinadaily.com.cn/china/2008-02/19/content_6465565.htm)

<sup>85</sup> "Flowserve Wins Major Pump Contract for Hongyanhe and Ningde Nuclear Power Plants in China," Reuters, 28 January 2008, <http://www.reuters.com/article/pressRelease/idUS97603+28-Jan-2008+BW20080128>

<sup>86</sup> Bank of China, "CSR 2007: Corporate Social Responsibility Report of Bank of China Limited," May 2008, [http://www.boc.cn/minisite/boc\\_csr\\_2007/en/Enshehuizeren\\_hj.htm](http://www.boc.cn/minisite/boc_csr_2007/en/Enshehuizeren_hj.htm)

<sup>87</sup> CIA Factbook, China page, accessed on 21 July 2008, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html#Econ>

Ethiopia, which together receives 70% of China's investments on the continent.<sup>88</sup> The success of high-profile China-Africa summits and bilateral relationships are manifesting in an entirely new protocol for foreign investment on the African Continent.

With Western firms' dominance of the world's most lucrative natural resource concessions, Chinese overseas projects in general are far from ideal and are characterized by higher risks. Because of increasing competition for natural resources, and the increasing commodities prices that result, projects that were previously considered unviable -- because they were considered too small scale, technically complicated, environmentally or politically sensitive, or too expensive -- are now fair game. But internationally some activists, communities and corporations are concerned about the activities of Chinese companies. Although there has not been enough robust research to prove this on a generalized basis, they suggest that Chinese companies may have greater environmental and social impacts due to various factors, including the fact that Chinese companies have less exposure to international best practice, and less experience dealing with complex environmental, social and political conditions overseas.

Below are some cases that highlight concerns about the activities of Chinese companies in different industries abroad.

### **China National Petroleum Corporation (CNPC)**

The state-owned China National Petroleum Corporation (CNPC) is China's largest producer and supplier of crude oil and natural gas, and one of its largest producers of refined oil products and petrochemicals. CNPC also provides oilfield technical services and engineering construction, including geophysical prospecting, well drilling, logging and testing. The company holds oil and gas assets and interests in 27 countries and its products are sold in 69 countries and areas worldwide. It produces 2.75 million barrels of crude oil and 5.6 billion cubic feet of gas per day, amounting to total assets of RMB 1.6 trillion in 2007.<sup>89</sup> According to *Fortune Magazine's* 'Fortune Global 500' list, CNPC is ranked 24<sup>th</sup> overall in terms of profitability, and the 8th most profitable petroleum refining company.<sup>90</sup>

PetroChina Company Ltd is CNPC's largest publicly-listed subsidiary, selling shares on the Hong Kong, New York and Shanghai Stock Exchanges. However, CNPC maintains an over 85% stake in the company.<sup>91</sup>

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<sup>88</sup> Jervis, Benjamin, ed., "Top 10 Misconceptions about Chinese Investments in Africa," African Politics Portal blog, 20 July 2008, <http://codrinarsene.com/2008/07/top-10-misconceptions-about-chinese-investment-in-africa/>

<sup>89</sup> "CNPC at a Glance," accessed on 30 Sept 2008, <http://www.cnpc.com.cn/eng/company/presentation/Glance/>

<sup>90</sup> "Fortune Global 500," *Fortune Magazine*, 23 July 2007 issue, <http://money.cnn.com/magazines/fortune/global500/2007/snapshots/10939.html>

<sup>91</sup> Nie Peng, "PetroChina listed on Shanghai Stock Exchange," Xinhua, 5 Nov 2007, [http://www.gov.cn/english/2007-11/05/content\\_795951.htm](http://www.gov.cn/english/2007-11/05/content_795951.htm)

According to its website, CNPC strives for "harmonious relationships between operations and safety, energy and the environment, corporate and community interests, and employers and employees...committed to protecting the environment and saving resources, promoting the research, development and application of environmentally friendly products, fulfilling our responsibility to society and promoting development that benefits all."<sup>92</sup>

CNPC's creditors include **Bank of China**, which in August 2000 provided a RMB 20 billion (US\$ 2.41 billion) line of credit to PetroChina to support the long-term development of the oil company. The credit was the largest of its kind given in China.<sup>93</sup> According to PetroChina, other principal bankers include: **Industrial and Commercial Bank of China, China Development Bank, CP Finance, China Construction Bank, Bank of China, Bank of Communications** and the **World Bank**.<sup>94</sup> In November 2007, CNPC's subsidiary PetroChina made its IPO on the Shanghai Stock Exchange, an offering that was underwritten by **CITIC Securities Co., UBS Securities Co., and China International Capital Corporation**.<sup>95</sup> In June 2008, **Sinosure** signed a framework cooperative contract with CNPC to offset risks in overseas investments.<sup>96</sup>

### **CNPC in Burma**

CNPC is one of three major Chinese companies involved in the oil and gas sector in Burma. Since 2001, The Company and its subsidiaries have acquired stake in seven onshore and six offshore oil and gas blocks; with licenses for exploration, extraction, and most recently feasibility studies for oil and gas pipelines that would connect future refineries in southwest China with supply in Burma and other parts of the world. In order to exploit Burma's oil and gas reserves, CNPC has formed partnerships with the Myanmar Oil & Gas Enterprise (MOGE), which has strong ties to Burma's military regime.<sup>97</sup>

Local groups have accused MOGE and its partners of gross human rights abuses in areas of the country they operate. Indigenous communities have reported being forcibly evicted from their land by company bulldozers without being offered compensation. They have also reported toxic waste contamination of local drinking and irrigation sources and in some cases being forced to work as slaves to build the infrastructure for pipelines. One peasant recounted her experiences in a 2008 report by Arakan Oil Watch, "We were offered no compensation. Our paddy harvest was also not very good this year, and we can't figure out why. Life is getting more difficult."<sup>98</sup>

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<sup>92</sup> "CNPC values," accessed on 30 Sept 2008, <http://www.cnpc.com.cn/eng/company/presentation/values/>

<sup>93</sup> Bank of China Backs Oil Giant, People's Daily, Beijing, 25 August 2000

<sup>94</sup> Annual report 2007, PetroChina

<sup>95</sup> Nie Peng, "PetroChina listed on Shanghai Stock Exchange," Xinhua, 5 Nov 2007, [http://www.gov.cn/english/2007-11/05/content\\_795951.htm](http://www.gov.cn/english/2007-11/05/content_795951.htm)

<sup>96</sup> "CNPC builds strategic partnership with Sinosure," Xinhua, 23 June 2008, Factiva

<sup>97</sup> "Blocking Freedom: A Case Study of China's Oil and Gas Investment in Burma," Arakan Oil Watch, October 2008, p.35

<sup>98</sup> Ibid, p. 22



Rights activists have alleged that the State Peace and Development Council (SPDC), which is in charge of the country's development planning, leverages its natural resources to secure political and military support. Indeed, the oil and gas sector is the single biggest earner of foreign revenue for Burma's military regime, sustaining its violent suppression of the Burmese people and the lavish lifestyle of the military elite.

For more information about CNPC activities in Burma, please visit the SHWE Gas Movement at [www.shwe.org](http://www.shwe.org) or Arakan Oil Watch at [www.arakanoilwatch.org](http://www.arakanoilwatch.org)

### **CNPC in Sudan**<sup>99</sup>

CNPC is the largest foreign stakeholder in Sudan's oil industry. The company is active in oil exploration, production, transport and refining. CNPC holds partial or total ownership over several oilfields, including areas along the North-South demarcation line that divides the Muslim North from indigenous tribes seeking independence in the South.

The struggle to control the region's oil revenues is generally acknowledged as one of the main origins of the conflict between the government in Khartoum and secessionist groups. Control of oil extraction continues to be a barrier to the 2005 Comprehensive Peace Agreement, particularly with respect to conflict surrounding the North-South border demarcation, withdrawal of troops from the oil fields and oil revenue sharing and transparency.

International activists have condemned CNPC for bank rolling the Sudanese Government's aggression in the Darfur region, which the US government calls 'genocide' and UN characterizes as 'crimes against humanity.' According to some sources, CNPC has paid for its investments in Sudan in part by providing arms to the Sudanese Government.<sup>100</sup> UN reports from the Darfur region have found that at least 2.5 million people have been displaced due to violence and as many as 400,000 have died thus far.<sup>101</sup>

CNPC touts its charity work with the Sudanese government, through donations for building bridges, hospitals, and other infrastructure; however, there are numerous allegations that the company's business practices are violating indigenous people's rights in the areas it operates. For instance, there are reports that military escorts for the oil company have forcibly evicted hundreds of thousands of local people from their land, without compensation, in order to build roads to the oilfields. Farmers have complained that these newly-built roads act as dams causing either flood or drought and making it impossible for them to maintain their livelihoods. Workers in the oil fields report labor issues such as lack of high paying skilled positions for locals.

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<sup>99</sup> Unless otherwise noted, all information is from "Sudan's Oil Industry – Facts and Analysis," Fatal Transactions and European Coalition on Oil in Sudan, 16 April 2008, <http://www.ikvpaxchristi.nl/files/Documenten/econ%20PWYP%20nieuwsbrief/dossier%20final%20klein%20web.pdf>

<sup>100</sup> "CNPC in Sudan," BankTrack, updated on 7 April 2008, [http://www.banktrack.org/show/dodgydeals/cnpc\\_in\\_sudan](http://www.banktrack.org/show/dodgydeals/cnpc_in_sudan)

<sup>101</sup> "Darfur Update – June 2008," Save Darfur Coalition, June 2008, [http://www.savedarfur.org/newsroom/policypapers/darfur\\_update\\_june\\_2008/](http://www.savedarfur.org/newsroom/policypapers/darfur_update_june_2008/)

For more information about CNPC in Sudan, please visit Fatal Transactions at <http://www.fataltransactions.org/>; European Coalition on Oil in Sudan at <http://www.ecosonline.org/> or Sudan Divestment Taskforce at <http://www.sudandivestment.org/home.asp>

## **APP – Indonesia**

Asia Pulp & Paper, listed above for its controversial projects in China, has also been carrying out questionable activities in Indonesia, where its headquarters are located. In 2008, two reports were released by Eyes on the Forest and World Wildlife Fund-Indonesia that showed evidence of illegal and destructive activities by the company and its subsidiaries in Riau Province and other areas of the country. Among the company's troubling activities were threatening the livelihoods of local communities and contributing to the country's greenhouse gas emissions, which is higher than the entire country of the Netherlands.<sup>102</sup>

Additionally, APP has been linked to corruption in Riau Province, which now has the highest deforestation rate in Indonesia. For example, in December 2007 an official from Pelalawan District was detained for receiving bribes in return for illegally issuing logging licenses to 15 companies, including APP affiliates.<sup>103</sup>

For more information about APP activities in Indonesia, see APP-Watch at <http://appwatch.blogspot.com/> or WWF-Indonesia at <http://www.wwf.or.id/index.php?fuseaction=news.detail&language=&id=NWS1151055588>

## **Belinga Iron Ore Mine, Gabon**

The Belinga iron ore deposit is located 500km east of Gabon's coastal capital of Libreville, and is expected to produce some 30 million tons of iron ore annually. The project is the country's largest investment and one of the largest in the region. It is to include construction of the Belinga iron ore facility, a deep-water port in Santa Clara and 560km of railroad track from Belinga to Santa Clara in order to export the iron ore. It also is to include two hydroelectric dams providing power to the Belinga facility. Although iron ore deposits were discovered in Belinga in the mid-twentieth century, they have heretofore not been exploited because of Belinga's remote location, lack of infrastructure, high cost, and ecological and human implications.

The China Machinery and Electric Equipment Export & Import Company (CMEC), one of China's top MNCs operating in the construction business, owns 85% of the Belinga project. The Government of Gabon owns the remaining 15%. CMEC also is in charge of construction of the USD 3.5 billion project that is scheduled for completion in 2012.

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<sup>102</sup> Lieberman, Susan, "Sumatra's forests at risk," World Wildlife Fund, 27 Feb 2008, [http://eyesontheforest.or.id/index.php?option=com\\_content&task=view&id=174&Itemid=6&lang=english](http://eyesontheforest.or.id/index.php?option=com_content&task=view&id=174&Itemid=6&lang=english)

<sup>103</sup> "Pelalawan District Head detained," Eyes on the Forest, 17 Dec 2007, [http://eyesontheforest.or.id/index.php?option=com\\_content&task=view&id=161&Itemid=6](http://eyesontheforest.or.id/index.php?option=com_content&task=view&id=161&Itemid=6)

Environmentalists are concerned that one of the dams is to be constructed at the Kongou Falls in the Ivindo National Park. The construction would require declassifying the Park, opening it and potentially other protected areas in the country up to further development. They are also concerned that the project area, an estimated 7700 sq km, is exorbitant and threatens wild chimpanzee populations.<sup>104</sup> Local communities are concerned that construction on the project commenced without consulting them or making public an environmental impact assessment showing how the company planned to handle extensive pollution, resettlement and other issues. Grassroots groups in Gabon are concerned that CMEC is receiving unfair concessions from the Gabonese government, including a 25-year tax holiday, even though the project is expected to be profitable after 8-10 years. Accusations of corruption have also surfaced.<sup>105</sup>

The Gabonese government has tried to silence objections to the project through intimidation, harassment and illegal detention of outspoken critics.<sup>106</sup> The project pushed forward in 2008 despite concerns from stakeholders.

The Belinga project is being financed solely by the **China Exim Bank** from 2008 onward.<sup>107</sup> Previously, in 2002, **Bank of China** reportedly provided a RMB 8 billion line of credit for the project.

For more information about this controversial case, please visit [http://www.banktrack.org/show/dodgydeals/belinga\\_iron\\_ore\\_project](http://www.banktrack.org/show/dodgydeals/belinga_iron_ore_project) or the Gabonese NGO Brainforest at <http://www.brainforest.org/>

## Ramu Nickel Mine, Papua New Guinea

The Ramu Nickel Mine is a nickel laterite mine in the Madang Province of Papua New Guinea (PNG), on the Bismarck Ramu Sea. The Ramu project is China's largest overseas non-ferrous resource project. It involves scraping nickel by bulldozer in the mountains above the Rai Coast, and slurrying it by pipeline 152km to a new wharf on the coast, where it will be shipped to China for refining. Waste from the slurry is to be deposited in a deep-water canyon in Astrolabe Bay, one of PNG's main tourist attractions for divers and a center of the

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<sup>104</sup> Stella, Nadine, "Gabon: Central Africa's "most beautiful waterfall" under threat," Inter Press Service, 11 February 2007, <http://www.afrika.no/Detailed/15379.html>

<sup>105</sup> "Gabon: Le projet Belinga toujours dans le collimateur des ONG," Gaboneco, 3 June 2008, [http://gaboneco.com/show\\_article.php?IDActu=7987](http://gaboneco.com/show_article.php?IDActu=7987)

<sup>106</sup> "Publish What You Pay Condemns Government Crackdown on Transparency Campaigners in Gabon," PWYP, 14 January 2008, [http://www.publishwhatyoupay.org/english/pdf/releases/pwyp\\_gabon\\_140108.pdf](http://www.publishwhatyoupay.org/english/pdf/releases/pwyp_gabon_140108.pdf); "Civil Society Calls on Gabon to Lift Travel Ban on Transparency Campaigner," Revenue Watch Institute, 9 June 2008, <http://www.revenuwatch.org/news/060908.php>; and Kalenga, Marie-Ange, "PWYP Note on Gabon," Publish What You Pay, 30 July 2008, received through email

<sup>107</sup> Yu Tianyu, "Chinese firm to develop iron ore project in Africa," *China Daily*, 9 July 2008, [http://www.chinadaily.com.cn/bizchina/2008-07/09/content\\_6830985.htm](http://www.chinadaily.com.cn/bizchina/2008-07/09/content_6830985.htm)

country's fishing industry.<sup>108</sup> The mine is expected to produce annually 31,150 tons of nickel and 3,300 tons of cobalt for at least 20 years.

A consortium of Chinese mining companies, MCC-JJJ Mining Development Company Ltd., owns 85% of the Ramu project. Metallurgical Group Corporation (MCC), China's 39<sup>th</sup> largest company with revenues of USD 15 billion in 2006, heads the consortium with 61% ownership. The remaining stake is split between Jinchuan Group Ltd, Jilin Ji'en Nickel Industry Co., Ltd and Jiuquan Iron and Steel (Group) Co., Ltd, each owning 13%. Highlands Pacific Ltd, an Australian mining company that sold primary rights to the Ramu mine to MCC in 2006, owns an additional 8.56%. The PNG government's Mineral Resources Development Corporation holds 3.94% and various landowner groups own the remaining 2.5% stake.<sup>109</sup>

Environmentalists are concerned about the 100 million tons of waste slurry from the project that will be pumped into the pristine Bismarck Sea over the next 20 years.<sup>110</sup> They claim dumping ocean tailings would economically stifle the region's staple industry, tuna fishing, and pollute the water resources of 100,000 people.<sup>111</sup> Local groups say that the environmental impact assessment prepared by the company did not adequately address the impacts of the ocean tailings and called for an independent assessment before the PNG government finalizes the project contract with MCC-JJJ.<sup>112</sup>

Local landowners near the Ramu site are primarily concerned with the lack of benefits to local communities. They claim that of the 600 million kina construction budget for the project, only 10 million kina was awarded to local companies, despite promises that local companies would receive more. Instead, the majority of contracts went to Chinese companies.<sup>113</sup> Local communities also maintain they have been victims of intimidation and harassment when they expressed concern about their stake in the project.<sup>114</sup> Furthermore, allegations persist of poor labor practices, including illegal smuggling of migrants from China, substandard work conditions and under-payment of local workers.

Activists also cried foul when the PNG government allowed the mine construction to proceed without resolving contract disputes between local stakeholders and MCC-JJJ. Statements made by PNG government officials indicate that there is no way the project would be called off and that they did not want to slow progress in order to deal with environmental and social

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<sup>108</sup> "China's PNG mine bid falters," Pacific News Agency Service, 4 June 2008

<sup>109</sup> Highlands Pacific Group press release, "Ramu Nickel Cobalt Project Update US\$1.37 Billion Project Financing Secured," Highlands Pacific Group, 23 July 2008, [http://www.highlandspacific.com/info/ASXannounc/Announcements/Ramu\\_Financing.pdf](http://www.highlandspacific.com/info/ASXannounc/Announcements/Ramu_Financing.pdf)

<sup>110</sup> Gridneff, Ilya, "PAC: Review into PNG nickel project delayed," Australian Associated Press, 5 June 2008

<sup>111</sup> "China's PNG mine bid falters," Pacific News Agency Service, 4 June 2008

<sup>112</sup> Som Kaut, Jason, "Papua New Guinea mine landowners want more spin-offs from Chinese," The National, 6 June 2008

<sup>113</sup> Som Kaut, Jason, "Papua New Guinea mine landowners want more spin-offs from Chinese," The National, 6 June 2008

<sup>114</sup> Gridneff, Ilya, "PAC: Hungry China's PNG mine raises environmental worries," Australian Associated Press, 9 May 2008

impacts because of financial concerns.<sup>115</sup> The project proceeded precariously into fall 2008, with reports of a temporary mine closure due to land ownership issues in September 2008.<sup>116</sup>

The \$1.37 billion Ramu project is being financed primarily by a \$560 million loan from **China Exim Bank**. **China Development Bank** was also named as a financier. The loans are set to be repaid by 2017.<sup>117</sup>

For more information about the Ramu Nickel Mine project, please visit The Centre for Environmental Law and Community Rights (CELCOR) at <http://www.celcor.org.pg/index.html>; The Mineral Policy Institute at <http://www.mpi.org.au/> or Mining Watch Canada at <http://www.miningwatch.ca/index.php>

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<sup>115</sup> "Nickel project mines PNG's eco-fears," The Gold Coast Bulletin, 10 May 2008

<sup>116</sup> Ase, Damien, email on 9/2/08

<sup>117</sup> Highlands Pacific Group press release, "Ramu Nickel Cobalt Project Update US\$1.37 Billion Project Financing Secured," Highlands Pacific Group, 23 July 2008, [http://www.highlandspacific.com/info/ASXannounc/Announcements/Ramu\\_Financing.pdf](http://www.highlandspacific.com/info/ASXannounc/Announcements/Ramu_Financing.pdf)

## Projected Trends

Although the government's green regulations are in the early stages of implementation at Chinese banks, some important trends have emerged that will surely impact the future of environmental and other sustainability measures at Chinese banks.

### **"Localizing" International Standards**

As Chinese banks go global with their lending, there is increasing pressure to sign onto international standards and norms, particularly the Equator Principles for project finance. Internationally, banks are urging Chinese peers to adopt the Principles in order to avoid a 'race to the bottom' between banks. China Exim bank, China's leading overseas bank, was under particular pressure to adopt the Equator Principles for its project finance work in Africa and other parts of the world; ultimately, the bank developed its own set of guidelines.

Although project finance is not common in China, the Equator Principles are frequently referenced as a well-known sustainability standard within domestic Chinese banking circles. Within China, many banks are similarly concerned about the difficulty of applying them 'as is' and have expressed the desire to adapt or change international standards to fit the particular Chinese context. For example, it is not customary in China for banks to require detailed loan documentation, which is part of Equator Principles implementation. Before the Industrial Bank adopted the Equator Principles in October 2008, it investigated the particularities of how the standards would be incorporated into the banks lending policies.<sup>118</sup> Other Chinese banks are expected to adopt the Equator Principles also, as 'localization' issues are worked out.

### **Smaller Banks Taking the Lead on Green Initiatives**

Some of the medium-sized banks mentioned in this report have proven to be the most active in their implementation of the government's green regulations and international sustainability norms. Industrial Bank signed onto three international environmental standards, including most recently the Equator Principles. It previously joined China Merchants Bank and Bank of Shanghai as signatories to the UNEP-FI; Shanghai Pudong Development Bank was the first Chinese bank to issue a CSR report; and Industrial Bank, Bank of Beijing, and Shanghai Pudong Development Bank were early financiers of energy efficiency, as partners in the IFC's China Utility-based Energy Efficiency Finance Program.

These measures may be attributed to greater flexibility in administering smaller credit portfolios, and/or a desire to leverage adherence to international standards as a means to raise the banks global profile. Industrial Bank, in a speech to the UNEP FI Global Roundtable (October 2007), stated its goal to be the greenest bank in China. One Chinese bank, echoing the claims of several existing Equator institutions, predicted that the Principles would not negatively impact profitability but rather would improve the bank's lending quality.

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<sup>118</sup> Personal email from Mizuho Sustainable Development Department, 24 October 2008

In all these cases, medium-sized banks were able to be 'test pilots' for incorporating sustainability measures into the lending policies of China's financiers, and show that it is possible for Chinese banks to 'go green.'

## **Potential Unintended Consequences of Green Credit Policy**

Internationally, the Green Credit Policy is one of the most innovative examples of how banking regulation can promote sustainable financing. It has the advantage of enrolling the entire banking sector in the effort to improve environmental protection and quality. However, it also has some drawbacks, which may undercut the full potential for Chinese banks to advance sustainability.

First, the Green Credit Policy is very compliance-oriented and relies on MEP and government data for implementation. In contrast, most leading international banks developed their environmental standards and policies as credit risk management tools. These banks proactively develop their own internal environmental policies, procedures, standards and expertise, rather than checking transactions against an externally-generated list. This allows them to identify and manage the broader suite of environmental risks (e.g. technical risks, operational risks, legal risks, political risks, etc.) that may be posed by a particular borrower or transaction.

This risk-management approach means that leading international banks have developed policies and standards that apply universally to particular lines of business, such as project finance; or sectors, such as mining. In contrast, the Green Credit Policy is designed for, and currently limited to, a particular geographic area (i.e. China), which potentially exposes Chinese banks' international portfolios to unexamined risks. Finally, the development of internal environmental competencies not only helps manage downside risk, but it also opens up the possibilities for leading international banks to take advantage of emerging opportunities related to sustainability, including the development of new products and services.

## **National Policies Sometimes at Odds with Each Other**

Through the Green Credit Policy and other green finance policies, the Chinese government has established environmental compliance as an important goal for the country's business sector. These policies have the potential to help China reach environmental targets such as reducing energy consumption per unit of GDP by 20% and cutting total emissions of major pollutants by 10% by 2010.

At the same time, the government has assigned high priority to economic development goals that may end up undercutting environmental targets. For example, the NDRC aims to increase energy supply from dirty sources in order to maintain brisk economic growth that is keeping unemployment relatively low. Currently, 78% of China's energy is powered by coal, and the next top energy sources are hydroelectric and nuclear power. Banks like China Development Bank have noted considerable reductions in lending to *liang gao* industries, yet under the direction of government regulators, continue to lend to problematic energy industries. At the end of 2007, CDB's outstanding loan balance for electricity projects, largely for big dam projects, was RMB 424.17 billion; the bank's loan balance for petroleum and petrochemicals was RMB 103.94 billion; and it had made a total of RMB 31.69 billion for

coal-related projects.<sup>119</sup> As such, a substantial withdrawal from investment in these environmentally harmful energy sources is unlikely.

Under these circumstances, the Green Credit Policy and other green finance initiatives are necessary to foster compliance with environmental laws among polluting industries. However, without fundamentally addressing how the country fuels its economic growth, there is little hope that China's green finance policies will be sufficient to ensure a sustainable development path for China's future.

## **Institutional Investments in Financial Institutions Abroad**

While last year's *Time to Go Green* report noted the trend of international banks purchasing strategic investment stakes in Chinese peers, it is becoming increasingly apparent that Chinese banks are beginning to buy shares of international banks. This expansion allows China to further its global reach, and also provides a way for China to diversify its foreign reserves investments. In 2007, China Development Bank bought a 3% stake in UK-based Barclays; Minsheng Bank was the first Chinese bank to buy into an American bank when it bought a 9.9% stake in San Francisco's UCBH Holdings in October 2007;<sup>120</sup> and ICBC bought a 20% stake in South Africa's Standard Bank, the largest foreign investment made by a Chinese company at that time.

For Chinese banks, buying into international financial institutions is a way to open up the doors for more Chinese companies going abroad and expand investments into diverse markets. Jacko Maree, the head of South Africa's Standard Bank, said of the ICBC buy-in, "there will be a particular focus on emerging markets, and if there is one thing Africa has to offer it is emerging markets."<sup>121</sup>

## **Chinese NGOs as Stakeholders**

Chinese NGOs are quickly establishing themselves as important voices in the discussion of China's investments. They are showing that civil society in China is concerned about corporate responsibility and that NGOs can make valuable contributions to Chinese banks as they implement green policies. Recently, Chinese NGOs presented the Green Banking Award from civil society to Chinese banks, the first of what will be an annual award. Chinese NGOs also voiced concerns about the environmental practices of APP during the company's pre-IPO evaluation period. Finally, groups that work more closely with the government have been instrumental in developing environmental guidelines for MEP.

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<sup>119</sup> "Strategic Focus," China Development Bank, <http://www.cdb.com.cn/English/Column.asp?ColumnId=86>, viewed on 14 October 2008

<sup>120</sup> Chi-Chu Tschang, Dawn Kopecki, Mark Scott, "Chinese banks head for the US: American banks are a bargain these days--and Chinese financial firms with big plans are buying," *Business Week*. New York: 5 Nov 2007. Iss. 4057; p. 28

<sup>121</sup> "The Big Deal," *International Economic Review* (Beijing), March 2008



## Conclusions and Recommendations

In conclusion, there has been significant and encouraging progress in the field of Chinese sustainable finance in the last 18 months.

The central government's new green finance policies have been critical, and have created a suite of important tools and resources for Chinese banks, such as the 'credit blacklist' and the credit database. Individual Chinese banks have started to develop internal systems to implement the policy, and a few banks have begun providing public reports on their progress. In the best cases, the policy is sparking the development of deeper credit risk management systems which may enhance the creditworthiness of bank lending portfolios.

A few of the banks have taken a cue from their international peers and are adopting sustainable financing procedures that in a few years may be comparable with international best practice. But overall, Chinese banks still lag behind their international peers when it comes to developing comprehensive environmental and social management systems.

The following recommendations are offered in a spirit of constructive dialogue:

### **Take steps to ensure that the Green Credit Policy is a Floor, Not a Ceiling**

As mentioned, the Green Credit Policy should be held up as an international model for sustainable banking regulation, but the Chinese government should also take steps to ensure that the Policy does not unintentionally limit banks' understanding of the role and potential of environmental financing practices.

The central government should encourage Chinese banks to develop comprehensive environmental management systems that go beyond the procedures to ensure borrower legal compliance. In particular, Chinese banks generally have not developed robust environmental governance systems, from board level oversight, to executive and management level governance, down to environmental departments and staff. Similarly, in order to catch up to international best practice, they need to enhance their levels of internal environmental expertise, begin creating risk management strategies and standards tailored to individual bank portfolios, and institute world-class approaches towards stakeholder engagement and reporting.

The China Banking Regulatory Commission, the Central Bank, along with bank trade associations and universities, may have a particularly helpful role to play in this regard. For example, in addition to the critical step of instructing banks to abide by a 'credit blacklist,' the CBRC could provide incentives to banks to adopt environmental policies, procedures and standards that apply to a broader group of borrowers.

### **Address the question of international applicability of Green Credit**

As mentioned, the Green Credit Policy is designed for, and currently limited to, a particular geographic area (i.e. China), which potentially exposes Chinese banks' international portfolios to unexamined risks.

The Chinese government should develop recommendations of how to apply the Green Credit Policy in an international context. It should be noted that in some countries where governance or environmental regulation is weak, simply obtaining legal clearance (for example, concession agreements, permits, etc.) may not be enough to ensure that environmental risks are adequately mitigated.

### **Invite the participation of environmental groups**

To date, Chinese regulators and banks have been apprehensive about engaging with Chinese NGOs on sustainable finance issues. This may reflect the government's general aversion to engaging with those outside of official circles. Environmental NGOs that have asked for meetings with Chinese banks to discuss sustainability information have received the cold shoulder. Local environmental protection agencies have yet to invite the assistance of environmental groups in their areas to monitor the environmental performance of polluting companies.

The potential benefits of Chinese NGO input into the development and implementation of green regulations in China are persuasive. Chinese NGOs can add an important perspective and valuable on-the-ground knowledge for banks about the environmental and social risks of their lending. They can also act as watchdogs, monitoring the environmental practices of borrowing companies when the bank cannot.

For example, NGO participation in the APP IPO comment period demonstrates how NGOs can offer helpful information and aid in the implementation of the Green Securities Policy.

MEP should consider creating a similar public hotline for the Green Credit Policy, which would review NGO reports on borrowing companies' potential breaches of environmental laws. Banks should engage with Chinese NGOs, who have begun to reach out to banks through conferences and similar venues.

## Appendix: Profiles of Chinese Banks

### Bank of China 中国银行

#### Green Initiatives<sup>122</sup>:

Like most Chinese banks with CSR reports, BoC reports that it has developed procedures to comply with the government's new green regulations. However, its green initiatives seem to not go much further than that; for example, the bank has not developed additional, publicly available environmental policies. BoC states that it:

- Requires compliance with national environmental laws as a pre-requisite for loans.
- During the loan application period, conducts assessments of the company or projects with respect to land use, environmental impact, energy-saving capability and labor safety.
- Does not loan to companies or projects on MEP's "environmental blacklist," any company that has been banned from the processing trade, or projects within "areas of limited approval."
- Controls lending to high-energy consuming and high-polluting (*Liang Gao*) industries. BoC has noted a few industries in particular, including: steel and copper smelting; textile coke and cement; chemicals; and construction.<sup>123</sup>
- Improved monitoring of the *liang gao* industries during and after the loan cycle. For companies that are found to be highly polluting, "measures are taken to recover loans in a timely manner." It is not known if this principle is applied to all environmentally-sensitive projects that are not included in the *liang gao* industries.

BoC also states that it promotes lending for "green innovations." In 2007 it provided RMB 50 billion for green projects pioneered by small and medium-sized enterprises. However, some of these "green" projects included false solutions such as investing in nuclear power and simply moving polluting industries to less populous areas.

Also, BoC has not signed on to any international environmental and social standards and agreements. As such, its environmental and social performance has ranked dismally in comparison to its financial performance. A study of climate change governance at 40 international banks (released January 2008) conducted by the Ceres investor coalition revealed that BoC ranked among the lowest financial institutions in the world for responding

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<sup>122</sup> Unless otherwise noted, all information in this section comes from the Bank of China 2007 CSR Report, available at: Bank of China, "CSR 2007: Corporate Social Responsibility Report of Bank of China Limited," May 2008, [http://www.boc.cn/minisite/boc\\_csr\\_2007/en/Enshehuizeren\\_hj.htm](http://www.boc.cn/minisite/boc_csr_2007/en/Enshehuizeren_hj.htm)

<sup>123</sup> BoC's policy on these industries varies: In the steel and copper smelting industry it states that it conducts its credit business selectively and controls the rate of credit increment. For textile coke and cement industries it has raised the loan access threshold. For the chemical industries, BoC's policy pertains specifically to electrolytic aluminum, ferroalloy and calcium carbide, to which it limits new credit and focuses on high-quality projects and clients. Finally, for construction projects, BoC states that it has strengthened pre-loan assessment standards with respect to energy conservation, environmental protection and comprehensive utilization.

to risks and opportunities presented by climate change. On a scale of 1 to 100 points with 100 being the highest, BoC received just 4 points.<sup>124</sup>

## Transparency and Accountability

Bank of China released its first CSR report in May 2008; notably, it is one of the only Chinese banks to use the Global Reporting Initiative (GRI) disclosure format, although it relied on the general GRI standard, rather than the more appropriate GRI Financial Services Sector Supplement. In addition, the bank had its report independently verified.

The report noted the bank's compliance with the government's environmental regulations, and towards this end, it summarized some changes made to the Bank's management structure in order to standardize and consolidate its credit rating and compliance systems. Although Bank of China's CSR report tracks lending to green projects, it has not released similar information about the amount of loans that it restricted, denied or canceled for environmental reasons, contrary to some of its peers.

## Environmentally-sensitive Projects

Bank of China has provided financing for several environmentally- and socially-sensitive projects in China and overseas. Notably, the Three Gorges Dam, South-to-North Water Diversion Project, and Belinga Iron Ore Mine in Gabon. It also finances many companies with poor environmental and social records, including China International Marine Container, China National Machinery & Equipment Import-Export Corporation, Asia Pulp & Paper, China National Petroleum Corporation and Sinopec.

## Industrial and Commercial Bank of China 中国工商银行<sup>125</sup>

### Green Initiatives

Since the initial *Time to Go Green* report published in May 2007, ICBC has enhanced its environmental and social standards by instituting more comprehensive policies and monitoring mechanisms. ICBC states that it was the first bank to comply with the Chinese government's 'Green Credit' policy to cut off funding to enterprises that appear on the MEP's "environmental blacklist," and developed a "one-ballot veto" procedure (一票否决制) to implement that policy. Under that procedure, a borrower's environmental performance is the decisive factor when considering a loan application. In addition, the bank has taken sustainable finance one step further by applying its own environmental procedures (Environmental Information Labelling System, see below) to all of the banks' financial

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<sup>124</sup> Fleming, Peyton, "HSBC, Other European Banks Receive Top Scores in First-Ever Ranking of 40 Leading Banks on Climate Change Strategies," Ceres Investor Coalition, 10 January 2008, <http://www.ceres.org/NETCOMMUNITY/Page.aspx?pid=826&srcid=705>

<sup>125</sup> Unless otherwise noted, all information is from Industrial and Commercial Bank of China's 2007 annual report: <http://www.icbcltd.com/icbcltd/investor%20relations/financial%20information/financial%20reports/annual%20report%202007.htm> or 2007 CSR report: [http://www.icbc.com.cn/icbc/html/download/nianbao/2008/shehuizerenbaogao\\_2007e.pdf](http://www.icbc.com.cn/icbc/html/download/nianbao/2008/shehuizerenbaogao_2007e.pdf)

products and clients, not just the industries named by the government as '*liang gao*' and in excess production.

According to ICBC, it controls lending to industries that are energy-intensive and highly-polluting or excessive in production capacity by incorporating these principles into its own sector-specific credit policies for heavy industries.<sup>126</sup> (These heavy-industry specific policies have not been made public.) According to ICBC, it has withdrawn loans from 140 customers in these industries in 2007. This amounts to about RMB 5.1 billion and a lending decrease of 24%; the bank states that it intends to phase out of these sectors.

ICBC has reported increased lending to environmentally-friendly projects, for example, water pollution treatment projects and emission reduction technologies. Many of the projects ICBC supports under this initiative contribute to the development of clean technology such as wind and solar power generation, or rehabilitation of land formerly used for mining. The bank's green lending emphasis seems to bear out to some extent in their loan portfolio, considering that three of ICBC's top 10 borrowers in 2007 were involved in water resources, environmental protection and public facilities management. Also, the *China Daily* reported that ICBC provided a joint loan of RMB 100 million along with China Minsheng Bank and Bank of Shanghai for 100 energy performance contract (EPC) projects in Shanghai in September 2007.<sup>127</sup>

Unfortunately, some of the "green" projects ICBC supports are environmentally and socially harmful. Hydroelectric power projects, nuclear, coal and other mining facilities are listed under the bank's examples of "green projects." Also, the bank provides loans to many companies that have been identified by environmental organizations and affected communities as having harmful or reckless practices. This includes the Jinchuan Group, which is a stakeholder in the Ramu Nickel Mine in Papua New Guinea, Guodian Corporation, and others.

In order to jumpstart compliance with the Green Credit policy, ICBC implemented a bank-wide inspection on environmental compliance in September 2007 that sought to cooperate with local environmental authorities to monitor pollution outputs, report environmental data, and implement environmental impact assessments. If violations were found during the inspection, the bank conducted further assessments and took action based on the results. This was followed up by the establishment of a nine-category Environmental Information Labeling System within the bank's CM2002 credit management system to identify the environmental credit risks of its clients. Categories range from "environmentally friendly" to 'potential environmental risk.' Among ICBC's 60,000 clients, about 47,000 have been included in this system.<sup>128</sup> This environmental assessment is applicable during the pre-loan period, but ICBC also states that it continues to monitor a client's environmental performance in the post-lending period. ICBC may have been the first Chinese bank to do so.

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<sup>126</sup> Including steel, ferroalloy, cement, electrolytic aluminum, copper refining, calcium carbide and coke

<sup>127</sup> Li Jing, "Energy deal signed to boost performance," *China Daily*, 24 Mar, 2008, [http://www.chinadaily.com.cn/bizchina/2008-03/24/content\\_6560693.htm](http://www.chinadaily.com.cn/bizchina/2008-03/24/content_6560693.htm)

<sup>128</sup> Pan Yue, "SEPA Released a Report on the 1<sup>st</sup> Phase Implementation of China's Green Credit Policy: Yue Pan Addressed the Barriers for the Green Credit Policy," unofficial translation from original Chinese press release, Ministry of Foreign Affairs, 13 Feb 2008, p.1

According to the bank, it hopes to be one of the first Chinese banks to adopt the Equator Principles for project finance.<sup>129</sup>

## Accountability and Transparency

ICBC launched its first CSR report for the 2007 calendar year. Unlike other bank CSR reports, which simply reference or briefly describe the new procedures the bank has adopted to implement the Green Credit Policy, ICBC was one of the few to provide performance data. As noted above, in 2007 it withdrew loans from 140 polluting and energy-intensive customers, an amount equivalent to RMB 5.1 billion, or 24% decrease. The bank also has established a financing cap on industries with overcapacity (including the coal and automobile sectors), and produced a chart demonstrating 3 years of consecutive but modest decrease in lending to these sectors.

Like international banks, ICBC does not provide much specific transaction-level reporting, except when describing various green financing activities. However, even the bank's lengthy list of some 25 green transactions was helpful, as it allows stakeholders to draw some conclusions regarding the "greenness" of these deals. Finally, the bank included a few case studies to illustrate how it has applied green finance procedures and standards in real situations, a practice that leading international banks employ in acknowledgement of the need to provide more information than simply how environmental management systems are supposed to work in theory.

Like many international banks, ICBC demurs from reporting on the results of internal environmental compliance audits; however, the bank at least reports that such an audit was conducted. Along with environmental policies and compliance, the report also noted that ICBC improved accountability and transparency mechanisms at bank branches through revising the Rules on Information Disclosure of ICBC and drafting the Management Procedures for Internal Reporting of Material Information of ICBC, among other actions. The report also noted that ICBC has won several CSR awards and donated money to many charity projects within China, such as Sichuan earthquake disaster relief efforts.

## Environmentally sensitive projects

According to Innovest, an independent financial research company, 40% of ICBC's credit portfolio was rated as "environmentally sensitive."<sup>130</sup> ICBC continues to loan money to controversial projects such as the Three Gorges Dam, and to clients involved in environmentally- and socially-sensitive activities, including Asia Pulp & Paper, China Datang, China Guodian, China National Petroleum Corporation, Jinchuan Group and Sinopec.

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<sup>129</sup> Anderlini, Jamil, "IBC hopes to emulate best of the rest," *Financial Times*, 2 June 2008, [http://us.ft.com/ftgateway/superpage.ft?news\\_id=fto060220081321472828&page=2](http://us.ft.com/ftgateway/superpage.ft?news_id=fto060220081321472828&page=2)

<sup>130</sup> Tam Man-Kei, "China's banks should open up to the world about green issues," *Green Investments*, vol. II, Greenpeace-China, July 2008, p. 7

## China Construction Bank 中国建设银行<sup>131</sup>

### Green Initiatives

Implementation of the government's environmental guidelines for the financial services sector dictated CCB's environmental policy. This included initiating the "one-ballot-veto" system, restricting lending to energy-intensive and high-polluting industries or companies with excess production capacity, financing for renewable energy projects, and monitoring credit standards through the entire project cycle. CCB did not explain how this policy was integrated into industry-specific policies or provide statistics on how many applicants it turned down or limited the loan amount for these reasons. The bank did state that, in some cases, it rejected loan applications in these areas and that these measures contributed to a five percent increase in the proportion of loans granted to corporate customers with internal credit ratings of A or above.

### Transparency and Accountability

CCB released its second consecutive annual CSR report in May 2008, which focused on the bank's environmental protection policy, improvement of people's livelihoods, optimization of product services, capacity building for employees, community development and charity work.<sup>132</sup> Significantly, for the first time the report describes CCB's development goals and strategies, setting out its intention to change the business structure of the bank in order to become a "world class" commercial bank by 2020. In preparation for this transition, the report introduces accountability mechanisms, such as improved internal audits and a vertical reporting system that reportedly resulted in decreased incidences of corruption. It introduced work with outside stakeholders, noting that "monitoring by the public and the media has become a key part of the Bank's corporate governance."<sup>133</sup> The *ChinaCSR* website, which monitors CSR developments in China, commented that the introduction of stakeholders in the report such as governments, regulatory bodies, shareholders, clients, employees, communities, the public and media was an important development at CCB.<sup>134</sup> However, the bank had not engaged with Chinese civil society on its policies or projects as of August 2008.

Its 2007 annual report addressed issues of transparency and corruption at the bank through inviting an independent monitor, KPMG Huazhen and its international counterpart KPMG, to evaluate and critique the report. Afterwards the bank introduced anti-corruption measures

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<sup>131</sup> Unless otherwise noted, all information is from China Construction Bank's 2007 Annual Results Announcement, released on 11 April 2008 and accessed at:

[http://www.ccb.com/portal/uploadFiles/press\\_release2007.1214208152218.doc](http://www.ccb.com/portal/uploadFiles/press_release2007.1214208152218.doc)

<sup>132</sup> China Construction Bank Corporate Social Responsibility Report 2007, <http://www.ccb.com/portal/uploadFiles/csrr07.pdf>

<sup>133</sup> China Construction Bank, "2007 Annual Results Announcement," 11 April 2008, p.7, [http://www.ccb.com/portal/uploadFiles/press\\_release2007.1214208152218.doc](http://www.ccb.com/portal/uploadFiles/press_release2007.1214208152218.doc)

<sup>134</sup> "China Construction Bank Releases CSR Report 2007," China CSR, 18 June 2008, <http://www.chinacsr.com/2008/06/18/2444-china-construction-bank-releases-csr-report-2007/>

within the bank.<sup>135</sup> However, the independent auditing company did not audit the bank's environmental policies.

### **Environmentally-sensitive projects**

As a financier of infrastructure, energy and manufacturing projects, CCB has funded a number of environmentally risky projects such as the South-to-North Water Diversion Project and the CNOOC Fujian Liquefied Natural Gas project. It also lends to several clients with poor environmental track records, notably China International Marine Container, which has been accused of violating land-use rights in Suriname; Asia Pulp & Paper, which is involved in deforestation in Southern China and Indonesia; China Guodian Group, which is involved in power supply in Southeast Asia; and China National Petroleum Corporation and Sinopec, both of which are involved in oil and gas exploration and extraction in Sudan and Burma.

### **Agricultural Bank of China 中国农业银行<sup>136</sup>**

#### **Transparency and Green Initiatives**

To date, Agricultural Bank of China has not published its environmental and social policies or released a Corporate Social Responsibility report. The bank released an annual report in 2004-2006, but did not in 2007. In news articles, the bank reported that it has taken some steps to comply with the government's environmental regulations. These included centralizing the loan approval process for loans to some energy-intensive and high-polluting industries and calling in loans from some dirty industries. The industries specifically mentioned by name are in-line with those at other banks, including copper smelting, electrolytic aluminum, iron alloy and calcium carbide.<sup>137</sup>

The bank was far from being able to claim it has cleaned up its environmental record though. In the first half of 2007 it loaned RMB 342.6 billion, around 12.5% of total lending, to energy-intensive or high-polluting industries.<sup>138</sup> It has provided substantial financing for companies such as Shaoxing Company Ltd, which does business in electrical power generation, oil and gas exploration and production, "clean" coal and waste management.<sup>139</sup>

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<sup>135</sup> Independent monitoring report found on p. 144 of the 2007 CCB annual report: <http://www.icbcltd.com/icbcltd/investor%20relations/financial%20information/financial%20reports/annual%20report%202007.htm>

<sup>136</sup> Unless otherwise noted, all information is from the Agricultural Bank of China's website and 2006 Annual Report, accessed at: <http://www.abchina.com/content/56/1200046/1/001.pdf>

<sup>137</sup> "AgBank frets on loans to polluters – source," Reuters, 7 Aug 2007, [http://www.chinadaily.com.cn/china/2007-08/07/content\\_5449030.htm](http://www.chinadaily.com.cn/china/2007-08/07/content_5449030.htm)

<sup>138</sup> Ibid

<sup>139</sup> "GEECF: Agricultural Bank of China Joins Shaoxing Financing Consortium With CNY70 Million," PRNewswire, 17 Mar, 2008, <http://sev.prnewswire.com/oil-energy/20080317/NYM04217032008-1.html>



## China Development Bank 国家开发银行<sup>140</sup>

### Green Initiatives

The CDB publicly disclosed a summary of its environmental policy in the bank's 2005 global bond prospectus, as well as in its annual report for the year 2007 and 2008 CSR report. In 2005, CDB was the only Chinese bank known to have an environmental policy. Like the Green Credit Policy that was to be released a few years later, CDB's environmental policy was very compliance-oriented, and relied on a MEP (then known as SEPA, the State Environmental Protection Agency) list of approved projects.

CDB's policies have expanded to compliment the national agenda, stating that it seeks to control loans to energy-intensive and high-polluting industries, as well as for outdated and inefficient production methods. In addition, it maintains that it seeks to target loans to projects and companies in the areas of emission reduction, energy conservation and environmental protection. Some highlights of the environmental and social policies are:

- Environmental Impact Assessments (EIAs) are required in loan appraisal reports and the loan application is not complete until permission is obtained from the relevant environmental agency;
- Loans will be restricted to 14 high-energy consumption and high polluting industries, including mining, hydroelectric power, oil & gas, power generation, manufacturing, transportation, waste disposal and nuclear industries;
- EIAs must be completed by an independent evaluator;
- The bank can exercise the "one-ballot veto" procedure that allows loans to be rejected by the credit committee solely for environmental reasons.
- Environmental standards can be written into loan contracts in order to commit clients to environmental promises;
- The bank will assign two personnel to do due diligence for each loan application. One to evaluate the loan and the other to evaluate the client.

According to MEP, CDB has increased its investments in environmentally-friendly projects by 35.6% annually.<sup>141</sup> According to CDB, in 2007 it loaned RMB 89 billion for environmental protection projects and RMB 29.6 billion for energy conservation and emissions reduction projects. This was carried out through the "Special Fund for Saving Energy and Reducing Emissions," a fund within China to support energy savings and emission reductions in projects that involve high energy consumption and polluting industries. There are 8 types of projects the fund supports, notably wastewater treatment and coal power plants' sulfur dioxide washing.<sup>142</sup> As of June 2008, the fund had disbursed more than RMB 30 billion;

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<sup>140</sup> Unless otherwise stated, all information is from China Development Bank's 2007 Annual Report, accessed at: <http://www.cdb.com.cn/english/Column.asp?ColumnId=91>

<sup>141</sup> Pan Yue, "SEPA Released a Report on the 1<sup>st</sup> Phase Implementation of China's Green Credit Policy: Yue Pan Addressed the Barriers for the Green Credit Policy," unofficial translation from original Chinese press release, Ministry of Foreign Affairs, 13 Feb 2008, p.3

<sup>142</sup> Pan Yue, p. 3 and Tam Man-Kei, "China's Banks Should Open Up to the World About Green Issues," *Green Investments*, Greenpeace China, 24 June 2008, p.8

including RMB 4.5 billion for cleaning up water pollution in the notoriously polluted Tai Lake.<sup>143</sup>

In July 2007, just after the government introduced the Green Credit Policy, CDB stated that it had cut loans to *liang gao* industries by 38% since 2003. Outstanding loans for electricity, iron and steel, non-ferrous metals, construction materials, oil processing and chemicals had dropped to 9% at the end of May 2007, down from 28% at the end of 2003.<sup>144</sup>

### **Transparency and Accountability<sup>145</sup>**

China Development Bank released its first CSR report, covering 2007, in September 2008. CDB has outdone some of its peers by following the Global Reporting Initiative (GRI) disclosure format and its Financial Services Sector Supplement, which is an international standard for financial institutions. Furthermore, the report was externally verified by Det Norske Veritas, which stated that the report "provides a fair representation of the level of implementation of CSR policies..." but "need(s) improvement in disclosing some of the core indicators as stipulated by the GRI Financial Services Sector Supplement."

The report briefly describes how the bank complied with government regulations to curb lending to energy-intensive and highly-polluting industries and increased lending to green projects. In particular, CDB notes that it issued guidelines on Developing and Evaluating environmental protection projects, energy-efficiency loans and a strategy for providing loans to reduce pollution and emissions. It also notes cooperation with various levels of government, including the NDRC and MEP to operationalize the guidelines. Despite substantial investments abroad, the CSR report does not note how CDB implemented social and environmental standards outside of China. Also, although the report tracks lending of the bank's green projects, it does not include performance data about the amount of loans it restricted, denied or canceled for environmental reasons.

With respect to CDB's membership in the Global Compact, it reports on climate change measures such as trainings from international peer banks such as Barclays and research on energy-efficiency programs. CDB also stated that it is 'actively exploring' ways to adopt the Equator Principles and improve the systems necessary to do so.

### **Environmentally-sensitive projects**

In the past, CDB has been criticized for financing projects with dubious environmental impacts, including the Three Gorges Dam and South-to-North Water Diversion Project. Also, given CDB's increasing role in financing overseas activities, such as the Ramu Nickel Mine in

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<sup>143</sup> Tam Man-Kei "China's Banks Should Open Up to the World About Green Issues," *Green Investments*, Greenpeace China, 24 June 2008, p.8

<sup>144</sup> "CBD Controls Loans to 'High Polluting and High Energy-consuming' Industries for Energy Saving and Emissions Reduction," China Development Bank, 19 July 2007, <http://www.cdb.com.cn/English/NewsInfo.asp?NewsId=2555>

<sup>145</sup> Unless otherwise stated, all information is from China Development Bank's 2007 CSR report, available at <http://www.cdb.com.cn/WebSite/cdb/UpFile/srr2007/web/bgsy-en.html>

Papua New Guinea, it is unclear how CDB applies its environmental policies, which seem largely tailored for projects within China.

## **China Export-Import Bank 中国进出口银行<sup>146</sup>**

### **Green Initiatives**

In August 2007, China Exim Bank drafted updated environmental and social guidelines for its lending procedures. The guidelines, entitled "Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank's (China EXIM Bank) Loan Projects," were released to the public in July 2008.<sup>147</sup> They replaced a November 2004 version that was only publicly disclosed in April 2007. Highlights of the guidelines include:

- The guidelines were developed in accordance with China's Environmental Impact Assessment (EIA) Law, Environmental Protection Law, and Environmental Management for Construction Project Ordinance, and, "with reference to regulations and procedures for environmental and social assessments of other international financial organizations."<sup>148</sup>
- With respect to domestic project loans: lending should be in-line with government policies to restrict loans to high-energy consuming and high-polluting industries and eliminate loans to projects using inefficient production and technology.
- With respect to overseas projects: social and environmental impact assessments that meet the host country laws are required; China Exim bank will actively participate in environmental impact monitoring throughout the entire project cycle and reserves the right to cancel financing if environmental impacts are not adequately addressed.

China Exim's four-page 2007 guidelines provide some details to the 2004 policy, which essentially amounted to 3 paragraphs. For example, it outlines separate procedures for domestic and overseas transactions (although it is unclear whether the bank has any domestic transactions), and its new domestic guidelines are in line with China's Green Credit and other national environmental policies. The new guidelines also explicitly require overseas projects to comply with host country laws, and acknowledge that some host countries may have inadequate environmental protection regimes; in those cases, Chinese or international standards will be used. Finally, the 2007 version includes new references to social issues, including the use of environmental and social assessments, and an explicit mention of land rights and resettlement.

As China Exim Bank expands its operations worldwide, it is entering into strategic partnerships and agreements with international financial institutions. Most notable from an environmental perspective is a joint investment MOU with the IFC signed in May 2007 to

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<sup>146</sup> Unless otherwise noted, all information is from China Exim's website: <http://english.eximbank.gov.cn/profile/introduction.jsp> or 2006 Annual Report: <http://english.eximbank.gov.cn/annual/2006.pdf>

<sup>147</sup> For an unofficial English translation of the guidelines, please see: <http://www.internationalrivers.org/en/node/3139>

<sup>148</sup> Brewer, Nicole, email to the China Global listserv, 3 July 2008

jointly support environmentally and socially sustainable Chinese investment in emerging markets. The MOU is particularly relevant to projects in Africa and Southeast Asia, where the banks have substantial investments and mutual interests.<sup>149</sup>

Since signing the MOU, China Exim/IFC cooperation has been focused on capacity building and knowledge sharing activities, with the first IFC-sponsored workshop in December 2007 introducing IFC Environment and Social investment standards and a series of case studies on how IFC deployed the standards and procedures in its investment projects<sup>150</sup>

## Transparency and Accountability

While China Exim Bank is one of the only Chinese banks to publish its actual environmental policy, it does not make sustainability information readily available through CSR reports or on its website. The credit agency did not publish an annual report for 2007 either (although it did so for the previous five years since 2002), so it is difficult to verify information about its policies and project loans.

## Environmentally-sensitive projects

China Exim Bank continues to finance environmentally and socially harmful projects in countries with poor human rights records. Some of these large and on-going projects include Ghana's Bui Dam being developed by Sinohydro; Zambia's Kafue Flats Dam project by Sinohydro. It is the main financier of the Merowe Dam in Sudan being developed by the China International Water and Electric Corporation and Sinohydro.<sup>151</sup> It is also the main financier of Gabon's Belinga Iron Ore Mine in development by CMEC, and the Ramu nickel mine in Papua New Guinea.

## Sinosure 中国出口信用保险公司

### Green Initiatives

The credit agency has not published an insurance policy for highly polluting companies that cause environmental damage during their export activities. In 2007 the government issued a national "green insurance" regulation that aimed to have all chemical, petrochemical and waste management companies insured for environmental damage.<sup>152</sup>

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<sup>149</sup> IFC press release, "IFC Partners with China EXIM Bank to Support Sustainable Investment by Chinese Companies in Emerging Markets," <http://www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=26D347ED8E0F9810852572ED0050A090>

<sup>150</sup> Interview with Zhang Rong, IFC, 28 Apr 2008

<sup>151</sup> Bosshard, Peter, "China's Environmental Footprint in Africa," *China in Africa Policy Briefing*, china in Africa Project of the South Africa Institute of International Affairs: South Africa, No.3 April 2008, p.3.

<sup>152</sup> "Chinese Divided over New Environmental Policy," Xinhua, 21 March 2008, [http://english.sepa.gov.cn/News\\_service/media\\_news/200803/t20080321\\_119513.htm](http://english.sepa.gov.cn/News_service/media_news/200803/t20080321_119513.htm)

Some large-scale projects Sinosure has insured in the past year include:

- Providing \$1 billion worth of financing for the Sasan "ultra mega" power project in India's Madhya Pradesh along with China Exim and China Development Bank. The plant is expected to produce 28,000 mw of power. The deal was signed at the end of July 2008.<sup>153</sup>
- Offering \$40-50 billion of its facilities to help fund infrastructure projects such as railways and power projects for Nigeria. In return China would most likely receive access to Nigeria's oil blocks. The insurance would apply only to Chinese exporters and act as a guarantor for Chinese-Nigerian joint ventures. The deal was discussed in April 2008 and would cover projects into 2010.<sup>154</sup>
- Guaranteeing \$1.5 billion worth of loans to Indonesia's state power company to build more coal-fired plants. The company, PT Perusahaan Listrik Negara, which owns and operates about 85% of Indonesia's electricity-generating capacity, plans to spend \$9 billion from 2006 to 2010 to develop 9,000 megawatts of coal-fired capacity and reduce dependence on oil. Up to 85 percent of the financing will come from export-credit agency secured loans and the rest from bonds.<sup>155</sup>
- Signing a framework cooperative contract with China National Petroleum Corporation (CNPC) to offset risks in overseas investments. The deal relates to CNPC's overseas exploration and engineering contracting activities. It would secure accounts receivable from CNPC's overseas projects. The deal was signed on 23 June 2008.<sup>156</sup>

## Transparency and Accountability

Sinosure issued its 2006 annual report in October 2007. To date, it has not issued an annual CSR report. Standard & Poor's increased Sinosure's rating to "A/A-1" in August 2007, which connoted that the company was no longer bogged down by bad loans. It was reported that Sinosure had a five percent ratio of bad accounts in exports in 2005, ten to 20 times the average in developed countries.<sup>157</sup>

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<sup>153</sup> Jayakumar, PB, "R-Power raises \$1 bn from three Chinese banks," Business Standard, 25 July 2008

<sup>154</sup> Green, Matthew and Richard McGregor, "China offers \$50bn in export credit guarantees to Nigeria," Financial Times, 2 April 2008

<sup>155</sup> Kee, Denise, "Perusahaan Listrik Negara Seeks \$1.5 Billion Loan (Update1)," Bloomberg, 14 November 2008, <http://www.bloomberg.com/apps/news?pid=20601080&sid=aYFWaUILUkPg&refer=asia%20>

<sup>156</sup> "CNPC builds strategic partnership with Sinosure," Xinhua, 23 June 2008

<sup>157</sup> CNN, "Sinosure receives an A bond rating," ECA Watch, 10 Aug 2007, [http://www.eca-watch.org/WhatsNew/WNV6\\_2007/WhatsNewV6N8.html](http://www.eca-watch.org/WhatsNew/WNV6_2007/WhatsNewV6N8.html)

## **Agricultural Development Bank of China** 中国农业开发银行<sup>158</sup>

### **Transparency and Accountability**

ADBC has published an annual report every year since 2004, although it has not released a CSR report. The bank does not have a published environmental policy or notable statement of compliance with the MEP's Green Credit policy. It does not disclose if or how it controls lending to pesticide or chemical fertilizer companies that fall within the government's '*liang gao*' framework.

## **Bank of Communications** 交通银行<sup>159</sup>

### **Green Initiatives**

Bank of Communications' 2007 annual report states the bank's compliance with the government's Green Credit policy. This included:

- Revised bank-wide loan authorization guidelines twice during the year
- Issued 7 policies covering industries that included construction
- Increased lending to energy-saving and environmental protection enterprises. The increase in loans granted to these enterprises was much higher than the bank's average increase in total loans. However it does not disclose how much higher, total loans distributed to these enterprises, or what types of enterprises the bank is specifically referring to.
- Controlled lending to '*liang gao*' industries, including iron and steel, cutting loans to these industries by RMB 7.8 billion.

### **Environmentally-sensitive activities**

Despite stated compliance with government environmental regulations and cutbacks in lending to select industries, the bank's lending to environmentally-sensitive industries remained a large portion of its lending portfolio. Lending to certain potentially environmentally-sensitive industries even increased in 2007, including:

- Petroleum and chemicals (up 4.45%)
- Steel (up 2.85%)
- "Other manufacturing" (up 10.80%)
- Construction (up 3.88%)

In the past, Bank of Communications has financed several companies involved in environmentally-sensitive activities, including China International Marine Container, Asia Pulp & Paper, and China National Petroleum Corporation. Additionally, companies heavily

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<sup>158</sup> Unless otherwise noted, all information is from the Agricultural Development Bank of China's 2007 Annual Report, accessible at: <http://www.adbc.com.cn/2007report/en/1.htm>

<sup>159</sup> Unless otherwise noted, all information is from Bank of Communications' 2007 annual report, which can be accessed at: [www.bocomm.com](http://www.bocomm.com)

involved in environmentally-sensitive industries, such as Sinopec Finance Company Limited and Daqing Petroleum Administration Bureau, are major shareholders in the bank.

### **Transparency and Accountability**

Bank of Communications publishes much information about its business operations and financial statistics through annual and quarterly reports; however it has not released a CSR report to-date. It discloses minimal information pertaining to sustainability in its annual report, but unlike other Chinese banks, it does offer evidence that it is actually implementing the Green Credit Policy, by tracking and reporting how much it has reduced its lending to 'liang gao' industries.

### **China CITIC Group 中国中信集团公司 and China CITIC Bank 中国中信银行<sup>160</sup>**

#### **(Lack of) Environmental Policies and Initiatives**

CITIC Bank does not disclose whether it complies with the government's Green Credit policy and other green initiatives or standards. In fact, the bank has not released an annual report since 2005. CITIC Group and CITIC Bank invest heavily in energy and manufacturing companies and projects, including some companies that carry out environmentally and socially harmful activities throughout the world. For example, CITIC Bank is the main underwriter of a RMB 5 billion bond for electricity distributor China Southern Power Grid, the company that is heavily investing in hydropower projects in Southeast Asia. The bond was to be sold starting 20 August 2008.<sup>161</sup> Also, CITIC Group subsidiary CITIC Pacific is lending to China's MCC to develop a magnetite iron ore deposit in Cape Preston, Australia. MCC has a reputation for human rights violations and environmental destruction in its other projects, including the Ramu Nickel Mine in Papua New Guinea.<sup>162</sup>

### **Industrial Bank of China 兴业银行<sup>163</sup>**

#### **Green Initiatives**

Although Industrial Bank's balance sheet pales in comparison to the top Chinese banks, it is fast-becoming a model of sustainable investing in the country. IB's relationship with the IFC probably has much to do with its environmental progress. For example, its participation in

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<sup>160</sup> Unless otherwise noted, all information is from the CITIC Group 2007 Annual Report, which can be accessed at: <http://www.citic.com/iwcm/UserFiles/images//07arev.pdf>

<sup>161</sup> Wang Ming, "China Southern Power Grid to Sell CNY5B 1-Year Bills Aug 20," Dow Jones International News, 13 Aug 2008

<sup>162</sup> Callick, Rowan, "Beijing's behemoths battle for more of the iron ore action," The Australian, 12 May 2008, <http://www.theaustralian.news.com.au/story/0,25197,23680969-7583,00.html>

<sup>163</sup> Unless otherwise noted, all information is from Industrial Bank's website, which can be accessed at: <http://www.cib.com.cn/netbank/cn/index.html> and <http://www.cib.com.cn/netbank/en/>

IFC's China Utility-based Energy Efficiency (CHUEE) Finance Program, for which the IFC provided a risk-sharing facility of up to USD 25 million, supported Industrial Bank's lending to environmentally sustainable or pollution clean-up projects at a relatively earlier stage, compared to its peers. After an initial agreement that was signed between the two banks in 2006, IB provided loans to 46 energy efficiency and pollution reduction projects in China worth RMB 900 million. The loans mostly went to small- and medium-sized enterprises and included projects such as industrial boiler retrofitting, wasted heat recovery, and optimizing industrial energy usage. The two banks signed a second risk-sharing facility in late February 2008, increasing the IFC's contribution to USD 100 million so IB could provide RMB 1.5 billion in loans.<sup>164</sup> Implementation of the CHUEE program was expected to reduce carbon dioxide emissions by more than 3.5 million tons a year, which was the equivalent of emissions from all 70,000 taxis running in Beijing at the start of the program for three years.<sup>165</sup>

IB has also participated in sustainability capacity building activities and received technical support from international banks. For example, IB hosted a forum on China's economy and green credit innovation in Beijing on 27 November 2007. The event was co-sponsored by IFC, the Resource Conservation, Environmental Protection and Energy Source Institute of the National Development and Reform Commission and *Financial Times* newspaper. IB's President, Li Renjie also gave a keynote speech at the UNEP-FI roundtable in Melbourne, Australia in October 2007.<sup>166</sup>

## International Standards

Industrial Bank is one of the first Chinese banks to sign-on to international sustainable finance standards and agreements. In December 2006 the bank became a signatory to the Carbon Disclosure Project, a voluntary mechanism for institutions to disclose information about their carbon emissions in order to find solutions to climate change.<sup>167</sup> The bank also became a signatory to the United Nations Environment Program-Finance Initiative (UNEP-FI) on 17 October 2007. It was the third Chinese bank to do so, after the Bank of Shanghai joined in 2001 and China Merchants Bank joined in September 2007.<sup>168</sup> Finally, Industrial Bank became the first Chinese bank to adopt the Equator Principles in October 2008.<sup>169</sup>

## Green Awards

For its efforts, Industrial Bank has won many sustainability awards in China and internationally. It was a runner-up in the *Financial Times*/IFC Sustainable Banking Awards

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<sup>164</sup> "Industrial Bank and IFC Collaborate to Expand Energy Efficiency Loans and Cut Greenhouse Emission," PR-USA.net,, [http://www.pr-usa.net/index.php?option=com\\_content&task=view&id=82056&Itemid=9](http://www.pr-usa.net/index.php?option=com_content&task=view&id=82056&Itemid=9)

<sup>165</sup> Ibid

<sup>166</sup> UNEP website, "2007 Roundtables," <http://www.unepfi.org/events/2007/roundtable/programme/index.html>

<sup>167</sup> Carbon Disclosure Project website, <http://www.cdproject.net/index.asp>

<sup>168</sup> UNEP FI website, "Our Signatories," accessed on 4/17/08: [http://www.unepfi.org/signatories/index.html?&no\\_cache=1&tx\\_unepfisig\\_pi1\[pointer\]=0&tx\\_unepfisig\\_pi1\[mode\]=1&tx\\_unepfisig\\_pi1\[showUid\]=6645](http://www.unepfi.org/signatories/index.html?&no_cache=1&tx_unepfisig_pi1[pointer]=0&tx_unepfisig_pi1[mode]=1&tx_unepfisig_pi1[showUid]=6645)

<sup>169</sup> Zhu Wenqin, "IFC Supports Major Breakthrough in China's Green Banking," *SynTao*, 31 October 2008, [http://www.syntao.com/E\\_Page\\_Show.asp?Page\\_ID=10434](http://www.syntao.com/E_Page_Show.asp?Page_ID=10434)



for two consecutive years in 2007 and 2008. Both years it was competing in the category "Emerging Markets Sustainable Bank of the Year" for Asia.<sup>170</sup> The award recognizes financial institutions that have integrated social, environmental and corporate governance objectives into their policies.

In July 2008 IB won the first-ever Green Banking Innovation Award from the Chinese NGO sector. A jury of eight prominent Chinese NGOs presented the award to a representative for Industrial Bank at the annual banking awards sponsored by China's *Economic Observer* publication in Shanghai. The NGO jury included Green Watershed, Friends of Nature, Institute of Public & Environmental Affairs, Green Earth Volunteer, Global Environmental Institute, Civil Society Watch, China Development Brief and Green Volunteers League of Chongqing. Additionally, SynTao Co. Ltd., a leading consulting firm in China on corporate social responsibility, acted as an advisor. The judging was based on criteria for Green Banking that put emphasis on achieving external standards such as minimizing indirect environmental impacts through financing activities and exploring new opportunities for environment-related business. On awarding Industrial Bank the first annual award, organizer Yu Xiaogang of Green Watershed said, "This is a first but important try. To the winner, this award means both honors and responsibilities. We expect China Industrial Bank can continue its innovation and build up a model green bank in China."<sup>171</sup>

## Transparency

Industrial Bank has done much to show its commitment to sustainability in the financial sector, however it has yet to release an annual CSR report that publicly discloses its environmental policies, compliance with the government's Green Credit policy and provides a breakdown of the bank's lending by industry. This is important to ensure accountability in the bank's sustainability efforts as the bank continues to grow and expand into new markets.

## Shanghai Pudong Development Bank: 上海浦东发展银行<sup>172</sup>

### Green Policies and Initiatives

Shanghai Pudong Development Bank was an early adopter of corporate social responsibility in China. It established CSR principles pertaining to community development, charity, volunteering, environmental protection and employee development earlier than any other

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<sup>170</sup> "The FT Sustainable Banking Conference & Awards: 2007 Awards Nominees," Financial Times, 7 June 2007, <http://www.ftconferences.com/sustainablebanking07/Awardsnominees.asp> and "FT Sustainable Banking Conference & Awards," Financial Times, 16 Apr 2008, <http://www.ftconferences.com/sustainablebanking/Page418144359580.asp>

<sup>171</sup> Yu Xiaogang, "Eight Chinese NGOs Announce the First Green Banking Innovation Award," Green Watershed, Syn Tao and Economic Observer press release, 26 July 2008, available at: [http://www.banktrack.org/show/news/eight\\_chinese\\_ngos\\_announce\\_green\\_banking\\_innovation\\_award/0/mg/127](http://www.banktrack.org/show/news/eight_chinese_ngos_announce_green_banking_innovation_award/0/mg/127)

<sup>172</sup> Unless otherwise noted, all information comes from the Shanghai Pudong Development Bank website (<http://www.spdb.com.cn/chpage/c529/>); 2005 CSR report (<http://www.spdb.com.cn/counttool/english.pdf>); and 2006 CSR report ([http://www.spdb.com.cn/counttool/shzr/qyzt\\_2006.pdf](http://www.spdb.com.cn/counttool/shzr/qyzt_2006.pdf))

Chinese bank. With respect to environmental protection, the bank focuses on internal and external measures, including:

- Cutting down on internal energy and paper consumption (e.g. promoting e-banking in order to go paperless)
- Controlling lending to energy-intensive and high-polluting industries, such as electrolytic aluminium and concrete
- Promoting loans to certain sectors that are considered environmentally-friendly, such as wind and solar power, chemical fuel production and recycling enterprises.

Additionally, the bank reports that it considers environmental impacts as an important indicator during the loan approval process.

In-line with the bank's environmental principles, it signed a risk-sharing agreement with the IFC in June 2008 in order to provide up to RMB 1 billion in loans to small- and medium-sized enterprises that will carry out green projects. The IFC and SPDB were planning to split the credit risk evenly, up to RMB 500 million each if the enterprises default on loans. The two banks estimated that the facility would reduce CO2 emissions by more than 3.5 million tons a year, equivalent to the emissions of 250,000 cars.<sup>173</sup> SPDB is the third Chinese bank to participate in a risk-sharing agreement for green projects with the IFC through the China Utility-based Energy Efficiency (CHUEE) program. The other banks include Industrial Bank and Bank of Beijing.

Unfortunately, not all of SPDB's "green projects" are environmentally sustainable. In 2005, the bank had lent three loans totalling more than RMB 500 million for hydropower plants as part of its 'environmental protection' loans. This included financing for the massive South-to-North Water Diversion project, which has been criticized for its negative ecological impacts, uprooting of local communities and causing of industrial pollution.

## Transparency and Accountability

In 2006 SPDB was the first Chinese financial institution to release a CSR report, which covered the bank's CSR activities and policies through 2005. In 2007 it released a second CSR report, which covered updates to the bank's CSR policies and reported on CSR activities in 2006.<sup>174</sup> Additionally, SPDB's website posts the bank's principles for CSR, which provides the framework for the two CSR reports. The bank has not yet released a third CSR report.

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<sup>173</sup> Zhang Fengming, "Bank links to provide green credit," Shanghai Daily, 17 June 2008, [http://www.syntao.com/E\\_Page\\_Show.asp?Page\\_ID=8463](http://www.syntao.com/E_Page_Show.asp?Page_ID=8463)

<sup>174</sup> "积极践行责任, 浦发银行发布 06 年度《企业社会责任报告》," Shanghai Pudong Development Bank, 28 June 2007, [http://www.spdb.com.cn/docpage/C419/200706/0628\\_419\\_14914.aspx](http://www.spdb.com.cn/docpage/C419/200706/0628_419_14914.aspx)



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